

ARIN INTERMEDIATE UNIT 28



FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

ARIN INTERMEDIATE UNIT 28
INDIANA, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

OTHER INFORMATION REQUIRED BY OFFICE
OF MANAGEMENT AND BUDGET
CIRCULAR A-133

WITH REPORTS BY
CERTIFIED PUBLIC ACCOUNTANT

FOR THE YEAR ENDED JUNE 30, 2012

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INDIANA, PENNSYLVANIA
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INDIANA, PENNSYLVANIA
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**To the Board of Directors
ARIN Intermediate Unit 28**

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ARIN Intermediate Unit 28, Indiana, Pennsylvania as of and for the year ended June 30, 2012, which collectively comprise the ARIN Intermediate Unit 28's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ARIN Intermediate Unit 28 Board of Directors. My responsibility is to express opinions on these financial statements based on my audit.

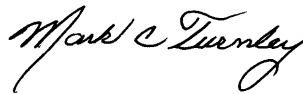
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ARIN Intermediate Unit 28, Indiana, Pennsylvania as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 14, 2013 on my consideration of ARIN Intermediate Unit 28's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii-xv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ARIN Intermediate Unit 28's financial statements as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The supplemental schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplemental schedules and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.



Mark C. Turnley
Certified Public Accountant

March 14, 2013
Ambridge, Pennsylvania

ARIN INTERMEDIATE UNIT 28

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) REQUIRED SUPPLEMENTARY INFORMATION (RSI) FOR THE YEAR ENDED JUNE 30, 2012

The Management's Discussion and Analysis (MD&A) of the ARIN Intermediate Unit 28's (IU) performance provides an overall review of the IU's financial activities for the fiscal year ended June 30, 2012. The MD&A is to provide a reader friendly insight into management's analysis of the audit. This MD&A highlights the IU's financial performance as a whole; readers should also review the transmittal letter and Notes to the Financial Statements to enhance their understanding of the IU's overall financial performance.

General Information on Financial Structure and Basis of Accounting

The IU Board of Directors is made up of eleven members, one from each school district located in Armstrong and Indiana counties. They have the oversight responsibility to provide financial interdependency, designate governing authority, selection of management, and ability to influence operations and accountability.

The MD&A is an element of the GASB reporting model. Where previous accounting standards (pre GASB 34) required modified accrual (no receivables/accruals beyond 60 days), no capital assets depreciation and no reports of combined net assets, GASB 34 requires fixed asset accounting, combining of multiple funds, and the realization of the depreciation expense as part of the Statement of Net Assets and Statement of Activities.

We are in the ninth year of GASB Statement 34 reporting requirements and financial statements from the 2010-2011 and 2011-2012 fiscal years are presented for analysis and comparison. The accompanying financial statements have been prepared in accordance with GASB 34, government-wide reports are presented on the accrual basis of accounting and fund-type reports are completed using modified accrual accounting. There were no additional entities required to be included in the reporting entity under the criteria for the current fiscal year and the IU was not included as a component unit in any other reporting entity. Required statements and reports for GASB 34:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet of Governmental Funds
- Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances
- Reconciliation of Governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
- Statement of Revenues, Expenditures and Changes in Fund Equity – Budget vs. Actual – General Fund
- Statement of Revenues, Expenditures and Changes in Fund Equity – Budget vs. Actual – Major Special Revenue Funds
- Statement of Net Assets – Proprietary Fund
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund
- Statement of Cash Flows – Proprietary Fund
- Statement of Net Assets – Fiduciary Fund
- Statement of Changes in Net Assets – Fiduciary Fund

The *Statement of Net Assets* provides a consolidation of all governmental funds into one statement of activities with current and non-current assets/liabilities, and displays the total net assets of all governmental funds properly reconciled. It also provides the same for those Business Activities run by the IU. In the IU, only the Cooperative Purchasing Program is structured as a business activity, subject to a business activity classification.

The *Statement of Activities* displays expenses net of program revenues and classifies revenues into two general categories of program and general operating revenue. It identifies program revenue as charges, operating grants, and capital grants, and then allocates them to particular expense categories where appropriate.

The *Balance Sheet of Governmental Funds* lists all the assets, liabilities and fund balances of major and nonmajor Governmental Funds.

The *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets* reconciles the Governmental Funds Balance Sheet to the Combined Balance Sheet for Governmental and Business Activities by outlining the accounting changes necessary to properly record consolidation of funds and present the entity-wide statements using the full accrual method of accounting.

The *Statement of Revenues, Expenditures, and Changes in Fund Balances* summarizes revenues, expenditures, and other financing sources of major and nonmajor Governmental Funds. Current year revenue and other financing sources are netted-out against expenditures to arrive at the Net Change in Fund Balance. By combining current year Net Change in Fund Balance with the prior year Fund Balance you now have the June 30, 2011 Fund Balance for all Governmental Fund types.

The *Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities* reconciles the change in fund balances of the governmental funds to the change in net assets of all governmental activities.

Funds analyzed in this audit include:

- Governmental activities:
 - General Fund
 - Special Education Fund
 - Special Ed. Transportation
 - State Early Intervention Fund
 - Major business-type activities:
 - Cooperative Service Fund
 - Fiduciary activities:
 - Self-Insured Benefit Fund
 - Unemployment Compensation Fund
 - Excellence Foundation
 - Other Post-Employment Benefit Fund
- Major Funds:
- Non-Major Funds:

Financial Highlights

The IU had Governmental Fund revenues and other financing sources of \$23,416,658 and expenditures of \$23,112,012 for the fiscal year ended June 30, 2012. The net change in fund balance for all Governmental Funds increased \$304,646. The total fund balance at June 30, 2012 was \$1,256,756. The unassigned General Fund balance was \$1,171,960, approximately 4.81% of our comprehensive budget of over \$24.3 million. ARIN continues to maintain a sound fund balance to assure efficient future business operations. These amounts are reflected on the *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds* (modified accrual basis).

The General Fund total fund balance increased by \$234,649 to \$1,206,743. The Administration and ARIN Board have been using fund balance reserves to balance the General Operating Budget for over 10 years.

Special Education Fund and State Early Intervention Fund had no fund balance at year-end.

The fund balance for the Special Ed. Transportation Fund increased by \$95,662, leaving a balance of \$49,257. Funding for Special Ed. Transportation Fund comes from the State and is provided through the PA School Code.

The fund balance of the Capital Projects Fund at July 1, 2011 was \$26,422 and after expending \$35,117 in current year operations, the June 30, 2012 fund balance was \$756. There was a transfer of \$7,000 from the General Fund to the Capital Projects Fund during the year to cover expenses. The expenditures for the year included a purchase of a new driver education vehicle and improvements to the lighting at the administrative building.

State subsidy for the General Operating Budget was eliminated in the 2011-12 state budget. Over the last ten years, the subsidy amounted to \$144,752. In 2010-11, the subsidy received decreased by \$20,933 to a total of \$105,872, before being zeroed out in 2011-12. It will be increasingly difficult to maintain services to our member districts with no funding directly from the state.

Assets, Liabilities and Net Assets – Government-Wide

Total current assets of \$4,848,691 represent 74% of the total assets of \$6,519,942, comprised primarily of cash and investments of \$2,470,953 and receivables of \$2,341,549. Net fixed assets including land, site and building improvements, furniture and equipment represents 26% of total assets at \$1,671,251.

Total liabilities are \$6,378,507 and consist primarily of long-term compensated absences of \$919,941, notes payable of \$1,159,673, accounts payable of \$1,243,967, accrued salaries and benefits of \$1,528,035, and a net OPEB obligation of \$705,195, representing 87% of the total liabilities.

The net assets for governmental activities in the 2011-2012 operations were a \$141,435. There was \$511,578 invested in capital assets, net of related debt, \$756 for capital projects and (\$370,899) of unrestricted net assets. The negative unrestricted net assets were created from a \$919,941 liability for compensated absences and a \$705,195 liability from a net OPEB obligation (employee retirement benefits).

With regard to compensated absences, sabbatical leave accounts for \$139,428 and was based on a 7-year average service life for ARIN professional staff. Vacation and personal days account for \$340,585. The remaining balance of \$439,928 relates to sick leave. Funding is provided through the OPEB Fund to cover both sick leave and post employment retiree benefits. However, funding for sabbatical, vacation, and personal day leaves are provided through current year budget operations.

Total Net Assets increased \$239,957 in the 2011-2012 fiscal year. A large portion of this increase was due to the fact that the IU received additional funding through a Building Capacity Grant in the amount of \$252,547 that funded several employees' costs.

The following table, A-1, provides a summary of the Intermediate Unit's governmental activities net assets as of June 30, 2012, with a comparative analysis with the prior fiscal year.

Table A-1
Fiscal Year ended June 30, 2012 and 2011
Net Assets

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>CHANGE</u>
Current Assets	\$ 4,848,691	\$ 4,475,128	\$ 373,563
Capital Assets	1,671,251	1,831,186	(159,935)
TOTAL ASSETS	<u>\$ 6,519,942</u>	<u>\$ 6,306,314</u>	<u>\$ 213,628</u>
Current Liabilities	\$ 3,720,793	\$ 3,647,541	\$ 73,252
Long-term Liabilities	2,657,714	2,757,295	(99,581)
TOTAL LIABILITIES	<u>\$ 6,378,507</u>	<u>\$ 6,404,836</u>	<u>\$ (26,329)</u>
Invested in Capital Assets, Net of Related Debt	\$511,578	\$ 549,692	\$ (38,114)
Retirement of Long-term Debt			
Capital Projects	756	26,422	(25,666)
Unrestricted	(370,899)	(674,636)	303,737
TOTAL NET ASSETS	<u>\$ 141,435</u>	<u>\$ (98,522)</u>	<u>\$ 239,957</u>

The following table, A-2, summarizes the information from the statement of activities. It presents the revenues, expenses and changes in net assets of the Intermediate Unit for the years ended June 30, 2012 and 2011.

Table A-2
Fiscal Year ended June 30, 2012 and 2011
Changes in Net Assets

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>CHANGE</u>
REVENUES			
Program Revenues:			
Charges for Services	\$ 625,740	\$ 1,743,642	\$ (1,117,902)
Operating Grants and Contributions	15,649,040	16,282,901	(633,861)
General Revenues:			
Grants, Subsidies, and Contributions	-	105,871	(105,871)
Investment Earnings	10,763	18,701	(7,938)
Receipts from Member Districts	6,348,261	6,169,968	178,293
Sale of Fixed Assets/Miscellaneous	-	(32,332)	32,332
Transfers	19,831	102,326	(82,495)
Miscellaneous	2,359	-	2,359
TOTAL REVENUES	<u>\$ 22,655,994</u>	<u>\$ 24,391,077</u>	<u>\$ (1,735,083)</u>
EXPENSES			
Instruction	\$ 8,484,728	\$ 8,430,116	\$ 54,612
Instructional Student Support	4,291,795	4,027,617	264,178
Administrative and Financial Support	4,963,822	6,502,459	(1,538,637)
Operation and Maintenance of Plant	256,741	294,697	(37,956)
Pupil Transportation	3,848,352	3,824,140	24,212
Community Services	529,092	1,662,287	(1,133,195)
Interest on Long-term Debt	36,596	37,510	(914)
Cooperative Service Program	4,911	4,795	116
TOTAL EXPENSES	<u>\$ 22,416,037</u>	<u>\$ 24,783,621</u>	<u>\$ (2,367,584)</u>
CHANGE IN NET ASSETS	<u>\$ 239,957</u>	<u>\$ (392,544)</u>	<u>\$ 632,501</u>

Revenues and Other Financial Sources – Fund Financials

The revenue to operate IU programs comes from local, state, and federal sources. During the 2011-2012 fiscal year, \$7,623,843 or approximately 33.7% was generated from local sources, \$8,031,424 or 35.5% was supported by state sources, and \$6,975,984 or 30.8% was received from federal sources.

The major source of local revenue is from member school districts, approximately \$6.3 million or 73%. Districts purchase direct services from the IU ranging from special education, administrative facility support, alternative ed. transportation, bilingual education, basic education support for special needs students, and other numerous support services. The Program of Services section highlights the program of services. The balance of the local revenue is generated from services provided to internal/external programs and agencies located in Armstrong and Indiana counties.

Over 81% of state revenue is allocated to Special Ed. Transportation \$3,219,161, Special Education \$1,425,553, Early Intervention \$1,847,382. The remaining balance is for specific grants and service contracts.

Federal revenue is disbursed over 27 programs. The largest programs are Individuals with Disability Education Act Part B (IDEA) \$4,523,107, IDEA Preschool \$143,439, Education Leading to Employment and Career Training \$332,082, Adult Education \$308,674, 21st Century Learning Centers \$806,033, and Education of Homeless Children \$244,387. These programs cover approximately 91% of the federal revenue.

Expenses and Other Financing Sources – Fund Financials

Overall expenditures, excluding interfund transfers, decreased over last year by \$2,662,801. This decrease was due mostly to the reduction in funding received from two programs. The federal ARRA IDEA Part B funding, which consisted of pass-through funding to our client districts, expired at the end of the 2011 fiscal year and a local medical assistance transportation program was eliminated. Also, expenditures increased due to increases in salary and benefit costs. Salary and benefits account for \$11,518,955, over 52% of \$22,355,143 total expenses and other financing sources.

The IU is one of fourteen Local Educational Agencies that receives medical insurance coverage through the Armstrong Indiana Insurance Trust. IU employees have two choices of medical coverage, Traditional (Indemnity) and Managed Care (PPOBlue) with approximately 99% of the employees covered in the Managed Care plan. Medical insurance premiums increased 5.07% over the prior year for the Traditional coverage and 5.07% for the Managed Care. Total cost of ARIN's medical coverage was \$2,337,832. Medical insurance premiums are expected to continue to increase yearly, although the trust's increases have below trend.

