

**THE SCHOOL DISTRICT OF THE
CITY OF ERIE, PENNSYLVANIA**

SINGLE AUDIT REPORT

JUNE 30, 2014

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
SINGLE AUDIT REPORT
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FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

To The Members of the Board
School District of the City of Erie, Pennsylvania
Erie, Pennsylvania

We 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 School District of the City of Erie, Pennsylvania as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditors' Report
(Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our 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 School District of the City of Erie, Pennsylvania as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for other post-employment benefits as listed in the table of contents 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements. The schedule of revenues, expenditures and changes in fund balance – budget and actual combining and individual non-major and fiduciary funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 also not a required part of the basic financial statements.

Independent Auditors' Report
(Continued)

The schedule of revenue, expenditures, and changes in fund balance – budget and actual, the combining and individual non-major and fiduciary fund financial statements, and the 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenue, expenditures, and changes in fund balance – budget and actual, the combining and individual non-major and fiduciary fund financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 on our consideration of the School District of the City of Erie, Pennsylvania's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District of the City of Erie, Pennsylvania's internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 22, 2014
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Management's Discussion and Analysis
For the Year Ended June 30, 2014

The Management Discussion and Analysis of the School District of the City of Erie provides an overall review of the School District's financial activities for the year ended June 30, 2014. The intent of the Management Discussion and Analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net position decreased \$7,987,439. Net position of governmental activities decreased by \$8,130,225, whereas net position of business-type activities increased by \$142,786.
- Total revenues were \$175,104,116. General revenues accounted for \$52,812,819 or 30.16% of all revenues. Program specific revenue in the form of charges for services and grants accounted for \$122,291,297 of total revenues.
- The Erie School District had \$176,093,854 in expenses related to governmental activities: \$115,150,751 of these expenses was offset by program-specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$52,812,878 offset expenses with \$8,130,225 of net position covering the balance of expenses.
- At the end of the current fiscal year, unrestricted fund balance of the general fund was a (deficit) of (\$9,691,645).

Using the Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Erie City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and long-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements indicate how services were financed in the short term, as well as what remains for future spending.

The fund financial statements look at the School District's most significant funds. In the case of Erie City School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Government-Wide Financial Statements

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2013-2014?” *The Statement of Net Position* and the *Statement of Activities* answer the question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year’s revenue and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, student enrollment, facility conditions, mandated educational programs and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, the School District is divided into two distinct kinds of activities:

- Governmental Activities – Most of the School District’s programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover the expenses of the goods or services provided. The School District food service program is reported as a business type activity.
- The governmental-wide financial statements can be found on pages 15 and 16 of this report.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page. The fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for the multitude of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the general fund and the capital project fund.

Governmental Funds – Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the School District’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements on pages 19 and 21, respectively.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these fund financial statements will essentially match the government-wide financial statements.

The School District as a Whole

The *Statement of Net Position* provides the perspective of the School District as a whole. The School District’s total net position (deficit) were (\$35,036,326) as of June 30, 2014, as compared to (\$27,048,887) as of June 30, 2013.

Statement of Net Position

	Governmental Activities 2014	Business- Type Activities 2014	Total 2014	Total 2013
Current and other assets	\$ 25,696,382	\$ 2,107,393	\$ 27,803,775	\$ 33,792,359
Capital assets	114,739,244	5,097,581	119,836,825	124,588,772
Total Assets	\$ 140,435,626	\$ 7,204,974	\$ 147,640,600	\$ 158,381,131
Deferred Outflows of Resources	-	162,878	162,878	248,352
Current and other liabilities	\$ 33,946,724	\$ 269,823	\$ 34,216,547	\$ 34,058,547
Long-term liabilities	135,373,656	3,922,601	139,296,257	142,339,823
Total Liabilities	\$ 169,320,380	\$ 4,192,424	\$ 173,512,804	\$176,398,370
Deferred Inflows of Resources	\$ 9,327,000	-	\$ 9,327,000	\$ 9,280,000
Net position				
Net invested in capital assets	\$ (6,446,083)	\$ 1,247,858	\$ (5,198,225)	\$ (4,693,787)
Restricted for capital projects	144,874	-	144,874	859,390
Restricted for science and math curriculum	196,399	-	196,399	-
Unrestricted (deficit)	(32,106,949)	1,927,570	(30,179,374)	(23,214,490)
Total Net Position	\$ (38,211,754)	\$ 3,175,428	\$ (35,036,326)	\$ (27,048,887)

The results of this year’s operations as a whole are reported in the *Statement of Activities*. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are deducted to determine the final amount of the School District activities that are supported by other general revenues. The following table shows the revenues, expenses and changes in net assets for the fiscal year 2014.

