

FITCH AFFIRMS WARREN COUNTY SCHOOL DISTRICT III, MO'S GOS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-16 August 2011: Fitch Ratings affirms the following Warren County School District III, Missouri (the district) bonds as part of its continuous surveillance effort:

--\$10 million general obligation (GO) bonds, series 2006 at 'AA-'.

The Rating Outlook is Stable.

KEY RATING DRIVERS

Strong Financial Performance: Financial performance remains sound with consistent operating surpluses and strong reserve levels

Moderate Debt: Debt levels are moderate with above average amortization and limited capital needs.

Limited Economy: Despite a limited economy, wealth levels are average. Recent data indicates the economy is beginning to stabilize after the recession with employment growth in the past year although unemployment remains above average.

WHAT COULD TRIGGER A RATING ACTION

Fitch would view positively the district's ability to maintain a positive financial profile, coupled with the potential implementation of a fund balance policy, over the next few years.

SECURITY

The bonds are general obligations of the district, payable from ad valorem taxes which may be levied without limitation as to rate or amount. To support payment of the bonds, the district has entered into a Direct Deposit Agreement under which the Treasurer of the state of Missouri has agreed to deposit with the trustee to the extent appropriated by the state of Missouri and available therefore, monies sufficient to pay debt service on the bonds. The district has pledged those moneys to payment of the bonds. Nothing in the deposit agreement relieves the district of its obligation to make debt service payments on the bonds, or to impose any debt service levy sufficient to retire the bonds.

CREDIT PROFILE

The district is located in the east central portion of Missouri, approximately 50 miles west of St. Louis. The district serves the western two thirds of Warren County, including the city of Warrenton. Education and retail account for the majority of top employers for the county. The unemployment rate for the county has improved, decreasing to 9.4% for May 2011 from 11% a year prior, but remains above state (8.8%) and national averages (8.7%). Total employment for the county has increased 1.2% over the past 12 months although the labor force continues to contract with a 0.7% decline. Population for the county has increased at over twice the national average in the past decade although enrollment for the district has been stable for the past few years at roughly 3,000 students. Wealth levels are comparable to the state average and slightly below that of the nation.

Financial operations are strong, highlighted by the district's consistent operating surpluses for the past six audited years. Budgeting has historically been accurate with actual results mirroring projections. Fiscal 2010 ended with a \$0.8 million surplus (6.7% of general fund spending), increasing the unreserved fund balance to \$5.2 million, equal to a strong 20.2% of spending for the district's general and teacher's funds. Estimated results for fiscal 2011 indicate roughly breakeven results. The proposed fiscal 2012 budget includes approximately \$0.5 million of appropriated reserves, although the district does not expect them to be used. The district may experience some reductions in state aid funding in fiscal 2013 although significant financial flexibility remains as the district has made minimal spending reductions to date. The district has proactively prioritized

services for potential spending cuts and is considering implementing a formal fund balance policy this year, which Fitch would view positively.

Debt levels are moderate with above average amortization. Debt service costs for fiscal 2010 totaled \$2.1 million, equal to a moderate 7.5% of spending. The district's facilities are reportedly in good shape which, coupled with stable enrollment, is expected to result in nominal capital needs limited to general maintenance for the next several years. The district's five-year capital improvement plan totals \$1 million of maintenance with projects prioritized based on need. No additional debt is planned.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, Zillow.com and National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria', dated Aug. 16, 2010;

--'U.S. Local Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842

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