Special education and related programs, such as transportation and early intervention utilize approximately \$10,432,215 or 47% of the total expenditures. All eleven member school districts receive IU special education services to enhance their programs or provide IU operated classes. The IU works with each district in the design, development and implementation of their Special Education Plan to meet the federal and state standards for exceptional children.

Special Education Transportation expenses decreased by \$33,837 from the previous year operation. Contracted Carrier expenses decreased by \$56,646, but salaries and benefits increased by \$8,100 from 2010-11, accounting for the decrease.

Analysis of Budget Variances Original to Final

Due to the changing nature of IU operations, various program budgets changed over the fiscal year. The General Fund original budget compared to the final budget has revenue and other financing source increases of \$1,931,181 with expenditures and other financing uses increasing \$1,889,028. The difference of \$42,153 between revenues and expenditures notes that fewer funds were required from the Fund Balance to balance the budget. Budgeted revenue and expenditures increased due to the awarding of several grants received throughout the year. Among the grants awarded were PIIC Grant \$32,230, Title I \$59,452, Title II \$252,548, 21ST Century Learning Centers \$305,539, Education of Homeless Children \$250,000 and Education Leading to Employment and Career Training \$332,041.

The Special Education Budget decreased \$149,618 due to changes in personnel and employee benefits. The main reason for the budget decrease was that instructor and aide position was eliminated by a district request, resulting in less salary and benefits expense.

The Special Education Transportation program budget decreased due less Contracted Carrier expense.

The State Funded Early Intervention budget increased \$79,058 due to an increased funding received from the state. The increased funding was used to pay for additional contracted preschool services for the children in the program.

The Capital Projects Fund budget increased by \$5,300 due the cost of labor to install energy efficient lighting in the IU's administration building.

Long Term Debt

On June 22, 2010, the IU signed a Revenue Obligation Note with PNC Bank in the amount of \$1,400,000. The proceeds from the note were used to advance refund the 2002 Bond Issue, with the remaining proceeds paying for capital improvement on the administrative building. The balance on this note as of June 30, 2012 is \$1,159,673.

Table 3 breaks out expenditures by function per Governmental Funds financial statements with a comparison to the prior year as well as a comparison to current year budget.

Table 3
Expenditures by Function - Budget vs. Actual
For the Year Ended June 30, 2012 and 2011

Description	2011-12 Expenses	2010-11 Expenses	(Over) Under Prior Year	% Change	2011-12 Budget
Regular Education Programs	\$ 91,578	\$ -	\$ 91,578	100.0%	\$ 91,577
Special programs	6,599,298	6,503,470	95,828	1.5%	6,661,896
Vocational Education Programs	52,521	57,958	(5,437)	-9.4%	52,521
Other Instructional Programs	755,061	470,483	284,578	60.5%	759,953
NonPublic School Program	488,785	557,098	(68,313)	-12.3%	519,065
Adult Education Program	218,809	375,923	(157,114)	-41.8%	219,393
Pupil Personnel Services	2,551,726	2,495,398	56,328	2.3%	2,556,934
Instructional Staff Services	1,342,091	1,199,921	142,170	11.8%	1,431,895
Administrative Services	1,174,310	1,294,677	(120,367)	-9.3%	1,252,794
Pupil Health	375,423	350,217	25,206	7.2%	386,827
Business Services	583,759	736,438	(152,679)	-20.7%	601,460
Operation and Maintenance	255,411	396,726	(141,315)	-35.6%	288,553
Student Transportation	3,847,259	3,817,712	29,547	0.8%	3,893,084
Central Services	892,549	729,602	162,947	22.3%	902,434
Other Support Services	2,395,344	3,836,718	(1,441,374)	-37.6%	2,395,445
Community Services	528,791	1,665,938	(1,137,147)	-68.3%	527,914
Building Improvements	35,117	314,307	(279,190)	-88.8%	35,300
Debt Service	167,311	167,311	-	0.0%	167,311
Fund Transfers	756,869	708,822	48,047	6.8%	766,269
Total	\$ 23,112,012	\$ 25,678,719	\$ (2,566,707)	-10.0%	\$ 23,510,625
Revenues and Other Sources	23,416,658	25,133,330	(1,716,672)	-6.8%	23,285,797
Net Change	\$ 304,646	\$ (545,389)	\$ 850,035	-155.9%	\$ (224,828)

Employee Retirement System

All of the Intermediate Unit's full-time employees, part-time employees salaried over 80 days, and hourly employees working more than 500 hours per year participate in the Public School Employees' Retirement System (PSERS). The retirement system is a cost sharing, multiple employer defined-benefit plan. Employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended). Currently, each party to the program contributes a fixed percentage of employees' gross earnings. The Intermediate Unit's total current year payroll for all employees was \$8,784,623, current year covered payroll was \$8,698,032 and the contribution to the pension program for fiscal year totaled \$754,396. The State reimburses the Intermediate Unit for 50% of the retirement for Pennsylvania public school employees hired prior to July 1, 1994 and the Intermediate Unit's aid ratio (65.14%) times covered wages for Pennsylvania public school employees hired July 1, 1994 and after. The State reimbursement for the fiscal year was \$415,667.

Personnel and Labor Relations

The IU employs 201 employees, 168 full-time and 33 part-time. Employees of the IU are organized under five different classifications, Administrative Confidential Compensation Plan (ADM), Act 93 Compensation Plan (Act 93), ARIN Education Association Collective Bargaining Agreement (AEA), ARIN Education Support Professionals Collective Bargaining Agreement (AESP), and ARIN Community Service Salary/Wage Agreement (ACS).

- ADM: Includes 4 administrative and 2 confidential members. Dr. Robert H. Coad, Jr., Ed. D., is the Executive Director (Ex. Dir.) for ARIN IU 28. The IU Board of Directors has a four-year contract with the Ex. Dir. and it ends on December 31, 2013. Dr. Coad has been Ex. Dir. since January 1, 1998 and has over 30 years of experience in the education field. The Special Education Director, Director of School and Community Services, Business Manager, Board / Ex. Secretary, and Business Secretary complete ADM staff. The ADM Plan covers 3 years and ends on June 30, 2015.
- Act 93: Consists of 13 full-time management positions with the Director of Technology at the upper level. Mid-level positions cover the Supervisor of Curriculum & Instruction and three Special Education Supervisors. The remaining staff provides management services in business, technology, transportation, adult education, and community services. Act 93 Compensation Plan spans three years and ends on June 30, 2015.
- AEA & AESP are organized for collective bargaining purposes in accordance with the Public Employee Relations Act (Act 195) under the Pennsylvania Public School Code. The Pennsylvania State Education Association, a subdivision of the National Education Association (PSEA-NEA), represents both AEA and AESP in collective bargaining.
 - AEA: Made up of 78 full-time (F-T) and 3 part-time (P-T) members. There are 15 psychologists (15 F-T) and 66 teachers (63 F-T, 3 P-T). The collective bargaining contract covers 5 years and ends June 30, 2013.
 - AEA-II: Made up of 6 full-time (F-T) and 5 part-time (P-T) members. There are 8 Adult education (3 F-T & 5 P - T), 2 community education (2 F-T), and 1 driver education (1 F-T) staff. The collective bargaining contract covers 5 years and ends June 30, 2013.

- AESP: The IU has 53 F-T and 3 P-T positions. There are six different groups of workers; instructional assistants are the largest group (32 F-T & 2 P-T), secretary specialists (13 F-T), custodial/van drivers/print shop clerks (3 F-T & 1 P-T), level I technology (1 F-T), and level II technology (4 F-T) staff. The collective bargaining contract covers 6 years and ends June 30, 2014.
 - ACS: There are 12 F-T and 21 P-T employees in this group. Basic education support services are provided by this. The salary and wage agreement is approved annually by the IU Board of Directors.

IU General Operating Budget - Program of Services

The General Operating Budget (GOB) was created under the Public School Code, section 914-A and establishes specific programs of service. In the review and approval process of the GOB, district superintendents must approve it before the IU board gives tentative approval. After IU board approval the GOB is sent to all board members from the eleven-districts to approve. Each board member's vote is weighted based on the size and wealth of the district. A majority of the weighted vote is needed to approve the IU GOB. Once approved the IU GOB is sent to the PA Department of Education by May 1 of each year. The IU utilizes Program of Services in five major areas with component elements to enhance the services as outlined below:

- | | |
|--|--|
| <p>1. Administration Services</p> <p>2. Curriculum Development Services</p> <p>Recovery Coop.</p> <p>Academic Alliances</p> <p>Academic Standards/Regulations/Cur. Council</p> <p>Career Choices Software Coop.</p> <p>Continuing Professional Ed. Courses</p> <p>Excellence Foundation</p> <p>English-as-a-Second Language (ESL)</p> <p>Gifted Enhancement Programs</p> <p>Technology/Computers</p> <p>PA System of School Assessment</p> <p>Staff Development</p> <p>Districts</p> <p>Special Instruction</p> <p>Teleconference/Satellite/Distance Learning</p> <p>Summer School</p> <p>Education</p> <p>3. Instructional Materials Services (IMS)</p> <p>Superintendents</p> <p>Access PA</p> <p>Insurance Adm./Sup</p> <p>Audio-Visual/Computer Repair</p> | <p>3. IMS cont.</p> <p>Data Processing Disaster</p> <p>Data Processing/Technology</p> <p>E-Rate Assistance/Refund</p> <p>Internet Access</p> <p>Media Services</p> <p>PENN LINK</p> <p>School Cast</p> <p>Staff Training</p> <p>Teaching/Publishing Support</p> <p>Technology Support for</p> <p>4. Continuing Professional</p> <p>PASA Membership Dist.</p> <p>Professional Liability</p> <p>5. Non-Public Schools</p> |
|--|--|

The IU Comprehensive Budget for the 2011-12 school year totaled over \$24.3 million and lists ten component budgets. Just under 46% of the IU Comprehensive Budget falls under the Individual Program Budgets component. There are 48 programs categorized within four groups. The IU Board of Directors approves all program budgets except the GOB. Approval of the GOB requires a weighted majority vote from all eleven-district board members.

Table 4 summarizes the IU Comprehensive Budget components by expenses and revenues.
June 30, 2012.

Table 4
2011-12 COMPREHENSIVE BUDGET

2011-12 expenditures by major component in the Comprehensive Budget:

Governmental Activities:

1.	Special Education Program Budget	25.68%	\$ 6,261,482
2.	Individual Program Budgets	45.70%	11,143,937
3.	General Operating Budget	12.91%	3,146,608
4.	Transportation Budget	13.02%	3,174,276
5.	Debt Service Fund	1.63%	397,311
6.	Capital Projects Fund Budget	0.12%	30,000

Business Type Activities:

7.	Cooperative Service Budget	0.03%	7,000
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Fiduciary Activities:

8.	Unemployment Comp. Program Budget	0.10%	24,000
9.	Self Insurance Benefit Program Budget	0.75%	182,700
10.	Excellence Foundation	0.06%	13,675

	<u>100.00%</u>	<u>\$23,380,989</u>
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Funds to operate ARIN's Comprehensive Budget are comprised of:

1.	Federal Support	30.43%	\$ 7,419,559
2.	State Support	26.61%	6,487,591
3.	District Support	29.08%	7,090,354
4.	Other Support	13.88%	3,383,485

	<u>100.00%</u>	<u>\$24,380,989</u>
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Table 5 lists Individual Programs and budget amounts by major educational service area.
June 30, 2012.

Table 5
ARIN INTERMEDIATE UNIT 28

INDIVIDUAL PROGRAMS 2011-12				
Description	Amount	Description	Amount	
SPECIAL EDUCATION PROGRAMS				
1. IDEA - B (Individuals w/Disability Act) Sp Ed Support – Comp 1	\$ 401,808	21. PAIU Technology Integration Program Mentor Project	15,795	
2. IDEA - B, (Individuals w/Disability Act) Sp Ed Support – School Age	4,144,054	22. PA Institute for Instructional Coaching (PIIC)	35,923	
3. IDEA – B, Section 611 ARRA Special Education Support Services	50,016	23. Team PA Foundation	1,065	
4. Early Intervention Preschool Services	1,858,085	24. Homeless Program Education for Homeless Children	78,948	
5. Section 619 Federal Preschool Program	146,316	25. Homeless Program Education for Homeless Children	245,452	
6. Section 619 ARRA Federal Preschool Program	36,576	26. Child Development & Early Learning Community Engagement Program	10,711	
7. ACCESS Program – Early Intervention Federal Medical Assistance	310,923	27. Local Education and Resource Network (LEARN)	52,902	
Subtotal Special Education Programs	\$ 6,947,778	28. Parent-Child Home Program Indiana County Program	111,818	
BASIC EDUCATION/COMMUNITY SERVICES				
8. Conewago Indiana Treatment Facility	172,408	29. Parent-Child Home Program Armstrong County Program	111,845	
9. Act 183 E-Fund Program WAN Grant II	128,202	30. PPT – Local Match Rural Pregnant & Parenting Teen Program	55,465	
10. Act 183 E-Fund Program WAN Grant IU8	318,217	31. Local Family Center Match Indiana County	4,661	
11. 21st Century Learning Center Program After School Program - Cohort 4	239,541	32. Local Parenting Match Education for Homeless Children	11,000	
12. 21st Century Learning Center Program After School Program - Cohort 5	499,393	33. Local Prevention Match District Drug & Alcohol Programs	24,150	
13. Title I Improving Basic Programs	1,481	34. Drug & Alcohol Commission - Armstrong District Tobacco Cessation Programs	6,353	
14. Title I Improving Basic Programs	61,134	35. Drug & Alcohol Commission - Indiana District Tobacco Cessation Programs	18,416	
15. Title II Improving Teacher Quality	4,236	36. Drug & Alcohol Commission District Drug & Alcohol Programs	186,853	
16. Title II Improving Teacher Quality	3,821	37. Gambling Prevention Services	13,342	
17. Title II Capacity Building Funds	1,505	38. Gambling Prevention Services	52,120	
18. Elect 1 Pregnant Teen Support	389,648	39. Indiana Regional Safe Driving Program Teen Driving Grant	5,300	
19. Tri-County Private Industry Council Summer Youth Program	54,550	40. Early Head Start Program ARRA	17,454	
20. Gifted Ed Consortium	2,565	41. Human Service Development Fund Project TIPS Program	3,833	
		Subtotal - Basic Ed./Community Serv.	\$2,949,117	

Table 5 lists Individual Programs and budget amounts by major educational service area. June 30, 2012.