Statement of Activities

	Governmental Activities 2014	Business- Type Activities 2014	Total 2014	Total 2013
Revenues				
Operating grants and contributions	\$ 114,145,983	\$ 6,622,372	\$ 120,768,355	\$117,605,258
Charges for services	1,004,768	518,174	1,522,942	2,352,350
General revenues:				
Property taxes	44,912,636	-	44,912,636	41,920,058
Earned income and LST	6,925,644	-	6,925,644	7,065,158
Transfer tax	549,953	-	549,953	620,734
Public utility realty	85,113	-	85,113	68,110
Investment earnings (loss)	102,947	(59)	102,888	18,427
Miscellaneous	488,223	-	488,223	179,754
Gain (loss) sale of buildings	-	-	-	276,012
Loss on Sale Delinquent Taxes	(251,638)	-	(251,638)	(251,638)
	<u>\$ 167,963,629</u>	<u>\$ 7,140,487</u>	<u>\$ 175,104,116</u>	<u>\$ 169,854,223</u>
Expenses				
Instruction	\$ 119,838,773	\$ -	\$ 119,838,773	\$ 113,036,021
Pupil personnel	6,187,396	-	6,187,396	5,606,569
Instructional student support	5,038,885	-	5,038,885	5,809,395
Administrative and financial	10,487,814	-	10,487,814	9,985,392
Pupil health	1,410,567	-	1,410,507	1,375,742
Business	3,661,696	-	3,661,696	2,790,694
Operation of plant	13,537,684	-	13,537,684	12,996,233
Student transportation	4,869,479	-	4,869,479	4,594,895
Other support services	232,660	-	232,660	221,039
Staff services	1,520,850	-	1,520,850	1,582,218
Student activities	2,002,696	-	2,002,696	1,887,076
Community services	1,150,783	-	1,150,783	1,058,319
Other	-	115,830	115,830	116,370
Interest on debt	6,154,571	-	6,154,571	2,491,425
Food service	-	6,881,871	6,881,871	6,750,358
	<u>176,093,854</u>	<u>6,997,701</u>	<u>183,091,555</u>	<u>170,301,926</u>
Increase (decrease) in net position	<u>\$ (8,130,225)</u>	<u>\$ 142,786</u>	<u>\$ (7,987,439)</u>	<u>\$ (447,703)</u>

Governmental Activities

Governmental activities for 2014 resulted in a decrease in net position of \$8,130,225, as compared to a decrease of \$455,699 in governmental activities for 2013. The increase in the loss is primarily the result of an increase in salaries and benefits.

The School District's revenue consists of local (taxes and other): 32.0 percent, and state and federal revenues (subsidies and grants): 68.0 percent.

The School District's reliance on state and federal grants and local tax revenue is apparent. A decrease in state and federal revenues would have a direct impact on the level of local revenue needed to meet program expenses.

The City of Erie's tax base also has a major effect on the School District's revenues. An increase in tax-exempt properties along with LERTA exemptions and KOEZ classifications has had a direct impact on real estate revenues.

Business-Type Activities

Business-type activities include the food service program, stadium commission, and Play Erie. These programs had revenues of \$7,140,487 and expenses and other uses of \$6,997,701. While these activities receive no support from local tax revenues, the food service program received federal and state grants of \$6,622,372. Without support from the federal and state government, these operations would require support from local sources.

School District's Funds

Financial information related to the School District's major funds start on page 18. These funds are accounted for by using modified accrual basis of accounting. All government funds had total revenues of \$168,321,183, other financing uses of \$445,135, and expenditures of \$175,922,191. The net decrease in fund balance was \$(8,046,143), mainly resulting from the excess of expenditures over revenues in the general fund of \$7,331,627. The general fund accounted for \$168,321,135 in revenues and \$175,652,762 in expenditures and other uses, or a decrease in revenues over expenditures of \$7,331,627 as compared to an increase of \$2,219,005 in 2013. The capital project fund decreased by \$714,516 for 2014, as compared to \$5,713,556 decrease for 2013.

General Fund Budget Highlights

The School District's budget is prepared on a modified accrual basis of accounting. The most significant budgeted fund is the general fund.

The revenue budget was \$168,910,067. We experienced a shortfall in actual revenues of \$588,932. This was the result of a shortfall in local revenues of \$1,922,814 and state revenues of \$1,263,580. This was partially offset by increase in federal revenue of \$2,597,462.

The expenditure budget was \$168,559,014, compared to the actual expenditures of \$175,207,627. A review of budget to actual expenditures indicates actual expenditures exceeded the budget in the area of instruction, support services and facilities, acquisition, construction and improvement. The majority of excess was related to salary and benefits not anticipated in the original budget.

At June 30, 2014, the District's governmental funds reported a combined fund balance of a negative \$4,589,351, which is a decrease of \$ (8,046,143) from June 30, 2013. The majority of the decrease is a result of excess of expenditures over revenues in the general fund.

Capital Assets and Debt Administration

As of the end of fiscal year 2014, the School District had \$119,836,825 invested in land, buildings and equipment.