**Table 5
INDIVIDUAL PROGRAMS (CONT.)**

Description	Amount	Description	Amount
ADULT EDUCATION		TRANSPORTATION SERVICES	
42. Adult Education General Operating Budget	\$ 4,060	45. Driver's Education	\$ 126,925
43. Adult Education Literacy Grant Family Literacy Programs	89,575	46. Drug & Alcohol Testing	12,825
44. Adult Education Section 231 Grants ESL/Civics Grant	321,047	47. Compliant Services	57,461
		48. Alternative Education Transportation	462,670
		49. ACCESS Revenue - Transportation	172,479
Subtotal Adult Education	<u>\$ 414,682</u>	Subtotal Transportation Services	<u>\$ 832,360</u>
GRAND TOTAL – INDIVIDUAL PROGRAMS			<u><u>\$11,143,937</u></u>

Contacting the IU's Financial Management

This MD&A is provided for our member school districts, taxpayers, parents, students, investors and creditors located within Armstrong and Indiana counties. It highlights the overall financial position and accountability of funds expended by the IU's Board of Directors and Administration to meet our needs. If you have questions about this report or need additional financial information, please contact Clifford A. Geary, Business Manager at ARIN IU 28, 2895 W Pike, Indiana, PA 15701, or call 724-463-5300.

ARIN INTERMEDIATE UNIT 28
STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT A

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,170,635	\$ -	\$ 1,170,635
Investments	1,300,318	-	1,300,318
Internal Balances	1,030	(1,030)	-
Due From Other Governments	1,032,237	-	1,032,237
Other Accounts Receivable	1,309,312	1,030	1,310,342
Inventories	17,339	-	17,339
Prepaid Expenses/Expenditures	17,820	-	17,820
Total Current Assets	\$ 4,848,691	\$ -	\$ 4,848,691
Noncurrent Assets:			
Land	\$ 89,567	\$ -	\$ 89,567
Land Improvements (net)	167,631	-	167,631
Building (net)	904,770	-	904,770
Building Improvements (net)	437,600	-	437,600
Machinery & Equipment (net)	71,683	-	71,683
Total Noncurrent Assets	\$ 1,671,251	\$ -	\$ 1,671,251
TOTAL ASSETS	\$ 6,519,942	\$ -	\$ 6,519,942
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 615,256	\$ -	\$ 615,256
Accounts Payable - Overdraft	628,711	-	628,711
Accrued Salaries and Benefits	1,528,036	-	1,528,036
Payroll Deductions and Withholdings	82,343	-	82,343
Revenue Obligation Note - Current Portion	127,095	-	127,095
Accrued Interest Payable	1,763	-	1,763
Deferred Revenues	737,589	-	737,589
Total Current Liabilities	\$ 3,720,793	\$ -	\$ 3,720,793
Noncurrent Liabilities:			
Revenue Obligation Note - Non-Current Portion	\$ 1,032,578	-	1,032,578
Compensated Absences	919,941	-	919,941
Net OPEB Obligation	705,195	-	705,195
Total Noncurrent Liabilities	\$ 2,657,714	\$ -	\$ 2,657,714
TOTAL LIABILITIES	\$ 6,378,507	\$ -	\$ 6,378,507
NET ASSETS			
Invested in Capital Assets Net of Related Debt	\$ 511,578	\$ -	\$ 511,578
Restricted for Capital Projects	756	-	756
Unrestricted (Deficit)	(370,899)	-	(370,899)
TOTAL NET ASSETS	\$ 141,435	\$ -	\$ 141,435
TOTAL LIABILITIES AND NET ASSETS	\$ 6,519,942	\$ -	\$ 6,519,942

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 8,484,728	\$ 147,635	\$ 4,167,333	\$ -	\$ (4,169,760)		\$ (4,169,760)
Instructional Student Support	4,291,795	190,736	3,104,331	-	(996,728)		(996,728)
Administrative and Financial Support Services	4,963,822	232,251	4,482,284	-	(249,287)		(249,287)
Operation and Maintenance of Plant Services	256,741	-	6,950	-	(249,791)		(249,791)
Pupil Transportation	3,848,352	12,000	3,398,144	-	(438,208)		(438,208)
Community Services	529,092	38,207	489,998	-	(887)		(887)
Interest on Long-Term Debt	36,596	-	-	-	(36,596)		(36,596)
Total Governmental Activities	\$ 22,411,126	\$ 620,829	\$ 15,649,040	\$ -	\$ (6,141,257)		\$ (6,141,257)
Total Business-Type Activities	\$ 4,911	\$ 4,911	\$ -	\$ -	\$ -	\$ -	\$ -
Total Primary Government	\$ 22,416,037	\$ 625,740	\$ 15,649,040	\$ -	\$ (6,141,257)	\$ -	\$ (6,141,257)
General Revenues:							
Receipts from Member Districts					\$ 6,348,261	\$ -	\$ 6,348,261
Investment Earnings					10,763	-	10,763
Fiduciary Fund Transfers					19,831	-	19,831
Miscellaneous					2,359	-	2,359
Total General Revenues and Special Items					\$ 6,381,214	\$ -	\$ 6,381,214
Change in Net Assets					\$ 239,957	\$ -	\$ 239,957
Net Assets — July 1, 2011 (Deficit)					(98,522)	-	(98,522)
Net Assets — June 30, 2012					\$ 141,435	\$ -	\$ 141,435

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

EXHIBIT C

	GENERAL FUND	SPECIAL REVENUE FUNDS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and Cash Equivalents	\$ 1,169,879	\$ -	\$ 756	\$ 1,170,635
Investments	310,937	989,381	-	1,300,318
Due From Other Funds	1,030	-	-	1,030
Due From Other Governments	817,053	215,184	-	1,032,237
Other Receivables	531,883	777,429	-	1,309,312
Inventories	17,339	-	-	17,339
Prepaid Expenses	17,445	375	-	17,820
TOTAL ASSETS	\$ 2,865,566	\$ 1,982,369	\$ 756	\$ 4,848,691
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable	\$ 367,588	\$ 247,668	\$ -	\$ 615,256
Accounts Payable - Overdraft	-	628,711	-	628,711
Accrued Salaries and Benefits	611,619	916,417	-	1,528,036
Payroll Deductions and Withholdings	82,343	-	-	82,343
Deferred Revenues	597,273	140,316	-	737,589
TOTAL LIABILITIES	\$ 1,658,823	\$ 1,933,112	\$ -	\$ 3,591,935
 FUND BALANCES:				
Nonspendable:				
General Fund	\$ 34,783	\$ -	\$ -	\$ 34,783
Assigned:				
Capital Project Fund	-	-	756	756
Special Education Transportation Fund	-	49,257	-	49,257
Unassigned	1,171,960	-	-	1,171,960
TOTAL FUND BALANCES	\$ 1,206,743	\$ 49,257	\$ 756	\$ 1,256,756
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 2,865,566	 \$ 1,982,369	 \$ 756	 \$ 4,848,691

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds **\$ 1,256,756**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$5,081,493, and the accumulated depreciation is \$3,410,242. 1,671,251

Long term liabilities, including notes payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Revenue Note Obligation	\$	1,159,673	
Accrued Interest Payable		1,763	
Accrued Compensated Absences		919,941	
Net OPEB Obligation		705,195	(2,786,572)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 141,435**

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE FUNDS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Local Sources	\$ 3,011,759	\$ 4,609,633	\$ 2,451	\$ 7,623,843
State Sources	1,539,328	6,492,096	-	8,031,424
Federal Sources	6,975,984	-	-	6,975,984
Total Revenue	\$ 11,527,071	\$ 11,101,729	\$ 2,451	\$ 22,631,251
EXPENDITURES				
Instruction	\$ 2,815,389	\$ 5,390,664	\$ -	\$ 8,206,053
Support Services	8,376,320	5,041,551	-	13,417,871
Noninstructional Services	528,791	-	-	528,791
Capital Outlay	-	-	35,117	35,117
Debt Service	-	-	167,311	167,311
Total Expenditures	\$ 11,720,500	\$ 10,432,215	\$ 202,428	\$ 22,355,143
Excess (Deficiency) of Revenue over Expenditures	\$ (193,429)	\$ 669,514	\$ (199,977)	\$ 276,108
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 602,389	8,707	\$ 174,311	\$ 785,407
Operating Transfers Out	(174,311)	(582,558)	-	(756,869)
Total Other Financing Sources (Uses)	\$ 428,078	\$ (573,851)	\$ 174,311	\$ 28,538
NET CHANGE IN FUND BALANCES	\$ 234,649	\$ 95,663	\$ (25,666)	\$ 304,646
FUND BALANCE - JULY 1, 2011 (Deficit)	972,094	(46,406)	26,422	952,110
FUND BALANCE - JUNE 30, 2012	\$ 1,206,743	\$ 49,257	\$ 756	\$ 1,256,756

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT
RECONCILIATION OF THE GOVERNMENT FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 304,646**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$250,015) exceeded capital outlays (\$90,080) during the fiscal year. (159,935)

Repayment of revenue note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 121,821

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 186

In the statement of activities, certain operating expenses - compensated absences and net OPEB obligations - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid). This amount represents these benefits earned in excess of the amount paid. (26,761)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 239,957**

ARIN INTERMEDIATE UNIT 28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Sources	\$ 2,499,413	\$ 3,023,984	\$ 3,011,759	\$ (12,225)
State Sources	1,135,614	1,532,825	1,539,328	6,503
Federal Sources	5,985,136	6,976,745	6,975,984	(761)
Total Revenues	\$ 9,620,163	\$ 11,533,554	\$ 11,527,071	\$ (6,483)
EXPENDITURES				
Regular Programs	\$ -	\$ 91,577	\$ 91,578	\$ (1)
Special Programs	1,340,816	1,208,635	1,208,635	-
Vocational Education Programs	52,112	52,521	52,521	-
Other Instructional Programs	497,009	759,953	755,061	4,892
NonPublic Schools	533,873	519,065	488,785	30,280
Adult Education Programs	345,762	219,393	218,809	584
Pupil Personnel Services	1,159,337	1,826,071	1,825,723	348
Instructional Staff Services	1,133,220	1,427,223	1,337,490	89,733
Administrative Services	324,997	289,008	214,033	74,975
Pupil Health	39,287	47,486	47,486	-
Business Services	618,144	600,060	582,554	17,506
Operation & Maintenance of Plant Services	295,714	288,553	255,411	33,142
Student Transportation	744,648	861,815	862,570	(755)
Central Services	429,635	902,434	892,549	9,885
Other Support Services	2,128,857	2,358,605	2,358,504	101
Community Services	447,874	527,914	528,791	(877)
Total Expenditures	\$ 10,091,285	\$ 11,980,313	\$ 11,720,500	\$ 259,813
Excess (Deficiency) of Revenues over Expenditures	\$ (471,122)	\$ (446,759)	\$ (193,429)	\$ 253,330
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 584,063	\$ 598,853	\$ 602,389	\$ 3,536
Operating Transfers <Out>	(177,311)	(174,311)	(174,311)	-
Refund of Prior Year Receipts	(750)	(750)	-	750
Intrafund Transfers In	-	-	279,949	279,949
Intrafund Transfers <Out>	-	-	(279,949)	(279,949)
Total Other Financing Sources (Uses)	\$ 406,002	\$ 423,792	\$ 428,078	\$ 4,286
NET CHANGE IN FUND BALANCES	\$ (65,120)	\$ (22,967)	\$ 234,649	\$ 257,616
FUND BALANCE - JULY 1, 2011	972,094	972,094	972,094	-
FUND BALANCE - JUNE 30, 2012	\$ 906,974	\$ 949,127	\$ 1,206,743	\$ 257,616

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS - SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Sources	\$ 4,956,390	\$ 4,713,434	\$ 4,557,352	\$ (156,082)
State Sources	1,305,092	1,398,430	1,425,553	27,123
Total Revenues	\$ 6,261,482	\$ 6,111,864	\$ 5,982,905	\$ (128,959)
EXPENDITURES				
Special Programs	\$ 4,457,951	\$ 4,261,292	\$ 4,156,816	\$ 104,476
Pupil Personnel Services	391,716	353,572	347,118	6,454
Instructional Services	-	4,672	4,601	71
Administrative Services	883,787	963,786	960,277	3,509
Pupil Health	196,600	214,860	206,072	8,788
Total Expenditures	\$ 5,930,054	\$ 5,798,182	\$ 5,674,884	\$ 123,298
Excess (Deficiency) of Revenues over Expenditures	\$ 331,428	\$ 313,682	\$ 308,021	\$ (5,661)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ -	\$ 9,828	\$ 8,707	\$ (1,121)
Operating Transfers <Out>	(331,428)	(323,510)	(316,728)	6,782
Total Other Financing Sources (Uses)	\$ (331,428)	\$ (313,682)	\$ (308,021)	\$ 5,661
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ -	\$ -
FUND BALANCE - JULY 1, 2011	-	-	-	-
FUND BALANCE - JUNE 30, 2012	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS - TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Sources	\$ 3,300	\$ 1,000	\$ 917	\$ (83)
State Sources	3,170,976	3,172,613	3,219,161	46,548
Total Revenues	\$ 3,174,276	\$ 3,173,613	\$ 3,220,078	\$ 46,465
EXPENDITURES				
Student Transportation Services	\$ 3,035,206	\$ 3,031,269	\$ 2,984,689	\$ 46,580
Total Expenditures	\$ 3,035,206	\$ 3,031,269	\$ 2,984,689	\$ 46,580
Excess (Deficiency) of Revenues over Expenditures	\$ 139,070	\$ 142,344	\$ 235,389	\$ 93,045
OTHER FINANCING SOURCES (USES)				
Operating Transfers <Out>	\$ (134,070)	\$ (142,344)	\$ (139,726)	\$ 2,618
Budgetary Reserve	(5,000)	-	-	-
Total Other Financing Sources (Uses)	\$ (139,070)	\$ (142,344)	\$ (139,726)	\$ 2,618
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ 95,663	\$ 95,663
FUND BALANCE - JULY 1, 2011 (Deficit)	(46,406)	(46,406)	(46,406)	-
FUND BALANCE - JUNE 30, 2012	\$ (46,406)	\$ (46,406)	\$ 49,257	\$ 95,663