The School District maintains educational facilities along with three support facilities. Over the past 10 years, the School District has taken on several bond issues to update many of the existing facilities. The School District has replaced two schools with new facilities and has completed renovations or additions to eight schools. During the year the district closed three buildings and sold two of the buildings. The School District has buildings which, based on their average age, will continue to require work in the future.

Debt Administration

At June 30, 2014, the School District had a principal balance of \$111,550,327 in bonds and notes outstanding, \$6,920,482 is due and payable in the 2015 fiscal year.

For additional information on bonds and notes, see Note 9 to the financial statements.

Factors Bearing on the Districts Future

The district's financial future remains tenuous at best. The administration and board have made significant cuts every year beginning 2011-2012 and have had success in bringing costs under control. Prior to the 2011-2012 fiscal year, salaries and benefits were the major cost drivers of the budget. Today, because of the combined efforts of the school board, the administration and the labor unions, those costs are under control, but the major cost drivers now are Charter School expenses and annual increases to the retirement rate, as issued by the Public School Employees Retirement System (PSERS). The district's charter school costs exceed \$19 million and consist of four brick-and-mortar schools as well as numerous cyber charter schools. Prior to the 2011-12 fiscal year, school districts received 40% reimbursement on prior years' expenditures for charter schools, which amounted to approximately \$3 million. That reimbursement was eliminated by Pennsylvania Governor Rendell in order to help alleviate the state's budget problems. That same reimbursement today would exceed \$7.5 million in repayment to the district, which would nearly eliminate budget problems for the next several years.

State revenues account for over 55% of the district's total stream, and as such we are heavily dependent on annual state allocations each year. Without adequate annual increases to state funding, the district will continue to be forced to cut programs and staff, and look to increase local real estate taxes.

A group of educators throughout the state have joined together in an effort to revise the current funding formula for Pennsylvania's school districts. Their organization is called Pennsylvania Campaign for Fair Education Funding. If successful, their efforts may change the way in which the School District of the City of Erie is funded in the future. Until that time, we will continue to work towards eliminating budget deficits while making every effort to maintain educational stability throughout Erie's Public Schools.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the school board accountability for the money it receives. If you have any questions about the report or wish to request additional financial information, please contact Richard M. D'Andrea, Business Administrator, 148 West 21st Street, Erie, Pennsylvania 16502; Telephone (814) 874-6040.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 4,965,019	\$ 1,535,490	\$ 6,500,509
Investments	1,628,645	260,744	1,889,389
Taxes Receivable, Net	6,196,266	-	6,196,266
Intergovernmental Receivables	7,251,971	189,670	7,441,641
Other Receivables	32,491	12,320	44,811
Inventories	4,760,521	109,169	4,869,690
Prepaid Items	861,469	-	861,469
Total Current Assets	<u>25,696,382</u>	<u>2,107,393</u>	<u>27,803,775</u>
Non-Current Assets			
Land and Other Nondepreciable Assets	16,465,641	-	16,465,641
Capital Assets, Net	98,273,603	5,097,581	103,371,184
Total Non-Current Assets	<u>114,739,244</u>	<u>5,097,581</u>	<u>119,836,825</u>
Total Assets	<u>140,435,626</u>	<u>7,204,974</u>	<u>147,640,600</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Debt Issuance	-	162,878	162,878
Total Deferred Outflows of Resources	<u>-</u>	<u>162,878</u>	<u>162,878</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	6,925,592	188,471	7,114,063
Accrued Salaries and Benefits	13,717,796	-	13,717,796
Internal Balances	8,648	(8,648)	-
Unearned Revenue	1,361,074	-	1,361,074
Accrued Interest Payable	2,525,539	-	2,525,539
Bond and Notes Payable	6,920,482	90,000	7,010,482
Compensated Absences	1,300,000	-	1,300,000
Lease Payable	420,000	-	420,000
Retirement Incentive	667,593	-	667,593
Other Liabilities	100,000	-	100,000
Total Current Liabilities	<u>33,946,724</u>	<u>269,823</u>	<u>34,216,547</u>
Non-Current Liabilities			
Other Post-Employment Benefits	16,315,546	-	16,315,546
Bonds and Notes Payable	104,629,845	3,922,601	108,552,446
Compensated Absences	4,164,800	-	4,164,800
Lease Payable	9,215,000	-	9,215,000
Retirement Incentive	1,048,465	-	1,048,465
Total Non-Current Liabilities	<u>135,373,656</u>	<u>3,922,601</u>	<u>139,296,257</u>
Total Liabilities	<u>169,320,380</u>	<u>4,192,424</u>	<u>173,512,804</u>
DEFERRED INFLOWS OF RESOURCES			
Other Liabilities - Swaption	9,327,000	-	9,327,000
Total Deferred Inflows of Resources	<u>9,327,000</u>	<u>-</u>	<u>9,327,000</u>
NET POSITION			
Net Investment in Capital Assets	(6,446,083)	1,247,858	(5,198,225)
Restricted for Science and Math Curriculum	196,399	-	196,399
Restricted for Capital Projects	144,874	-	144,874
Unrestricted (Deficit)	(32,106,944)	1,927,570	(30,179,374)
Total Net Position	<u>\$ (38,211,754)</u>	<u>\$ 3,175,428</u>	<u>\$ (35,036,326)</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Activities
For the Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities</u>				
Instruction	\$ 119,838,773	\$ 842,910	\$ 107,161,644	\$ 35,473
Pupil Personnel	6,187,396	-	143,220	-
Instructional Student Support	5,038,885	-	47,740	-
Administrative and Financial	10,487,814	-	572,881	-
Pupil Health	1,410,567	-	298,269	-
Business	3,661,696	-	133,672	-
Operation and Maintenance of Plant Services	13,537,684	-	3,005,875	-
Student Transportation	4,869,479	-	2,575,345	-
Other Support Services	232,660	-	95,480	-
Staff Services	1,520,850	-	-	-
Student Activities	2,002,696	161,858	76,384	-
Community Services	1,150,783	-	-	-
Interest on Debt	6,154,571	-	-	-
Total Governmental Activities	176,093,854	1,004,768	114,110,510	35,473
<u>Business-Type Activities</u>				
Food Service	6,881,871	415,766	6,622,372	-
Stadium Commission	115,830	102,408	-	-
Total Business-Type Activities	6,997,701	518,174	6,622,372	-
Total Primary Government	\$ 183,091,555	\$ 1,522,942	\$ 120,732,882	\$ 35,473

General Revenues

Taxes
Property Taxes
Earned Income and Local Services Taxes
Transfer Tax
Public Utility Realty
Investment Earnings/(Loss)
Loss on Sale of Taxes
Miscellaneous Income
Total Revenues

Change in Net Position

Net Position, July 1, 2013, as restated

Net Position, June 30, 2014

The accompanying notes are an integral part of these financial statements

Net (Expense)/Revenue and Changes in Net Position

Governmental Activities	Business- Type Activities	Total
\$ (11,798,746)	\$ -	\$ (11,798,746)
(6,044,176)	-	(6,044,176)
(4,991,145)	-	(4,991,145)
(9,914,933)	-	(9,914,933)
(1,112,298)	-	(1,112,298)
(3,528,024)	-	(3,528,024)
(10,531,809)	-	(10,531,809)
(2,294,134)	-	(2,294,134)
(137,180)	-	(137,180)
(1,520,850)	-	(1,520,850)
(1,764,454)	-	(1,764,454)
(1,150,783)	-	(1,150,783)
(6,154,571)	-	(6,154,571)
<u>(60,943,103)</u>	<u>-</u>	<u>(60,943,103)</u>
-	156,267	156,267
-	(13,422)	(13,422)
-	142,845	142,845
<u>(60,943,103)</u>	<u>142,845</u>	<u>(60,800,258)</u>
44,912,636	-	44,912,636
6,925,644	-	6,925,644
549,953	-	549,953
85,113	-	85,113
102,947	(59)	102,888
(251,638)	-	(251,638)
488,223	-	488,223
<u>52,812,878</u>	<u>(59)</u>	<u>52,812,819</u>
(8,130,225)	142,786	(7,987,439)
<u>(30,081,529)</u>	<u>3,032,642</u>	<u>(27,048,887)</u>
<u>\$ (38,211,754)</u>	<u>\$ 3,175,428</u>	<u>\$ (35,036,326)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Balance Sheet - Governmental Funds

June 30, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,304,739	\$ 201,538	\$ 2,506,277
Taxes Receivable, Net	6,196,266	-	6,196,266
Intergovernmental Receivables	7,251,971	-	7,251,971
Inventories	4,760,521	-	4,760,521
	\$ 20,513,497	\$ 201,538	\$ 20,715,035
LIABILITIES			
Accounts Payable	\$ 5,024,539	\$ 56,664	\$ 5,081,203
Due to Other Funds	8,648	-	8,648
Accrued Salaries and Benefits	13,717,796	-	13,717,796
Unearned Revenues	1,361,074	-	1,361,074
Other Liabilities	100,000	-	100,000
	20,212,057	56,664	20,268,721
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	5,036,165	-	5,036,165
	5,036,165	-	5,036,165
FUND BALANCES			
Nonspendable - Inventories	4,760,521	-	4,760,521
Restricted for Science and Math Curriculum	196,399	-	196,399
Committed for Capital Projects	-	144,874	144,874
Unassigned (Deficit)	(9,691,645)	-	(9,691,645)
	(4,734,725)	144,874	(4,589,851)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 20,513,497	\$ 201,538	\$ 20,715,035

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Differences in amounts reported for governmental activities in the Statements of Net Position:

Fund balances - governmental funds		\$ (4,589,851)
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		114,739,244
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Unavailable Revenue - Property Taxes		5,036,165
Internal service funds are used by management to charge the costs of workers' compensation and dental and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position		3,136,958
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Other liabilities - swaption	\$ (9,327,000)	
Other post-employment benefits	(16,315,546)	
Bonds and notes payable	(111,550,327)	
Compensated absences	(5,464,800)	
Lease payable	(9,635,000)	
Retirement incentive	(1,716,058)	
Accrued interest payable	(2,525,539)	(156,534,270)
Net position (deficit) of governmental activities		<u><u>\$ (38,211,754)</u></u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds
For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources	\$ 56,198,782	\$ 48	\$ 56,198,830
State Sources	93,105,355	-	93,105,355
Federal Sources	19,016,998	-	19,016,998
Total Revenues	<u>168,321,135</u>	<u>48</u>	<u>168,321,183</u>
 EXPENDITURES			
Instruction	114,354,338	-	114,354,338
Support Services	47,058,601	-	47,058,601
Noninstructional Services	3,172,444	-	3,172,444
Facilities Acquisition, Construction, and Improvements	163,851	714,564	878,415
Debt Service	10,458,393	-	10,458,393
Total Expenditures	<u>175,207,627</u>	<u>714,564</u>	<u>175,922,191</u>
Excess of Revenues Over (Under) Expenditures	<u>(6,886,492)</u>	<u>(714,516)</u>	<u>(7,601,008)</u>
Other Financing Sources (Uses)			
Change in Inventory	(666,846)	-	(666,846)
Refund of Prior Year Expenditures	374,852	-	374,852
Refund of Prior Year Revenue	(153,141)	-	(153,141)
Total Other Financing Sources (Uses)	<u>(445,135)</u>	<u>-</u>	<u>(445,135)</u>
Net Change in Fund Balance	(7,331,627)	(714,516)	(8,046,143)
Fund Balance - July 1, 2013	<u>2,596,902</u>	<u>859,390</u>	<u>3,456,292</u>
Fund Balance - June 30, 2014	<u>\$ (4,734,725)</u>	<u>\$ 144,874</u>	<u>\$ (4,589,851)</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$	(8,046,143)
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in the Statement of Net Position		2,187,728
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(6,554,090)
Revenues and other adjustments in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Change in unearned revenue	\$	(357,554)
Change in accrued interest		123,012
		(234,542)
Certain activities reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		
Change in accreted value of bonds		(3,133,232)
Change in other liabilities-swaption		(47,000)
Other post-employment benefits		(1,544,083)
		(4,724,315)
Internal service funds are used by management to charge the costs of workers' compensation and dental and health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities		1,861,644
Repayment of long -term debt is reported as expenditures in governmental funds but as a reduction of long-term liabilities in the Statement of Net Position. In current year, these amounts are:		
Bonds and note payments		7,032,686
Capital lease payments		328,356
Changes in retirement incentive		593,536
Change in compensated absences		(575,085)
		7,379,493
Change in net position of governmental activities	\$	(8,130,225)

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Local Sources	\$ 57,800,968	\$ 58,121,596	\$ 56,198,782	\$ (1,922,814)
State Sources	93,508,443	94,368,935	93,105,355	(1,263,580)
Federal Sources	17,036,953	16,419,536	19,016,998	2,597,462
Total Revenues	<u>168,346,364</u>	<u>168,910,067</u>	<u>168,321,135</u>	<u>(588,932)</u>
EXPENDITURES				
Instruction	105,537,670	108,188,058	114,354,338	(6,166,280)
Support Services	47,774,640	45,533,917	47,058,601	(1,524,684)
Noninstructional Services	3,318,969	3,330,051	3,172,444	157,607
Facilities Acquisition, Construction and Improvement Services	139,500	139,500	163,851	(24,351)
Debt Service	11,738,469	11,367,488	10,458,393	909,095
Total Expenditures	<u>168,509,248</u>	<u>168,559,014</u>	<u>175,207,627</u>	<u>(6,648,613)</u>
Excess of Revenues Over (Under) Expenditures	<u>(162,884)</u>	<u>351,053</u>	<u>(6,886,492)</u>	<u>(7,237,545)</u>
Other Financing Sources (Uses)				
Transfers - (Out)	-	(326,534)	-	326,534
Change in Inventory	-	-	(666,846)	(666,846)
Refund of Prior Year Expenditures	422,407	114,800	374,852	260,052
Refund of Prior Year Revenues	-	-	(153,141)	(153,141)
Budgetary Reserve	(283,569)	(139,319)	-	139,319
Total Other Financing Sources (Uses)	<u>138,838</u>	<u>(351,053)</u>	<u>(445,135)</u>	<u>(94,082)</u>
Net Change in Fund Balance	<u>(24,046)</u>	<u>-</u>	<u>(7,331,627)</u>	<u>(7,331,627)</u>
Fund Balance - July 1, 2013	<u>2,596,902</u>	<u>2,596,902</u>	<u>2,596,902</u>	<u>-</u>
Fund Balance - June 30, 2014	<u>\$ 2,572,856</u>	<u>\$ 2,596,902</u>	<u>\$ (4,734,725)</u>	<u>\$ (7,331,627)</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Net Position - Proprietary Funds
June 30, 2014