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS - EARLY INTERVENTION FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
Local Sources	\$ 32,106	\$ 32,106	\$ 51,364	\$ 19,258
State Sources	1,746,921	1,825,979	1,847,382	21,403
Total Revenues	\$ 1,779,027	\$ 1,858,085	\$ 1,898,746	\$ 40,661
EXPENDITURES				
Special Programs	\$ 1,152,820	\$ 1,191,969	\$ 1,233,847	\$ (41,878)
Pupil Personnel Services	377,291	377,291	378,885	(1,594)
Pupil Health	124,481	124,481	121,865	2,616
Business Services	1,400	1,400	1,205	195
Other Support Services	-	36,840	36,840	-
Total Expenditures	\$ 1,655,992	\$ 1,731,981	\$ 1,772,642	\$ (40,661)
Excess (Deficiency) of Revenues over Expenditures	\$ 123,035	\$ 126,104	\$ 126,104	\$ -
OTHER FINANCING SOURCES (USES)				
Operating Transfers <Out>	\$ (123,035)	\$ (126,104)	\$ (126,104)	\$ -
Total Other Financing Sources (Uses)	\$ (123,035)	\$ (126,104)	\$ (126,104)	\$ -
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ -	\$ -
FUND BALANCE - JULY 1, 2011	-	-	-	-
FUND BALANCE - JUNE 30, 2012	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	<u>INTERNAL SERVICE FUND</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 12,026
Other Accounts Receivable	1,030
TOTAL CURRENT ASSETS	<u>\$ 13,056</u>
TOTAL ASSETS	<u>\$ 13,056</u>
LIABILITIES	
Current Liabilities:	
Bid Bond Escrow	\$ 12,026
Due to Other Funds	1,030
TOTAL CURRENT LIABILITIES	<u>\$ 13,056</u>
TOTAL LIABILITIES	<u>\$ 13,056</u>
NET ASSETS	
Unrestricted	\$ -
TOTAL NET ASSETS	<u>\$ -</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,056</u>

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	INTERNAL SERVICE FUND
<u>OPERATING REVENUES</u>	
Charges for Services	\$ 4,911
Total Operating Revenues	\$ 4,911
<u>OPERATING EXPENSES</u>	
Purchased Professional and Technical Services	\$ 4,499
Other Purchased Services	378
Other Objects	34
Total Operating Expenses	\$ 4,911
OPERATING INCOME/(LOSS)	\$ -
NET ASSETS - JULY 1, 2011	-
NET ASSETS - JUNE 30, 2012	\$ -

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>INTERNAL SERVICE FUND</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Users	\$ 16,937
Cash Payments to Suppliers for Goods and Services	(4,877)
Cash Payments for Other Operating Expenses	(34)
Net Cash Provided By Operating Activities	<u>\$ 12,026</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ 12,026
CASH AND CASH EQUIVALENTS - JULY 1, 2011	<u>-</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2012	<u>\$ 12,026</u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>	
Operating Income (Loss)	\$ -
 ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES:	
(Increase) Decrease in Other Accounts Receivable	670
Increase (Decrease) in Bid Bond Escrow	12,026
Increase (Decrease) in Due to Other Funds	(670)
Total Adjustments	<u>\$ 12,026</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 12,026</u>

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

EXHIBIT N

	-- PRIVATE PURPOSE TRUST FUNDS --		----- PENSION TRUST FUNDS -----		
	SELF-INSURED BENEFITS FUND	EXCELLENCE FOUNDATION	UNEMPLOYMENT COMPENSATION FUND	OTHER POST-EMPLOYMENT BENEFIT FUND	TOTAL FIDUCIARY FUNDS
ASSETS:					
Cash and Cash Equivalents	\$ 260,365	\$ 15,174	\$ 462,326	\$ 1,129,185	\$ 1,867,050
Investments	219,000	-	93	55	219,148
TOTAL ASSETS	\$ 479,365	\$ 15,174	\$ 462,419	\$ 1,129,240	\$ 2,086,198
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 15,203	\$ -	\$ 1,490	\$ -	\$ 16,693
TOTAL LIABILITIES	\$ 15,203	\$ -	\$ 1,490	\$ -	\$ 16,693
NET ASSETS:					
Unrestricted	\$ 464,162	\$ 15,174	\$ 460,929	\$ 1,129,240	\$ 2,069,505
TOTAL NET ASSETS	\$ 464,162	\$ 15,174	\$ 460,929	\$ 1,129,240	\$ 2,069,505
TOTAL LIABILITIES AND NET ASSETS	\$ 479,365	\$ 15,174	\$ 462,419	\$ 1,129,240	\$ 2,086,198

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	-- PRIVATE PURPOSE TRUST FUNDS --		----- PENSION TRUST FUNDS -----		TOTAL FIDUCIARY FUNDS
	SELF-INSURED BENEFITS FUND	EXCELLENCE FOUNDATION	UNEMPLOYMENT COMPENSATION FUND	OTHER POST-EMPLOYMENT BENEFIT FUND	
ADDITIONS:					
Other Additions	\$ 165,752	\$ 45	\$ 1,675	\$ 158,188	\$ 325,660
Total Additions	\$ 165,752	\$ 45	\$ 1,675	\$ 158,188	\$ 325,660
DEDUCTIONS:					
Interfund Transfers Out	\$ 15,415	\$ -	\$ 1,616	\$ 11,508	\$ 28,539
Other Deductions	152,755	750	15,973	186,205	355,683
Total Deductions	\$ 168,170	\$ 750	\$ 17,589	\$ 197,713	\$ 384,222
CHANGE IN NET ASSETS	\$ (2,418)	\$ (705)	\$ (15,914)	\$ (39,525)	\$ (58,562)
FUND BALANCE - JULY 1, 2011	466,580	15,879	476,843	1,168,765	2,128,067
FUND BALANCE - JUNE 30, 2012	\$ 464,162	\$ 15,174	\$ 460,929	\$ 1,129,240	\$ 2,069,505

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – DESCRIPTION OF THE INTERMEDIATE UNIT AND REPORTING ENTITY

DESCRIPTION

The ARIN Intermediate Unit 28 (Intermediate Unit) was established in 1971 by Act 102 of the Commonwealth of Pennsylvania to function as a regional educational service agency for eleven school districts in Armstrong and Indiana Counties. The Intermediate Unit provides services relative to curriculum development, continuing education, educational planning, instructional materials, pupil personnel, state and federal agency liaison and managerial oversight. The principal programs provided by the Intermediate Unit are special education, adult education and nonpublic school services. The ARIN Intermediate Unit 28 is governed by a Board of Directors appointed by the participating school districts on a rotating basis.

REPORTING ENTITY

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the ARIN Intermediate Unit 28 consists of all funds, departments, boards and agencies that are not legally separate from the Intermediate Unit. For the ARIN Intermediate Unit 28, this includes general administrative operations and grantee responsibilities for a variety of state and federal grants which benefit the educational system of the Intermediate Unit and its member school districts.

Component units are legally separate organizations for which the Intermediate Unit is financially accountable. Component units may also include organizations that are fiscally dependent on the Intermediate Unit in that the Intermediate Unit approves their budget, the issuance of their debt or the levying of their taxes. The management of the ARIN Intermediate Unit 28 applies the criteria set forth in the 'Codification of Governmental Accounting and Financial Reporting Standards' for defining the scope of its reporting entity. Based on the application of these criteria, the ARIN Intermediate Unit 28 has no component units.

The following entities that perform activities within the Intermediate Unit's boundaries for the benefit of the Intermediate Unit are excluded from the accompanying financial statements because the Intermediate Unit is not financially accountable for these entities nor are they fiscally dependent on the Intermediate Unit:

- Armstrong-Indiana Insurance Trust (public entity risk pool - Note 13)
- Member School Districts

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the ARIN Intermediate Unit 28 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Intermediate Unit also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the Intermediate Unit's accounting policies are as follows:

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS – The statement of net assets (Exhibit A) and the statement of activities (Exhibit B) display information about the Intermediate Unit as a whole. These statements include the financial activities of the primary government, except for fiduciary funds which are not applicable to Intermediate Unit. The statements distinguish between those activities of the Intermediate Unit that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. That is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation (Exhibit D and F) with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities (Exhibit B) presents a comparison between direct expenses and program revenues for the Intermediate Unit's business-type activities (Cooperative Purchasing Fund) and for each function of the Intermediate Unit's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants, subsidies and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Intermediate Unit. The comparison of direct expenses with program revenues identifies the extent to which the business-type activity or government function is self-financing or draws from the general revenues of the Intermediate Unit.

FUND FINANCIAL STATEMENTS – Fund financial statements report detailed information about the Intermediate Unit. Under GASB Statement No. 34, the focus of the fund financial statements is on major funds rather than reporting funds by type. Major funds represent the Intermediate Unit's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. For Pennsylvania Intermediate Units, the General Fund is always considered a major fund. Each major fund is presented in a separate column. Non-major funds are segregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

FUND FINANCIAL STATEMENTS (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the Intermediate Unit finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

The ARIN Intermediate Unit 28 uses funds to report on its financial position and the results of its operations during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Intermediate Unit functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Intermediate Unit funds are classified into three categories: governmental, proprietary and fiduciary. Fund categories are defined as follows:

Governmental Funds – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Intermediate Unit's major and non-major governmental funds:

MAJOR GOVERNMENTAL FUNDS:

GENERAL FUND - The general fund is used to account for all financial resources not required to be accounted for in some other fund. The general fund balance is available for any purpose provided it is expended according to the Commonwealth of Pennsylvania Public School Code.

SPECIAL EDUCATION FUND (SPECIAL REVENUE FUND) - The special education fund is used to account for grant funding from the Department of Education to be used solely for special education related activities.

SPECIAL EDUCATION TRANSPORTATION FUND (SPECIAL REVENUE FUND) - The special education transportation fund is used to account for grant funding from the Department of Education to be used solely for special education transportation related activities.

EARLY INTERVENTION FUND (SPECIAL REVENUE FUND) - The early intervention fund is used to account for grant funding from the Department of Education to be used solely for early intervention related activities.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NON-MAJOR GOVERNMENTAL FUND:

CAPITAL PROJECT FUND - The capital project fund accounts for resources used to finance certain capital improvement projects deemed necessary by management and the Board of Directors. Funding was received through the issuance of the Educational Facility Revenue Note, Series of 2010.

DEBT SERVICE FUND - The debt service fund is used to receive transfers from the General Fund for the payment of principal and interest on the Intermediate Unit's Educational Facility Revenue Note obligation.

Proprietary Funds - used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies within the Intermediate Unit (internal service fund). The Intermediate Unit maintains an Internal Service Fund – Cooperative Purchasing Fund - to account for the financing of goods and services provided to other funds and other local educational associations.

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Intermediate Unit under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Intermediate Unit's own programs. Agency funds are custodial in nature and do not involve measuring income or any other results from operations. The Intermediate Unit has two Private Purpose Trust Funds and two Pension Trust Funds as follows:

SELF-INSURED BENEFITS FUND (Private Purpose Trust Fund) – Accounts for vision and dental contributions assessed to other funds for the purpose of paying vision and dental claims of Intermediate Unit employees.

EXCELLENCE FOUNDATION (Private Purpose Trust Fund) – Accounts for fund raising proceeds intended for activities designed to motivate students to excellence in education.

UNEMPLOYMENT COMPENSATION FUND (Pension Trust Fund) - Accounts for unemployment compensation contributions assessed to other funds for the purpose of paying benefits for former employees who are drawing unemployment.

OTHER POST-EMPLOYMENT BENEFIT (OPEB) FUND (Pension Trust Fund) - Accounts for other post-employment benefits contributions assessed to other funds for the purpose of paying healthcare (health, life, dental/vision) and sick day benefits for Intermediate Unit retirees per the terms of the various collective bargaining agreements.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Intermediate Unit, available means expected to be received within sixty days of fiscal year-end.

Revenue resulting from non-exchange transactions, in which the Intermediate Unit receives value without directly giving equal value in return, includes grants and contributions. On an accrual basis, revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from non-exchange transactions must also be 'available' before it can be recognized.

The management of the ARIN Intermediate Unit 28 has determined that the revenues most susceptible to accrual (measurable and available) at June 30, 2012 under the modified accrual basis are **1)** available federal and state subsidies, that have been earned by the Intermediate Unit through approved program expenditures as of June 30, 2012 and **2)** billings to participating school districts for services performed during the 2011-2012 fiscal year.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated property used during the year, if any, is reported in the operating statement as an expense with a like amount reported as part of federal source revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The primary expenditures deemed susceptible to accrual at June 30, 2012 under the modified accrual basis are **1)** salaries, retirement, and social security budgeted and pertaining to the 2011-2012 fiscal year, but which were paid in July and August of 2012 in accordance with labor agreements **2)** the Intermediate Unit's share of retirement cost on salaries and wages earned during the second quarter of 2012 and **3)** other operating and grant related costs obligated prior to June 30, 2012.