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 1,477,810	\$ 57,680	\$ 1,535,490	\$ 2,458,742
Investments	-	260,744	260,744	1,628,645
Receivables				
Interfund	8,648	-	8,648	1,950,000
Intergovernmental	189,670	-	189,670	-
Other	12,320	-	12,320	32,491
Inventories	109,169	-	109,169	-
Prepaid Expenses	-	-	-	861,469
Total Current Assets	<u>1,797,617</u>	<u>318,424</u>	<u>2,116,041</u>	<u>6,931,347</u>
Non-Current Assets				
Buildings and Building Improvements	6,122,641	522,622	6,645,263	-
Machinery and Equipment	1,155,537	200,093	1,355,630	-
Accumulated Depreciation	<u>(2,442,745)</u>	<u>(460,567)</u>	<u>(2,903,312)</u>	<u>-</u>
Total Non-Current Assets	<u>4,835,433</u>	<u>262,148</u>	<u>5,097,581</u>	<u>-</u>
Total Assets	<u>6,633,050</u>	<u>580,572</u>	<u>7,213,622</u>	<u>6,931,347</u>
Deferred Outflows of Resources				
Unamortized Loss on Sale and Leaseback	<u>162,878</u>	<u>-</u>	<u>162,878</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>162,878</u>	<u>-</u>	<u>162,878</u>	<u>-</u>
Liabilities				
Current Liabilities				
Accounts Payable	188,471	-	188,471	3,794,389
Current Portion of Bonds Payable	<u>90,000</u>	<u>-</u>	<u>90,000</u>	<u>-</u>
Total Current Liabilities	<u>278,471</u>	<u>-</u>	<u>278,471</u>	<u>3,794,389</u>
Long-Term Liabilities				
Bonds Payable	<u>3,922,601</u>	<u>-</u>	<u>3,922,601</u>	<u>-</u>
Total Long-Term Liabilities	<u>3,922,601</u>	<u>-</u>	<u>3,922,601</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	985,710	262,148	1,247,858	-
Unrestricted	<u>1,609,146</u>	<u>318,424</u>	<u>1,927,570</u>	<u>3,136,958</u>
Total Net Position	<u>2,594,856</u>	<u>580,572</u>	<u>3,175,428</u>	<u>3,136,958</u>
Total Liabilities and Net Position	<u>\$ 6,795,928</u>	<u>\$ 580,572</u>	<u>\$ 7,376,500</u>	<u>\$ 6,931,347</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenses and Changes
in Net Position - Proprietary Funds
For the Year Ended June 30, 2014

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating Revenues				
Food Service Revenue	\$ 415,766	\$ -	\$ 415,766	\$ -
Charges for Services	-	50,274	50,274	23,125,082
Other Income	-	52,134	52,134	-
	<u>415,766</u>	<u>102,408</u>	<u>518,174</u>	<u>23,125,082</u>
Total Operating Revenues				
Operating Expenses				
Salaries	154,786	8,600	163,386	-
Employee Benefits	29,591	-	29,591	-
Purchased Professional and Technical Service	5,624,612	-	5,624,612	-
Supplies and Food	528,161	21,092	549,253	-
Depreciation	334,448	54,732	389,180	-
Other Operating Expenses	2,422	31,406	33,828	1,086,388
Insurance Expense	-	-	-	712,426
Claim Expense	-	-	-	19,475,404
	<u>6,674,020</u>	<u>115,830</u>	<u>6,789,850</u>	<u>21,274,218</u>
Total Operating Expenses				
Operating Income (Loss)	<u>(6,258,254)</u>	<u>(13,422)</u>	<u>(6,271,676)</u>	<u>1,850,864</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	-	(59)	(59)	10,780
State Sources	324,378	-	324,378	-
Federal Sources	6,297,994	-	6,297,994	-
Interest Expense	<u>(207,851)</u>	<u>-</u>	<u>(207,851)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>6,414,521</u>	<u>(59)</u>	<u>6,414,462</u>	<u>10,780</u>
Change in Net Position	156,267	(13,481)	142,786	1,861,644
Net Position, July 1, 2013, as restated	<u>2,438,589</u>	<u>594,053</u>	<u>3,032,642</u>	<u>1,275,314</u>
Net Position, June 30, 2014	<u>\$ 2,594,856</u>	<u>\$ 580,572</u>	<u>\$ 3,175,428</u>	<u>\$ 3,136,958</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Cash Flows From Operating Activities:				
Cash Received from Customers	\$ 393,747	\$ 102,408	\$ 496,155	\$ 21,175,082
Cash Payments to Employees for Services	(184,377)	(8,600)	(192,977)	-
Cash Payments to Suppliers for Goods and Services	(5,601,649)	(21,092)	(5,622,741)	(23,377,060)
Cash Payments for Operating Expenses	(2,422)	(31,406)	(33,828)	-
Net Cash Provided by (Used for) Operating Activities	<u>(5,394,701)</u>	<u>41,310</u>	<u>(5,353,391)</u>	<u>(2,201,978)</u>
Cash Flows from Noncapital Financing Activities:				
State Sources	324,378	-	324,378	-
Federal Sources	5,741,666	-	5,741,666	-
Transfers to Investment Account	-	(20,000)	(20,000)	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>6,066,044</u>	<u>(20,000)</u>	<u>6,046,044</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	-	(3,595)	(3,595)	-
Interest Paid on Capital Debt	(207,851)	-	(207,851)	-
Bond Payments	(90,000)	-	(90,000)	-
Net Cash (Used by) Capital and Related Financing Activities	<u>(297,851)</u>	<u>(3,595)</u>	<u>(301,446)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	-	(59)	(59)	10,780
Purchase of Investments	-	(129,696)	(129,696)	(1,049,911)
Sale of Investments	-	90,634	90,634	924,261
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>(39,121)</u>	<u>(39,121)</u>	<u>(114,870)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	373,492	(21,406)	352,086	(2,316,848)
Cash and Cash Equivalents at Beginning of Year	<u>1,104,318</u>	<u>79,086</u>	<u>1,183,404</u>	<u>4,775,590</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,477,810</u>	<u>\$ 57,680</u>	<u>\$ 1,535,490</u>	<u>\$ 2,458,742</u>
Reconciliation of Operating Income to Net Cash (Used for)				
Operating Activities:				
Operating Income (Loss)	\$ (6,258,254)	\$ (13,422)	\$ (6,271,676)	\$ 1,850,864
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used for) Operating Activities				
Depreciation	334,448	54,732	389,180	-
Donated Commodities	556,328	-	556,328	-
(Increase) Decrease in Accounts Receivables	(22,019)	-	(22,019)	(1,946,229)
(Increase) Decrease in Inventories	(48,568)	-	(48,568)	-
(Increase) Decrease in Prepaid Expenses	-	-	-	(397,543)
(Increase) Decrease in Deferred Charges	13,075	-	13,075	-
Increase (Decrease) in Accounts Payable	30,289	-	30,289	(1,709,070)
	<u>\$ (5,394,701)</u>	<u>\$ 41,310</u>	<u>\$ (5,353,391)</u>	<u>\$ (2,201,978)</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2014