Costs, such as depreciation, are not recognized in governmental funds but are included as part of expenses in the government-wide statement of activities.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETS

The Board of Directors of the ARIN Intermediate Unit 28 adopted the fiscal year June 30, 2012 annual budget for the general fund totaling \$3,146,608 in accordance with the provisions of the Pennsylvania Public School Code. The budget was ratified by a majority of the participating school districts during the period of February through April of 2011 and forwarded to the Pennsylvania Department of Education on April 19, 2011. The Board of Directors also approved budgets for the Intermediate Unit's special revenue funds (special education, transportation, and early intervention) totaling \$11,214,785. The budgets are prepared utilizing the modified accrual method of accounting in accordance with generally accepted accounting principles. Budgetary transfers among various expenditure line items are performed as needed by the Intermediate Unit and approved by the Board of Directors in compliance with the Public School Code. The original and adjusted budgetary amounts are reflected in these financial statements (Exhibits G-J). Although not legally mandated, budgets are also adopted by the Board of Directors for all other miscellaneous funds of the Intermediate Unit, with the exception of the internal service fund. All annual appropriations of the general fund lapse at fiscal year end.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposit accounts and any other highly liquid, short-term investments, with original maturity terms of less than three months.

INVESTMENTS

Investments include deposits pooled for investment purposes with the Pennsylvania School District Liquid Asset Fund (PSDLAF), and the Pennsylvania Local Government Investment Trust (PLGIT). Investments are stated at fair value. The Public School Code Section 440.1 authorizes the Intermediate Unit to invest in:

- I. Obligations of the U.S. Treasury.
- II. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation and National Credit Union Share Insurance Fund.
- III. Obligations of the United State of America, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania, or any of their agencies or instrumentalities backed by the full faith and credit of the governmental units.
- IV. Shares of an investment company, registered under the Investment Company Act of 1940, and registered under the Securities Act of 1933. The Intermediate Unit's investments with PSDLAF and PLGIT fall into this classification.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from/to other funds' on the governmental and proprietary fund balance sheets. For the purposes of the government-wide statement of net assets, governmental interfund receivables and payables have been eliminated. Amounts due between governmental activities and business-type activities, if any, are presented as off-setting internal balances on the statement of activities.

INVENTORIES

Inventory of the general fund (Exhibit A and C) consists of expendable supplies held for consumption and is recorded as an expenditure of the general fund at the time individual items are purchased. Inventory is valued at cost using the first-in/first-out method of accounting.

CAPITAL ASSETS AND DEPRECIATION

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net assets.

All capital assets are recorded at cost (or estimated historical cost). Donated fixed assets are recorded at fair value at the time of receipt. The Intermediate Unit maintains a capitalization threshold of \$1,500. The cost of infrastructure is included as part of site improvements in the government-wide statement of net assets. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense in the government-wide statement of activities.

All reported capital assets, except land, are depreciated using the straight-line method over the following useful lives:

<u>CATEGORY</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Land Improvements	15 Years
Buildings	50 Years
Building Improvements	20 Years
Machinery and Equipment	3-30 Years

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets purchased by governmental funds are recorded as expenditures in the fund financial statements (Exhibit E). The results of capitalizing fixed assets net of depreciation on the government-wide statement of net assets and statement of activities, as opposed to recording these same assets as an expenditure in the fund financial statements (Exhibit E), is reflected in the required reconciliations of fund balance to net assets (Exhibit D) and the changes in fund balances to the changes in net assets (Exhibit F).

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

The ARIN Intermediate Unit 28 reports compensated absences in accordance with the provisions of GASB Statement No. 16, 'Accounting for Compensated Absences'. Sick leave benefits are accrued as follows:

- ARIN Education Association – An employee retiring through PSERS shall receive a retirement severance benefit for all unused sick leave days in the amount of \$70 per day not to exceed a maximum of \$10,000.
- ARIN Adult Education Program Instructors, Parent-Child Home Program Instructors, and Drivers Education Consortium Instructors – An employee retiring through PSERS shall receive a retirement severance benefit for all unused sick leave days in the amount of \$50 per day not to exceed a maximum of \$5,000.
- ARIN Intermediate Unit 28 Education Support Professionals – An employee retiring through PSERS shall receive a retirement severance benefit for all unused sick leave days in the amount of \$35 per day to a maximum of \$3,570 (200 work days or less/year) and a maximum of \$4,340 (over 200 work days/year).
- ARIN Intermediate Unit 28 Act 93 Staff – An employee retiring through PSERS shall receive a retirement severance benefit for all unused sick leave days in the amount of \$90 per day not to exceed a maximum of \$13,050.
- ARIN Intermediate Unit 28 Administrative Staff – An employee retiring through PSERS shall receive a retirement severance benefit for all unused sick leave days in the amount of \$130 per day not to exceed a maximum of \$20,000.

Management has established a funding formula based on employee age to cover sick day reimbursement. When employees turn 45 years of age and have 5 years of service in PSERS, 10% funding is established for each year until 100% funded by age 56. The amount transferred to the OPEB Fund for the 2011-2012 year for these benefits was \$47,997. Transfers from the OPEB Fund to cover General and Special Revenue Fund sick day payment obligations totaled \$11,508 for the 2011-2012 year.

In addition, in accordance with the terms of the Intermediate Unit's various collective bargaining agreements and other contractual agreements, the Intermediate Unit is responsible for the payment of:

- Unused vacation and personal days calculated based on each individual's current daily rate plus applicable payroll taxes. Teachers do not receive paid vacations but are paid only for the number of days they are required to work each year.
- Leaves of absence in accordance with the Pennsylvania Public School Code and as specified in the various contractual agreements between the Intermediate Unit and their eligible employees.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES (Continued)

The entire compensated absences liability of \$919,941 is shown as a non-current liability in the government-wide statement of net assets. This liability is comprised of the following as of June 30, 2012:

Personal Days	\$ 127,512
Vacation Pay	213,073
Sick Leave	439,928
Sabbatical Leave	<u>139,428</u>
	<u>\$ 919,941</u>

For governmental fund financial statements, compensated absences are recorded as an expenditure when paid, rather than accrued when earned, as the likelihood of payment in the immediate fiscal year with available expendable resources is not assured.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all similar obligations of the proprietary fund, if any, are reported again on the proprietary fund financial statement.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of compensated absences, retiree health benefits and retiree incentive payments that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable and available financial resources. In general, liabilities that mature or come due for payment within 60 days of the end of the fiscal year-end, are considered to be paid with current available financial resources. Notes and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due. The Intermediate Unit Debt Service Fund and OPEB Fund are typically used to liquidate long-term liability obligations.

The results of recognizing these long-term obligations as liabilities on the government-wide statement of net assets and statement of activities, as opposed to recording these same obligations as an expenditure in the fund financial statements (Exhibit E) only when paid, is reflected in the required reconciliations of fund balance to net assets (Exhibit D) and the changes in fund balances to the changes in net assets (Exhibit F).

NET ASSETS

GASB Statement No. 34 requires equity in the government-wide statement of net assets to be reported as 'Net Assets' rather than 'fund balance'. Net assets are classified into four categories according to external donor or legal restrictions or availability of assets to satisfy Intermediate Unit obligations. Net assets are classified as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS (Continued)

- Restricted-Nonexpendable – Net assets subject to externally imposed restrictions which are required to be maintained in perpetuity.
- Restricted-Expendable – Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Intermediate Unit or by the passage of time.
- Unrestricted – Consists of net assets that do not meet the definition of ‘restricted’ or ‘invested in capital assets, net of related debt’.

The Intermediate Unit applies restricted resources first, when available, before using unrestricted resources, to pay expenditures that can be paid from either source.

FUND EQUITY

Beginning with fiscal year 2010-2011, the Intermediate Unit implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory and prepaid expenses) or are required to be maintained intact
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation
- Committed fund balance – amounts constrained to specific purposes by the Intermediate Unit itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the Intermediate Unit takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Intermediate Unit intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority
- Unassigned fund balance – amounts that are available for any purpose

The Intermediate Unit establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. The Board of Directors has authority to assign fund balance.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Intermediate Unit’s general policy to spend the committed resources first, followed by assigned amounts and then unassigned amounts.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Intermediate Unit's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the ARIN Intermediate Unit 28, these revenues are charges by the internal service fund (Cooperative Purchasing Fund) to the various Intermediate Unit programs and other local educational associations for their share of the costs incurred for participation in the joint purchasing program. Operating expenses represent the cost of these benefits. The Intermediate Unit internal service fund did not have non-operating revenues or expenses during the fiscal year.

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

CASH DEPOSITS:

The ARIN Intermediate Unit 28 had the following bank deposit balances and carrying values on its cash and cash equivalents at June 30, 2012:

	<u>BANK BALANCE</u>	<u>CARRYING VALUE</u>
All Funds	\$ 4,664,598	\$ 2,420,900
Petty Cash	-	100
	<u>\$ 4,664,598</u>	<u>\$ 2,421,000</u>

The difference between the bank balance and carrying value represents year-end reconciling items such as deposits in transit and outstanding checks, and petty cash. Temporary negative cash balances of \$628,711 of the IU's Special Revenue Funds are shown as a component of accounts payable rather than cash and cash equivalents in the accompanying financial statements. All funds in a 'noninterest-bearing transaction account' are insured in full by the Federal Deposit Insurance Corporation (FDIC) from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure, the ARIN Intermediate Unit 28's deposits may not be returned to it. The Intermediate Unit's investment policy complies with Section 440.1 of the Public School Code of 1949 with the primary objective of investing funds being safety of principle and liquidity to meet operating needs, and maximizing yield. As of June 30, 2012, \$4,399,598 of the Intermediate Unit's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Intermediate Unit's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS:

The fair value and maturity term of ARIN Intermediate Unit 28's investments as of June 30, 2012 is as follows:

	Fair Value	No Stated Maturity	0-1 Year
PSDLAF	\$ 1,506,358	\$ 1,016,358	\$ 490,000
PLGIT	13,108	13,108	-
	\$ 1,519,466	\$ 1,029,466	\$ 490,000

The above investments with PSDLAF include two (2) certificates of deposit totaling \$490,000 which are fully insured through the Federal Deposit Insurance Corporation (FDIC). The purpose of the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) are to enable governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code, as amended. The funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The funds use amortized cost to report net assets to compute share prices. The funds maintain net asset values of \$1 per share. Accordingly, the fair value of the position in these funds is the same as the value of these shares.

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Intermediate Unit will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. PLGIT and PSDLAF have the characteristics of open-end mutual funds and are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. These funds are rated AAA by Moody's Investor Services.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Intermediate Unit's investment policy requires certificates of deposit not to exceed FDIC coverage and certificates of deposit in investment pools such as PSDLAF to have a minimum coverage of 102% of the market value of the applicable collateral for these securities.

Interest Rate Risk:

The Intermediate Unit does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Intermediate Unit's certificates of deposit investments through PSDLAF have maturity terms of less than one year.

Concentration of Credit Risk:

The Intermediate Unit places no limit on the amount it may invest in any one issuer.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – INTER-FUND RECEIVABLES/PAYABLES

Inter-fund receivables and payables as reflected on the governmental funds (Exhibit C) and proprietary fund (Exhibit K) balance sheets are as follows:

	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General Fund	\$ 1,030	\$ -
Internal Service Fund	-	1,030
	<u>\$ 1,030</u>	<u>\$ 1,030</u>

Inter-fund receivables and payables represent costs incurred by the Cooperative Purchasing Fund in connection with the joint purchasing program paid in advance by the General Fund. During the 2011-2012 fiscal year, the Intermediate Unit had the following fund transfers:

	<u>TRANSFER IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 602,389	\$ 174,311
Special Revenue Funds	8,708	582,558
Capital Project Fund	7,000	-
Debt Service Fund	167,311	11,508
Fiduciary Funds	-	17,031
	<u>\$ 785,408</u>	<u>\$ 785,408</u>

The General Fund transferred \$167,311 for debt service obligations on its Educational Facilities Revenue Note to the Debt Service Fund. Payments totaling \$11,508 were transferred out of the Debt Service Fund to the General and Special Revenue Funds for payment of employee benefits and unemployment compensation claim reimbursement. Special Revenue Funds transferred \$582,558 and the Fiduciary Fund transferred \$17,031 to the General Fund as reimbursement for administrative and other indirect operating costs. Governmental type 'inter-fund' obligations and transfers have been eliminated in the government-wide statement of net assets.

NOTE 5 – DUE FROM OTHER GOVERNMENTS

Intergovernmental receivables totaling \$1,032,237, as reflected in Exhibit A, represents state and federal grant/subsidy funds due the ARIN Intermediate Unit 28 from the Pennsylvania Department of Education.

NOTE 6 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable totaling \$1,309,312, as reflected in Exhibit A, represents billings due from member school districts and other local agencies for services provided. Receivables due the Intermediate Unit are recorded at net realizable value.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 - CAPITAL ASSETS

A summary of the governmental fixed asset activity for the 2011-2012 fiscal year was as follows:

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Governmental Activities				
Land	\$ 89,567	\$ -	\$ -	\$ 89,567
Land Improvements	321,216	-	-	321,216
Buildings	2,086,018	-	-	2,086,018
Building Improvements	483,480	13,587	-	497,067
Machinery and Equipment	2,101,954	76,493	90,822	2,087,625
	<u>\$ 5,082,235</u>	<u>\$ 90,080</u>	<u>\$ 90,822</u>	<u>\$ 5,081,493</u>
Less: Accumulated depreciation				
Land Improvements	\$ (137,695)	\$ (15,890)	-	\$ (153,585)
Buildings	(1,128,748)	(52,500)	-	(1,181,248)
Building Improvements	(38,911)	(20,556)	-	(59,467)
Machinery and Equipment	(1,945,695)	(161,069)	(90,822)	(2,015,942)
	<u>\$ (3,251,049)</u>	<u>\$ (250,015)</u>	<u>\$ (90,822)</u>	<u>\$ (3,410,242)</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,831,186</u>	<u>\$ (159,935)</u>	<u>\$ -</u>	<u>\$ 1,671,251</u>

Depreciation expense is allocated to the 'Instruction' Expense category on the statement of activities (Exhibit B).

NOTE 8 - LONG-TERM LIABILITIES

EDUCATIONAL FACILITY REVENUE NOTE – SERIES OF 2010

In May of 2010, the Intermediate Unit issued an Educational Facility Revenue Note – Series of 2010 to PNC Bank in the amount of \$1,400,000 for the purpose of 1) refunding its then existing Educational Facility Revenue Refunding Bonds - Series of 2002 and 2) providing funds for the costs of the acquisition, design, construction, furnishing, renovations, and other improvements, including site improvements to the Intermediate Unit's primary office building. The terms of the note call for monthly payments of principal and interest totaling \$13,942.61 for a period of ten years at an interest rate of 3.65%. The note is scheduled to mature in June of 2020.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 - LONG-TERM LIABILITIES (Continued)

A summary of the Intermediate Unit's remaining obligation on its Educational Facility Revenue Note at June 30, 2012 is as follows:

Year End June 30,	Principal	Interest	Total
2013	\$ 127,095	\$ 40,216	\$ 167,311
2014	131,813	35,498	167,311
2015	136,705	30,606	167,311
2016	141,779	25,532	167,311
2017	147,042	20,237	167,311
2018-2020	475,239	26,695	501,934
	<u>\$ 1,159,673</u>	<u>\$ 178,784</u>	<u>\$ 1,338,489</u>

The following represents the changes in the Intermediate Unit's long-term liabilities during the 2011-2012 fiscal year:

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Due Within One Year
Educational Facility Revenue Note - Series of 2010	\$ 1,281,494	\$ -	\$ 121,821	\$ 1,159,673	\$ 127,095
Compensated Absences	948,476	39,227	67,762	919,941	-
Net OPEB Obligation	649,899	55,296	-	705,195	-
	<u>\$ 2,879,869</u>	<u>\$ 94,523</u>	<u>\$ 189,583</u>	<u>\$ 2,784,809</u>	<u>\$ 127,095</u>

NOTE 9 – OPERATING LEASES

OFFICE EQUIPMENT

The ARIN Intermediate Unit 28 has entered into various operating lease agreements for copier and other office equipment. The terms of these lease agreements call monthly lease payments over various terms ranging from 12 months to 60 months. Lease expense for the fiscal year 2011-2012 was approximately \$57,949 on this equipment.

OFFICE SPACE

The ARIN Intermediate Unit 28 has entered into operating lease agreements with the Indiana County Development Program and the Tri-County Workforce Investment Board for operating space in connection with the administration of its Adult Education Program. The terms of these lease agreement with the Indiana County Development Corporation call for the payment of rent totaling \$14,451 for the lease period October 1, 2011 to June 30, 2012. The terms of the lease agreement with the Tri-County Investment Board call for the payment of \$2,631 per 6 months for the lease rental term of January 1, 2012 to June 30, 2012.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 - PENSION PLAN

The ARIN Intermediate Unit 28 participates in a cost sharing multiple-employer Public School Employees' Retirement System (PSERS) established under authority of the Public School Employees' Retirement Code Act No. 96 of October 2, 1975, as amended. PSERS is a component unit of the Commonwealth of Pennsylvania.

A brief summary of the plan's provisions are as follows:

Pension Benefits - Eligible participants are entitled to a normal retirement allowance totaling 2.5 percent of the participant's final average compensation, as defined, multiplied by the number of years of credited service. The defined benefit for a participant leaving employment before attaining retirement age but completing five years is vested and early retirement benefits may be elected. The plan provides for retirement, death and disability benefits, legislative mandated ad hoc cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

Retirement Age - Participants may retire with normal benefits at age sixty-two, age sixty with thirty or more years of service, or with thirty-five years of service regardless of age.

Death Benefits - When a participant dies in active service after attaining age sixty-two or ten years of service, the beneficiary is entitled to a death benefit equal to the benefit which would have been effective if the member retired on the day before their death.

Disability Benefits - A participant who becomes disabled after completing five years of credited service is eligible for an annuity totaling 2.5 percent of the final average salary, as defined, multiplied by the number of years of credited service, but not less than one-third of such salary, nor greater than the benefit the member would have had at superannuation retirement age.

The employer and employee obligations to contribute are established by authority of the aforementioned Public School Employees Retirement Code and require contributions by active members, employers, and the Commonwealth.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012 the rate of employer contribution was 8.65 percent of covered payroll. The 8.65 percent rate is composed of a pension contribution rate of 8.00 percent for pension benefits and .65 for healthcare insurance premium assistance.

Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.5 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute 6.25 percent (Membership Class TC) or at 7.5 percent (Membership Class TD) of the members qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.5 percent (automatic Membership Class TD). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 - PENSION PLAN (Continued)

ARIN Intermediate Unit 28 pension expense, state reimbursement for pension, and total covered (pension eligible) payroll for the three most recent fiscal years is as follows:

<u>YEAR</u>	<u>ARIN IU EXPENSE</u>	<u>STATE REIMBURSEMENT</u>	<u>COVERED PAYROLL</u>
2011-2012	\$ 754,396	\$ 415,667	\$ 8,784,627
2010-2011	469,561	259,073	8,525,397
2009-2010	393,608	229,012	8,237,790

The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management and Budget, School Employees' Retirement System, P.O. Box 125, Harrisburg, Pa. 17108-0125. This publication is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

The Intermediate Unit provides postemployment benefits to retirees, as per various contract provisions, as follows:

1. Health Insurance – At retirement effective July 1, 2011, each qualified ARIN Act 93, administrative, teacher or confidential employee shall have the option of selecting one of the three options listed below (the selection may be changed if the retiree's situation warrants it upon written notification to the Intermediate Unit).
 - a. \$2,040 per year payable in monthly installments to the retiree.
 - b. Payment by the Intermediate Unit to the group insurance carrier of the retiree's health, dental and vision insurance coverage premiums (single coverage only).
 - c. Payments by the Intermediate Unit to the group insurance carrier of the retiree's health coverage premium for the retiree and one dependent.

Effective July 1, 2011, the Intermediate Unit support staff will receive \$2,000 per year payable in monthly installments to the retiree.

The benefit is available for a maximum of nine years or retiree's qualification for Medicare whichever comes first. To qualify for this benefit at retirement the employee must have a minimum of twenty-five years of service credit with PSERS and fifteen years of service with the Intermediate Unit. The Intermediate Unit has funded this benefit by charging each program budget within the Intermediate Unit a flat rate per full-time equivalent (FTE) employee. For 2011-2012 year, the rate charged was \$400 per FTE employee and the amount transferred to the OPEB Fund was \$107,657. Twenty retirees were covered under this benefit at a cost of \$182,497 for the 2011-2012 year. The projected total retiree benefit liability as of June 30, 2012 is \$463,919. Management calculated the liability using prior year actual percentage increases and projected future costs based on prior years' average increases. As of June 30, 2012, \$215,915 was available in the OPEB Fund to cover future retiree benefit costs.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)

2. Group Life Insurance – Qualified retirees, as defined above, shall be entitled to retain life insurance benefits from the age of retirement to age 65. Such coverage may be purchased by the retiree at the current group rate, as set forth in the plan or plans obtained by the Intermediate Unit. During 2011-2012 two retirees were eligible at a cost of \$3,708 for the benefits. As of June 30, 2012, the amount of \$30,241 was available in the OPEB Fund for such benefits.

Type of plans covered:

Medical prescription, dental and vision benefits are covered. The Intermediate Unit self-insures the healthcare benefits of PPO including prescriptions, dental and vision. Cash benefits are also available to certain employee groups.

Eligibility for Healthcare Benefits:

Professional Staff: 25 years of PSERS service and 15 years with Intermediate Unit for incentive. Retirees not eligible for the incentive may purchase coverage under Act 110/43 if eligible.

Support Staff: 25 years of PSERS service and 15 years with Intermediate Unit required to receive cash payments. If eligible for cash payments, can also purchase healthcare coverage. Retirees can also purchase healthcare under Act 110/43 if eligible.

Duration of Healthcare Benefits:

Professional Staff: Coverage ends after 9 years, or at age 65, death or qualification for Medicare if earlier. Spousal coverage ceases with the cessation of retiree coverage, or upon spouse's attainment of age 65, death or qualification for Medicare if earlier.

Support Staff: Coverage ends after 10 years or at age 65, death or qualification for Medicare if earlier. Spousal coverage ceases with the cessation of retiree coverage, or upon spouse's attainment of age 65, death or qualification for Medicare if earlier.

Retiree Contributions:

Professional Staff: If eligible for incentive, contribute the PSERS premium assistance amount.

Support Staff: Premium amount

Act 110/43: Premium amount

Benefits:

Professional Staff eligible for incentive: Three medical options:

1. Cash in lieu of medical coverage
2. Retiree only – medical, prescription, dental vision
3. Retiree and spouse – medical

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)

Professional Staff not eligible for incentive: Act 110/43

Support Staff: Can purchase coverage with more liberal eligibility than Act 110/43. Upon meeting service requirements receive \$1,000 annually in retirement prior to age 65.

The single-employer retiree benefit plan ('the Plan') was established by the authority of the collective bargaining agreements between the Intermediate Unit and the various labor unions representing Intermediate Unit employees. The plan is unfunded and does not issue a publicly available financial report. These benefits are accounted for in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.

FUNDING POLICY

The contribution requirements of plan members and the Intermediate Unit are negotiated between the Intermediate Unit and the union representatives as part of the collective bargaining agreements. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid to fund the health care benefits provided to current retirees. The OPEB Fund has been established to begin the process of segregating assets to provide for retiree medical benefits.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Intermediate Unit's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 20 years.

The following shows the components of the Intermediate Unit's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Intermediate Unit's net OPEB obligation as of the latest actuarial valuation report:

Annual required contribution	\$ 416,310
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>(15,314)</u>
Annual OPEB cost (expense)	\$ 400,996
Contributions made (estimate)	<u>(345,700)</u>
(Decrease) in net OPEB obligation	\$ 55,296
Net OPEB obligation at July 1, 2011	<u>649,899</u>
Net OPEB obligation at June 30, 2012	<u><u>\$ 705,195</u></u>

The Intermediate Unit's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and two preceding year is as follows:

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)

ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued)

<u>FISCAL YEAR ENDED</u>	<u>ANNUAL OPEB COST</u>	<u>PERCENTAGE CONTRIBUTED</u>	<u>NET OPEB OBLIGATION</u>
6/30/2012	\$ 401,000	86.2%	\$ 705,000
6/30/2011	466,000	51.2%	650,000
6/30/2010	435,000	47.1%	423,000

FUNDED STATUS AND FUNDING PROGRESS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the Intermediate Unit are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>(UAAL) UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A % OF COVERED PAYROLL</u>
7/1/07	\$ -	\$ 3,747,300	\$ 3,747,300	0%	\$ 7,564,877	49.50%
7/1/08	-	3,901,684	3,901,684	0%	7,693,443	50.70%
7/1/09	-	4,041,922	4,041,922	0%	8,156,595	49.60%
7/1/11	-	3,922,300	3,922,300	0%	To Be Determined	

ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The July 1, 2011 actuarial valuation report utilized the Projected Unit Credit Actuarial Cost Method. The UAAL is being amortized based on 20 year level percent of payroll with payments increasing by 3.5% annually. The Discount Rate used was 4%.

The Net OPEB asset of \$705,195 is reflected as part of Noncurrent Assets in the government-wide financial statement of net assets (Exhibit A).

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 - CONTINGENCIES

STATE AND FEDERALLY FUNDED PROGRAMS

The ARIN Intermediate Unit 28 state and federally funded programs are subject to audit by various governmental agencies. The Intermediate Unit is potentially liable for any expenditure disallowed by the results of these audits. Management is not aware of any items of noncompliance which would result in the disallowance of program expenditures.

LITIGATION

The Equal Employment Opportunity Commission (EEOC) is currently reviewing a complaint by a current employee of the Intermediate Unit, against the Intermediate Unit, with regard to certain employment and personnel related issues. The Intermediate Unit intends to vigorously contest the employee's charges and believes the likelihood of an unfavorable outcome to be less than 50%. In the event of an unfavorable outcome, it is unlikely that the Intermediate Unit's liability would exceed \$25,000. No provision for this amount has been recorded in the accompanying financial statements.

NOTE 13 - RISK MANAGEMENT AND FINANCING

GENERAL INSURANCE CLAIMS

The ARIN Intermediate Unit 28 is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Intermediate Unit carries commercial insurance for all risks of loss except those instances where risk is retained by the Intermediate Unit. Settled claims from risks, not retained by the Intermediate Unit, have not exceeded commercial insurance coverage in any of the past three fiscal years. The following describes certain instances where risk is retained by the Intermediate Unit. The funds handling these risks are included within the Intermediate Unit's Fiduciary Fund categories:

UNEMPLOYMENT COMPENSATION INSURANCE

During the 1981-1982 fiscal year, the Intermediate Unit established a self-insured unemployment compensation fund (UCF). All programs contributed 2% of gross wages during the 1981-1982 fiscal year, 1% from 1982-1983 through 1984-1985 and ½% from 1985-1986 through 1989-1990. Due to unstable conditions in ARIN's employment status, premiums were calculated to 1% of gross wages from 1990-1991 through 1993-1994, ½% for 1994-1995, and ¼% for 1995-1996. For 1996-1997 through 2011-2012, no premiums were charged due to the accumulated fund balance and current employment status.

Each year, the Intermediate Unit contacts with Interstate Tax Service Bureau, an unemployment compensation consultant, to handle any unemployment claims and to project the future coverage needed. Although 2011-2012 expenses exceeded revenues by \$15,914, the June 30, 2012 unreserved fund balance was \$460,929. This will enable the Intermediate Unit not to charge a premium to programs for the upcoming fiscal year. However, if employment status would change, or interest earning drop, the Intermediate Unit would revise operations and charge the appropriate premium needed to cover expenses.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13 - RISK MANAGEMENT AND FINANCING (Continued)

VISION INSURANCE COVERAGE:

Beginning July 1, 1996, the Intermediate Unit established a self-insurance plan to provide vision benefits to employees. Fiscal year 2011-2012 monthly premiums for all employees are \$96 for single coverage and \$192 for family coverage. Maximum yearly payout of claims is \$135 for single coverage and \$255 for family coverage.