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 149,621	\$ 180,875
Total Assets	<u>\$ 149,621</u>	<u>\$ 180,875</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts Payable Due to Student Groups	<u>\$ -</u>	<u>\$ 180,875</u>
NET POSITION		
Held in Trust for Scholarships	<u>149,621</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ 149,621</u>	<u>\$ 180,875</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Private Purpose Trust
Additions:	
Earnings on Investments	\$ 157
Contributions	3,902
Total Additions	4,059
Deductions:	
Scholarships	32,892
Other Expense	-
Total Deductions	32,892
Change in Net Position	(28,833)
Net Position, July 1, 2013	178,454
Net Position, June 30, 2014	\$ 149,621

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of the City of Erie, Pennsylvania have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

For financial reporting purposes, The School District of the City of Erie includes all funds that are controlled by or dependent on the School District. Control by or dependence on the School District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the School District, obligation of the School District to finance any deficits that may occur, or receipt of significant subsidies from the School District. As required by generally accepted accounting principles, the financial statement of the reporting entity includes those of the primary government (The School District of the City of Erie) and its component unit, the Erie School District Foundation. The Foundation is reported as a private purpose trust in the financial statements. The Foundation does not issue its own financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The Capital Projects Fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

The District reports the following major enterprise funds.

Proprietary Funds account for a government's activities that are operated like private businesses, charging customers a fee in return for goods or services. Proprietary funds employ the *economic resources measurement focus* and *accrual basis of accounting*. The Food Service Fund is reported as a major proprietary fund.

Additionally, the District reports the following fund types:

Internal Service Funds account for workers' compensation and dental and health insurance charged to other departments of the government on a cost reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trust Funds account for the activities of the government that are fiduciary in nature, except those reported as agency funds. The government acts as a trustee for resources that belong to others. Trust funds employ the *economic resources measurement focus* and *accrual basis of accounting*.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are merely clearing accounts for assets held by a government as an agent for individuals, private organizations, or other governments.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first then unrestricted resources as they are needed.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash and cash equivalents are cash on hand, as well as demand deposits, investments, and short-term investments with original maturities of three months or less from the date of acquisition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the School is permitted to invest its monies as follows:

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

All investments are reported at fair value. Fair value is determined using selected basis as follows: securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has an inventory balance as of June 30, 2014.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2014. The inventory consisted of government donated commodities, which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School does not have any infrastructure assets. The School maintains a \$1,500 threshold for additions to equipment. Buildings and improvements are capitalized when the value is \$25,000 or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation has been provided using the straight-line method. The estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Life - Years</u>
Buildings/Improvements	30-50
Equipment	7-10
Autos, trucks, and vans	5-7

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. This is unamortized loss on sale leaseback.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The government also has a derivative instrument – interest rate SWAP that is reported as a deferred inflow of resources under the accrual basis of accounting on the statement of net position for governmental activities.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the government fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The School Board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

G. Revenues and Expenditures/Expense

Program Revenues

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General Fund. All encumbrances lapse at year end.