Revenues received for fiscal year 2011-2012 totaled \$30,951 while expenses paid totaled \$24,267. Claims liabilities are reviewed each year and adjustments to the premium rates are made accordingly. Current year operations added \$6,687 to the unreserved fund balance which totals \$164,634 as of June 30, 2012.

DENTAL INSURANCE COVERAGE:

Beginning in the 2002-2003 school year, the Intermediate Unit established a self-insurance plan to provide dental benefits to employees. The annual composite premium rate for employees is \$720.

Revenues received for the fiscal year 2011-2012 totaled \$134,801 while dental claim expenses totaled \$143,900. Claims liabilities are reviewed each year and adjustments to the premium are made accordingly. Current year operations deducted \$9,102 to the unreserved fund balance which totals \$299,527 as of June 30, 2012.

SPECIAL EDUCATION CONTINGENCY FUND ACCOUNT:

The special education contingency account was established to cover long-term employee benefit expenses awarded in an arbitration settlement regarding workers compensation. Starting in 2002-2003 insurance providers implemented exclusions under liability coverage related to providing an appropriate education for special needs children. Based on the unavailable insurance coverage and growing legal pressures, the Intermediate Unit's board authorized the transfer of \$10,000 into the Debt Service Fund (OPEB Fund) during the 2009-2010 year. As of June 30, 2012, \$110,041 was available to cover future liability exposure where no insurance coverage is offered.

PSERS RATE CONTINGENCY FUND ACCOUNT:

The fund was established to cover the anticipated rate increase in the Public School Employees' Retirement Systems (PSERS). Starting in 2009-2010, the Intermediate Unit will set aside 2% of payroll into this fund to help offset the anticipated spike in the employer contribution rate beginning with the 2012-2013 school year. As of June 30, 2012, \$334,611 was available to help cover future employer pension contributions.

HEALTH INSURANCE CONSORTIUM

The Intermediate Unit employees receive medical insurance coverage through the Armstrong Indiana Insurance Trust (AIIT). Employees are covered through a Point of Service (POS) Plan. The medical plan is divided into three groups; Active, Cobra and Retiree to provide management with pertinent claim usage data.

ARIN INTERMEDIATE UNIT 28
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13 - RISK MANAGEMENT AND FINANCING (Continued)

HEALTH INSURANCE CONSORTIUM (Continued)

On July 1, 1998 fourteen public Local Educational Agencies (LEAs), located in Armstrong and Indiana Counties, created AIIT to provide a more cost effective and manageable medical insurance program. Fully insured medical insurance coverage was acquired from Highmark for all AIIT LEAs beginning July 1, 1998 through June 20, 2000. Starting July 1, 2000, AIIT entered into an Administrative Service Contract (ASC) with Highmark (self-insured medical/prescription insurance coverage). There are two Third Party Administrators utilized by AIIT to assist in operations, PA School Benefits Insurance Agency (PSBIA) and Highmark Blue Cross Blue Shield (Highmark). Both provide administrative consulting services while Highmark also processes hospital, doctor and prescription claims. Stop-loss insurance coverage was purchased from Highmark Life & Casualty to cap liability exposure. The stop-loss insurance coverage is for both specific and aggregate claim losses. Specific coverage is for claim losses over \$200,000. Aggregate coverage is based on claim losses over 120% of an annual composite factor used for single and family coverage under the POS medical plan. Specific and aggregate stop-loss insurance covers claims incurred over the fiscal year (July 1 through June 30) and paid within a fifteen month period (three months after the fiscal year closes).

Highmark and PSBIA provide advice to AIIT Trustees, based on actuarial projections of claims usage, inflation and market conditions, with how to properly fund annual operations and reserves. AIIT has established three levels of reserve to address potential long-term liabilities, Termination Liability Reserve (TLR), Claims Contingency Reserve (CCR) and Trust Equity (TE). TLR covers claims that have been incurred but not paid and is based on the prior years' average daily claims that have been incurred but not paid and is based on the prior years' average daily claim multiplied by 60 estimated days run-out to pay incurred claims. The TLR funded balance as of June 30, 2012 is \$5,115,800. The second level reserve CCR is to be used to cover unknown future claims. The CCR is set at 20% of the expected claims for the next fiscal year as calculated by Highmark Blue Cross Blue Shield. Twenty percent of the expected claims of \$45,299,855 is \$9,059,971 in CCR fund balance. The third reserve is TE and is any remaining funds after the TLR/CCR have been deducted from the total fund balance. The TE funded balance is \$7,892,495. AIIT's goal is to adequately fund both TLR and CCR over the future years. The Intermediate Unit paid \$2,337,832 in annual premiums during the 2011-2012 fiscal year. The Intermediate Unit's allocated share of AIIT's equity as of June 30, 2012 is approximately \$306,373.

NOTE 14 – SUBSEQUENT EVENTS

Management has determined that there are no events subsequent to June 30, 2012 through the date of the 'Independent Audit Report', which is the date the financial statements were available to be issued, that require additional disclosure.

***SUPPLEMENTAL
SCHEDULES***

ARIN INTERMEDIATE UNIT 28
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2012

SCHEDULE 1

	SPECIAL EDUCATION FUND	SPECIAL EDUCATION TRANSPORTATION FUND	EARLY INTERVENTION FUND	TOTAL
ASSETS:				
Investments	\$ 556,485	\$ 357,698	\$ 75,198	\$ 989,381
Due From Other Governments	59,656	-	155,528	215,184
Other Receivables	756,178	-	21,251	777,429
Prepaid Expenses	138	237	-	375
TOTAL ASSETS	\$ 1,372,457	\$ 357,935	\$ 251,977	\$ 1,982,369
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable	\$ 550,020	\$ 308,678	\$ 17,681	\$ 876,379
Accrued Salaries and Benefits	682,121	-	234,296	916,417
Deferred Revenues	140,316	-	-	140,316
TOTAL LIABILITIES	\$ 1,372,457	\$ 308,678	\$ 251,977	\$ 1,933,112
FUND BALANCES:				
Assigned	\$ -	\$ 49,257	\$ -	\$ 49,257
TOTAL FUND BALANCES	\$ -	\$ 49,257	\$ -	\$ 49,257
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,372,457	\$ 357,935	\$ 251,977	\$ 1,982,369

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL EDUCATION FUND	SPECIAL EDUCATION TRANSPORTATION FUND	EARLY INTERVENTION FUND	TOTAL
REVENUES				
Local Sources	\$ 4,557,352	\$ 917	\$ 51,364	\$ 4,609,633
State Sources	1,425,553	3,219,161	1,847,382	6,492,096
Total Revenues	\$ 5,982,905	\$ 3,220,078	\$ 1,898,746	\$ 11,101,729
EXPENDITURES				
Instruction	\$ 4,156,816	\$ -	\$ 1,233,848	\$ 5,390,664
Support Services	1,518,068	2,984,689	538,794	5,041,551
Total Expenditures	\$ 5,674,884	\$ 2,984,689	\$ 1,772,642	\$ 10,432,215
Excess (Deficiency) of Revenue over Expenditures	\$ 308,021	\$ 235,389	\$ 126,104	\$ 669,514
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 8,707	\$ -	\$ -	\$ 8,707
Operating Transfers (Out)	(316,728)	(139,726)	(126,104)	(582,558)
Total Other Financing Sources (Uses)	\$ (308,021)	\$ (139,726)	\$ (126,104)	\$ (573,851)
NET CHANGE IN FUND BALANCES	\$ -	\$ 95,663	\$ -	\$ 95,663
FUND BALANCE - JULY 1, 2011 (Deficit)	-	(46,406)	-	(46,406)
FUND BALANCE - JUNE 30, 2012	\$ -	\$ 49,257	\$ -	\$ 49,257

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

SCHEDULE 3

	CAPITAL PROJECT FUND	DEBT SERVICE FUND	TOTAL
ASSETS:			
Cash and Cash Equivalents	\$ 756	\$ -	\$ 756
TOTAL ASSETS	\$ 756	\$ -	\$ 756
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	\$ -	\$ -	\$ -
FUND BALANCES:			
Assigned	\$ 756	\$ -	\$ 756
TOTAL FUND BALANCES	\$ 756	\$ -	\$ 756
TOTAL LIABILITIES AND FUND BALANCES	\$ 756	\$ -	\$ 756

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	CAPITAL PROJECT FUND	DEBT SERVICE FUND	TOTAL
REVENUES			
Local Sources	\$ 2,451	\$ -	\$ 2,451
Total Revenues	\$ 2,451	\$ -	\$ 2,451
EXPENDITURES			
Capital Outlay	\$ 35,117	\$ -	\$ 35,117
Debt Service	-	167,311	167,311
Total Expenditures	\$ 35,117	\$ 167,311	\$ 202,428
Excess (Deficiency) of Revenue over Expenditures	\$ (32,666)	\$ (167,311)	\$ (199,977)
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	\$ 7,000	\$ 167,311	\$ 174,311
Total Other Financing Sources (Uses)	\$ 7,000	\$ 167,311	\$ 174,311
NET CHANGE IN FUND BALANCES	\$ (25,666)	\$ -	\$ (25,666)
FUND BALANCE - JULY 1, 2011	26,422	-	26,422
FUND BALANCE - JUNE 30, 2012	\$ 756	\$ -	\$ 756

The accompanying notes are an integral part of these financial statements

ARIN INTERMEDIATE UNIT 28

SUPPLEMENTAL INFORMATION

***AS REQUIRED BY
OFFICE OF MANAGEMENT AND BUDGET
(OMB) CIRCULAR A-133***

Mark C. Turnley

Certified Public Accountant

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Board of Directors
ARIN Intermediate Unit 28**

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ARIN Intermediate Unit 28 as of and for the year ended June 30, 2012, which collectively comprise ARIN Intermediate Unit 28's basic financial statements and have issued my report thereon dated March 14, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the ARIN Intermediate Unit 28 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered ARIN Intermediate Unit 28's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ARIN Intermediate Unit 28's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the ARIN Intermediate Unit 28's internal control over financial reporting.

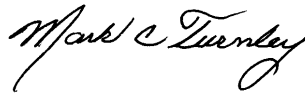
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the ARIN Intermediate Unit 28's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the management and Board of Directors of the ARIN Intermediate Unit 28 and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Mark C. Turnley". The signature is written in a cursive style with a large, stylized initial "M".

Mark C. Turnley
Certified Public Accountant

March 14, 2013
Ambridge, Pennsylvania

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**To the Board of Directors
ARIN Intermediate Unit 28**

COMPLIANCE

I have audited the compliance of the ARIN Intermediate Unit 28 with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ARIN Intermediate Unit 28's major federal programs for the year ended June 30, 2012. ARIN Intermediate Unit 28's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of ARIN Intermediate Unit 28's management. My responsibility is to express an opinion on ARIN Intermediate Unit 28's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ARIN Intermediate Unit 28's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on ARIN Intermediate Unit 28's compliance with those requirements.

In my opinion, ARIN Intermediate Unit 28 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

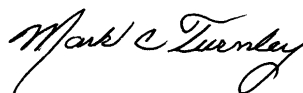
INTERNAL CONTROL OVER COMPLIANCE

Management of ARIN Intermediate Unit 28 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered ARIN Intermediate Unit 28's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of ARIN Intermediate Unit 28's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of my testing of compliance with the types of compliance requirements applicable to each of the ARIN Intermediate Unit 28's major programs and my testing of internal control over compliance and the results of my testing and to provide an opinion on the ARIN Intermediate Unit 28's compliance but not to provide an opinion on the effectiveness of the ARIN Intermediate Unit 28's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards I considering the ARIN Intermediate Unit 28's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.



Mark C. Turnley
Certified Public Accountant

March 14, 2013
Ambridge, Pennsylvania

**ARIN INTERMEDIATE UNIT 28
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR / PROJECT TITLE	FUNDING SOURCE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR NUMBER	GRANT PERIOD BEGINNING / ENDING DATE	PROGRAM AWARD AMOUNT	TOTAL RECEIVED THIS PERIOD	ACCRUED (DEFERRED) REVENUE JULY 1	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE JUNE 30
U.S. Department of Education:										
Passed through Pa. Dept. of Education:										
Federal Adult Ed Section 322	Indirect	84.002	41-120004	F 7/1/11-6/30/12	\$ 308,674	\$ 308,674	\$ -	\$ 308,674	\$ 308,674	(1) \$ -
Federal Adult Ed Section 322	Direct			S 7/1/11-6/30/12	8,373	8,658	-	8,658	8,658	-
Federal Adult Ed Section 322	Direct			L 7/1/11-6/30/12	4,000	4,000	-	4,000	4,000	-
IDEA - B (EI Comp 1)	Indirect	84.027	131-110028	F 7/1/11-6/30/12	396,386	366,780	-	396,386	396,386	(1) 29,606
IDEA - B (EI Comp 1)	Direct			S 7/1/11-6/30/12	9,574	10,323	-	10,323	10,323	-
IDEA - B (SA Comp 2-3)	Indirect	84.027	062-120028	F 7/1/11-6/30/12	4,133,033	4,133,033	-	4,126,721	4,126,721	(1) (6,312)
IDEA - B (SA Comp 2-3)	Direct			S 7/1/11-6/30/12	54,941	64,231	-	64,231	64,231	-
IDEA - B (SA Comp 2-3)	Direct			L 7/1/11-6/30/12	1,990	2,427	-	2,427	2,427	-
ARRA IDEA - B	Indirect	84.391A	128-100028	F 2/17/09-9/30/11	4,405,940	820,731	770,715	50,016	50,016	(1) -
IDEA Pre-School	Indirect	84.173	131-110028	F 7/1/11-6/30/12	143,731	133,549	-	143,439	143,439	(1) 9,890
IDEA Pre-School	Direct			S 7/1/11-6/30/12	2,585	2,579	-	2,579	2,579	-
ARRA IDEA - PreSchool	Indirect	84.392	137-110028	F 7/1/11-9/30/11	35,710	35,710	-	35,710	35,710	(1) -
ARRA IDEA - PreSchool	Direct			S 7/1/11-9/30/11	866	866	-	866	866	-
Homeless Children & Youth	Indirect	84.196A	081-100152	F 7/1/10-9/30/11	240,000	80,000	2,567	77,433	77,433	-
Homeless Children & Youth	Indirect	84.196A	081-110152	F 7/1/11-9/30/12	250,000	183,333	-	166,954	166,954	(16,379)
Homeless Children & Youth	Direct			S 9/1/11-9/30/12	4,452	3,272	-	3,272	3,272	-
Even Start	Indirect	84.213	065-110002	F 7/1/10-6/30/11	106,560	-	(80)	80	80	-
21st Century CLC Aftersch. Prgm.	Indirect	84.287C	4100043350	F 7/1/10-9/30/11	263,727	201,369	(38,035)	239,404	239,404	-
21st Century CLC Aftersch. Prgm.	Indirect	84.287C	4100058676	F 12/1/11-9/30/12	305,539	76,385	-	67,430	67,430	(8,955)
21st Century CLC Aftersch. Prgm.	Direct			S 12/1/11-9/30/12	43	-	-	-	-	-
21st Century CLC Aftersch. Prgm.	Indirect	84.287C	4100052377	F 7/1/10-6/30/11	499,200	409,610	409,610	-	-	-
21st Century CLC Aftersch. Prgm.	Indirect	84.287C	4100052377	F 7/1/11-6/30/12	499,200	196,471	-	499,200	499,200	302,729
21st Century CLC Aftersch. Prgm.	Direct			S 7/1/11-6/30/12	210	270	-	270	270	-
Title II Capacity Building	Indirect	84.367	020-110628	F 7/1/10-9/30/11	27,000	21,000	19,545	1,455	1,455	-
Title II Improving Teacher Quality	Indirect	84.367	020-110628	F 7/1/10-9/30/11	3,821	1,783	(859)	2,642	2,642	-
Title II Improving Teacher Quality	Direct			L 7/1/10-9/30/11	2,763	-	(1,594)	1,594	1,594	-
Title II Improving Teacher Quality	Indirect	84.367	020-100628	F 7/1/11-9/30/12	3,821	2,547	-	703	703	(1,844)
Title II Improving Teacher Quality	Direct			L 7/1/11-9/30/12	-	969	-	969	969	-
Title I Improving Basic Programs	Indirect	84.010	013-110628	F 7/1/10-9/30/11	50,000	6,667	5,229	1,438	1,438	-
Title I Improving Basic Programs	Indirect	84.010 84.281 Contract	013-120628	F 7/1/11-9/30/12	59,452	51,525	-	37,956	37,956	(13,569)
Title I Improving Basic Programs	Direct			S 7/1/11-9/30/12	1,682	1,084	-	1,084	1,084	-
TOTAL U.S. DEPT. OF EDUCATION PASSED THROUGH PA DEPT. OF EDUCATION					\$ 11,823,273	\$ 7,127,846	\$ 1,167,098	\$ 6,255,914	\$ 6,255,914	\$ 295,166

**ARIN INTERMEDIATE UNIT 28
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR / PROJECT TITLE	FUNDING SOURCE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR NUMBER	GRANT PERIOD BEGINNING / ENDING DATE	PROGRAM AWARD AMOUNT	TOTAL RECEIVED THIS PERIOD	ACCRUED (DEFERRED) REVENUE JULY 1	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE JUNE 30
U.S. Department of Education:										
Passed through Intermediate Unit 1:										
Restructuring Special Education	Indirect	84.027		F 3/4/11-6/30/11	\$ 6,600	\$ 3,041	\$ -	\$ 3,041	\$ 3,041	\$ -
TOTAL U.S. DEPT. OF EDUCATION PASSED THROUGH INTERMEDIATE UNIT 1					\$ 6,600	\$ 3,041	\$ -	\$ 3,041	\$ 3,041	\$ -
U.S. Department of Education:										
Passed through Capital Area Intermediate Unit:										
PA Institute for Instructional Coaching	Indirect	84.367		F 7/1/11-6/30/12	\$ 35,230	\$ 29,622	\$ -	\$ 38,249	\$ 38,249	\$ 8,627
PA Institute for Instructional Coaching	Direct			S 7/1/11-6/30/12	693	1,039	-	1,039	1,039	-
TOTAL U.S. DEPT. OF EDUCATION PASSED THROUGH CAPITAL INTERMEDIATE UNIT					\$ 35,923	\$ 30,661	\$ -	\$ 39,288	\$ 39,288	\$ 8,627
TOTAL U.S. DEPARTMENT OF EDUCATION					\$ 11,865,796	\$ 7,161,548	\$ 1,167,098	\$ 6,298,243	\$ 6,298,243	\$ 303,793
U.S. Department of Agriculture:										
Passed through Pa. Dept. of Education:										
ELECT & Fatherhood Initiative	Indirect	10.561	4100051627	F 7/1/10-6/30/11	\$ 23,760	\$ 6,754	\$ 6,749	\$ 5	\$ 5	\$ -
ELECT & Fatherhood Initiative	Indirect			S 7/1/10-6/30/11	23,760	6,754	6,749	5	5	-
ELECT & Fatherhood Initiative	Indirect	10.561	4100056914	F 7/18/11-6/30/12	23,760	14,491	-	23,760	23,760	9,269
ELECT & Fatherhood Initiative	Indirect			S 7/1/09-6/30/10	23,760	14,491	-	23,760	23,760	9,269
TOTAL DEPARTMENT OF AGRICULTURE					\$ 95,040	\$ 42,490	\$ 13,498	\$ 47,530	\$ 47,530	\$ 18,538
U.S. Department of Labor & Industry										
Passed through Tri-County Private Industry Council										
Summer Youth	Indirect	17.259	TRI-SER-002-10	F 7/1/10-6/30/11	\$ 59,776	\$ 11,213	\$ 11,213	\$ -	\$ -	\$ -
Summer Youth	Indirect	17.259	TRI-SER-002-10	F 7/1/11-6/30/12	53,574	41,637	-	53,574	53,574	11,937
Summer Youth	Direct			S 7/1/11-6/30/12	976	1,369	-	1,369	1,369	-
TOTAL DEPARTMENT OF LABOR & INDUSTRY					\$ 114,326	\$ 54,219	\$ 11,213	\$ 54,943	\$ 54,943	\$ 11,937
U.S. Department of Health and Human Services:										
Passed through PA Department of Public Welfare										
Parent-Child Home Program	Indirect	93.556	4100044776	F 7/1/10-6/30/11	\$ 220,296	\$ 27,537	\$ 27,537	\$ -	\$ -	\$ -
Parent-Child Home Program	Indirect	93.556	4100057474	F 7/1/11-6/30/12	220,296	192,759	-	217,159	217,159	24,400
Parent-Child Home Program	Direct			S 7/1/11-6/30/12	3,367	6,715	-	6,715	6,715	-
ARRA - Early Head Start	Indirect	93.709	4100051564	F 7/1/10-6/30/11	65,120	3,356	3,036	320	320	-
ARRA - Early Head Start	Indirect	93.709	4100051564	F 7/1/11-9/29/11	16,136	17,136	-	17,136	17,136	-
ARRA - Early Head Start	Direct			S 7/1/11-9/29/11	319	555	-	555	555	-
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES					\$ 525,534	\$ 248,058	\$ 30,573	\$ 241,885	\$ 241,885	\$ 24,400

**ARIN INTERMEDIATE UNIT 28
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR / PROJECT TITLE	FUNDING SOURCE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR NUMBER	GRANT PERIOD BEGINNING / ENDING DATE	PROGRAM AWARD AMOUNT	TOTAL RECEIVED THIS PERIOD	ACCRUED (DEFERRED) REVENUE JULY 1	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE JUNE 30
Passed through PA Department of Education										
ELECT & Fatherhood Initiative	Indirect	93.558	4100051627	F 7/1/10-6/30/11	\$ 189,216	\$ 54,952	\$ 54,915	(2) \$ 37	\$ 37	(1) \$ -
ELECT & Fatherhood Initiative	Indirect			S 7/1/10-6/30/11	96,438	28,021	28,002	(3) 19	19	-
ELECT & Fatherhood Initiative	Indirect	93.558	4100051627	F 7/1/10-6/30/11	34,372	9,804	9,804	-	-	(1) -
ELECT & Fatherhood Initiative	Indirect			S 7/1/10-6/30/11	23,966	6,731	6,731	-	-	-
ELECT & Fatherhood Initiative	Indirect	93.558	4100056914	F 7/18/11-6/30/12	273,909	167,002	-	273,909	273,909	(1) 106,907
ELECT & Fatherhood Initiative	Direct			S 7/18/11-6/30/12	8,707	8,707	-	8,707	8,707	-
ELECT & Fatherhood Initiative	Indirect	93.558	4100056914	F 7/18/11-6/30/12	34,372	23,456	-	34,372	34,372	(1) 10,916
ELECT & Fatherhood Initiative	Indirect			S 7/18/11-6/30/12	23,966	15,265	-	23,966	23,966	8,701
ELECT & Fatherhood Initiative	Direct			S 7/18/11-6/30/12	2,104	2,104	-	2,104	2,104	-
Medical Assistance Reimbursement for Health-Related Transportation and Admin	Indirect	93.778	N/A	F 7/1/10-6/30/11	40,175	103,783	(208,620)	16,484	16,484	(295,919)
					\$ 727,225	\$ 419,825	\$ (109,168)	\$ 359,598	\$ 359,598	\$ (169,395)
Passed through Armstrong Indiana Drug & Alcohol Commission, Inc.:										
Drug & Alcohol Prevention	Indirect	93.959		F 7/1/10-6/30/11	\$ 147,372	\$ 23,776	\$ 23,776	\$ -	\$ -	\$ -
Drug & Alcohol Prevention	Indirect	93.959		F 7/1/11-6/30/12	132,538	58,572	-	75,535	75,535	16,963
Drug & Alcohol Prevention	Direct			S 7/1/11-6/30/12	4,069	57,973	(1,222)	39,313	39,313	(19,882)
Drug & Alcohol Prevention	Direct			L 7/1/11-6/30/12	58,239	15,561	(11,112)	-	-	(26,673)
					\$ 342,218	\$ 155,882	\$ 11,442	\$ 114,848	\$ 114,848	\$ (29,592)
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES					\$ 1,594,977	\$ 823,765	\$ (67,153)	\$ 716,331	\$ 716,331	\$ (174,587)
TOTAL FEDERAL FINANCIAL ASSISTANCE					\$ 13,670,139	\$ 8,082,022	\$ 1,124,656	\$ 7,117,047	\$ 7,117,047	\$ 159,681
# Reconciliation with Federal Subsidy Confirmation:										
Per above						\$ 8,082,022				
State Early Intervention						1,548,140				
Adult Literacy						85,633				
State Early Intervention & Federal 619 IDEA Program						35,579				
Intermediate Unit 1						(3,041)				
Capital Intermediate Unit						(29,622)				
Tri-County Private Industry Council						(52,850)				
Department of Public Welfare - Federal						(240,788)				
Drug and Alcohol Commission - Federal						(82,348)				
ELECT & Fatherhood Initiative - Federal						(276,459)				
Medical Assistance - Federal						339,487				
Title 19						(103,783)				
21st Century CLC						(883,835)				
State Source Revenue						(241,007)				
Local Source Revenue						(22,957)				
Per confirmation from PDE						\$ 8,154,171				

(1) - Major Programs Tested

(2) - Elect & Fatherhood Initiative reduced for updated financial information from \$61,665 to \$54,915 (Federal Share)

(3) - Elect & Fatherhood Initiative reduced for updated financial information from \$34,751 to \$28,002 (State Share)

ARIN INTERMEDIATE UNIT 28
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

NOTE 1 - FEDERAL AWARD PROGRAMS

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the ARIN Intermediate Unit 28.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual method of accounting. Under this method, grant revenue is recognized to the extent expenditures are incurred. Expenditures are recognized when the liability for the expenditure is incurred rather than when the disbursement is actually made.

NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal financial award revenues are included in the financial statements as part of 'federal source' revenues in Exhibit E.

NOTE 4 - RECEIVABLE AND DEFERRED REVENUE

Federal grants receivable and deferred grants are included as part of 'due from other governments' and 'deferred revenue' in Exhibits A and C.

ARIN INTERMEDIATE UNIT 28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The audit report expresses an unqualified opinion on the financial statements of the ARIN Intermediate Unit 28.
2. The 'Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards' contained no control (significant) deficiencies or material weaknesses.
3. No instances of noncompliance material to the financial statements of the ARIN Intermediate Unit 28 were disclosed during the audit.
4. No control deficiencies relating to the audit of the major federal award programs are reported in the 'Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133'.
5. The auditor's report on compliance for the major federal award programs for the ARIN Intermediate Unit 28 expresses an unqualified opinion.
6. The programs tested as major programs include:
 - U.S. Department of Education:**
 - IDEA B - CFDA# 84.027
 - ARRA IDEA - CFDA# 84.391A
 - IDEA Pre-School - CFDA# 84.173
 - ARRA IDEA Pre-School - CFDA# 84.392
 - Federal Adult Education Section 322 - CFDA# 84.002
 - U.S. Department of Health and Human Services:**
 - ELECT & Fatherhood Initiative - CFDA# 93.558
7. The Threshold for distinguishing Types A and B programs was \$300,000.
8. ARIN Intermediate Unit 28 does not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

ARIN INTERMEDIATE UNIT 28
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDING JUNE 30, 2012

The audit report of the ARIN Intermediate Unit 28 for the year ended June 30, 2011, dated March 26, 2012, contained no audit findings.