Compensated Absences

The School does not permit the carryover of unused vacation days. Accordingly, the financial statements do not contain any provision for unused vacation time.

All regularly scheduled personnel covered under the labor agreement with the Erie Education Association are eligible for ten days of sick leave per year. Employees are allowed unlimited accumulation of unused sick days. Professional employees and administrators who retire with 10 years of service may elect to receive \$80 per day with unlimited accumulation.

Non-instructional personnel who retire with ten or more years of service in the District may convert unused sick days at a rate of \$80 per day with unlimited accumulation. Payment for unused sick days must be deposited into a 403(b) tax sheltered account for the employee.

The liability for unused sick days or severance pay does not become fixed until an employee elects to retire. In order for employees to receive payment for unused sick days, the District requires notification by March of the year prior to retirement. This enables the District to provide for such payments in the budget.

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service fund, non-major funds, and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Calendar

Property taxes are levied and billed July 1 on property values assessed as of the same date. Taxpayers received a three percent rebate for payments received by September 30. Taxpayers received a two percent rebate for payments received after September 30 but before February 28. Payments from March 1 through April 30 are collected at face. A ten percent penalty is added for payments received May 1 through June 30. Delinquent taxes are turned over to the Erie County Tax Claim Bureau for collection as of December 31, at which time the applicable property is subject to lien and penalties and interest are assessed.

Taxpayers can make installment payments at face beginning April 30 to July 31.

H. Pronouncements Issued

The School District adopted GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities (GASB 65)*, which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets or liabilities as deferred outflows of resources (expenses) or inflows (revenues). The implementation of GASB 65 resulted in the write-off of note issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$57,226 for food service fund and business-type activities.

I. Future Pronouncements

The School will adopt GASB 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. The objective of the statement is to improve accounting and financial reporting by state and local governments for pensions. The implementation of GASB will result in the recognition of the Net Pension Obligation of the School District.

NOTE 2 - BUDGETARY INFORMATION

An annual budget is adopted for the general fund. The budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Project length financial plans are adopted for the capital projects funds.

NOTE 2 - BUDGETARY INFORMATION (CONTINUED)

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, a proposed operating budget is submitted to the School Board for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to June 30, the budget is legally adopted through passage of a resolution.
3. The Business Manager is authorized to transfer budgeted amounts within a specific budget object; any other transfers or revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed by other funds because effective budgetary control is alternatively achieved through direct authorization by the School Board or the expenditures are all fixed in nature.

Excess of expenditures over appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations by \$6.6 million. This was mainly due to hiring of teachers and related benefits in the instruction expenditure category.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2014, \$9,439,741 of the District's bank balance of \$10,192,977 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Insured Amount	\$ 753,236
Uninsured and Collateralized Held by the Pledging Bank's Trust Department not in the District's Name	9,439,741
Less: Outstanding Checks	(3,919,037)
Add: Deposits in Transit	-
Carrying Amount of Bank Balance	<u>6,273,940</u>
Plus: Cash on Hand and Petty Cash	<u>226,569</u>
Total Cash and Cash Equivalents per Financial Statements	<u>\$ 6,500,509</u>

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments

As of June 30, 2014, the District had the following investments:

Investment Type	Maturities	Fair Value
Fixed Income Treasury Bonds	Less than 1 year	\$ 431,090
Fixed Income Treasury Bonds	1-5 years	988,548
Fixed Income Exchange Traded Funds	1-3 years	469,751
		\$ 1,889,389

Interest Rate Risk

The District does 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.

Concentration of Risk

The District places no limit on the amount the District may invest in any one issuer. All of the District's investments are in U.S. Treasury Notes.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

NOTE 4 - TAXES RECEIVABLE

Based upon assessments provided by the County, the School District levies property taxes at a rate of 18.7626 mills.

The School District also collects earned income tax and local services tax from its residents. The tax rate for the current fiscal year is ½% earned income tax and \$5 local services tax.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the Administration. A portion of the net amount estimated to be collectible, which was measurable and available under 60 days, was recognized as revenue and the balance deferred in the fund financial statements.

The balances at June 30, 2014 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate/EIT	\$ 6,804,266	\$ 690,000	\$ 6,114,266	\$ 1,078,101	\$ 5,036,165
Transfer Tax	82,000	-	82,000	82,000	-
	\$ 6,886,266	\$ 690,000	\$ 6,196,266	\$ 1,160,101	\$ 5,036,165

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2014, the following amounts are due from other governmental units:

	General Fund	Food Service Fund	Total
Federal	\$ 4,090,506	\$ 179,368	\$ 4,269,874
State	3,161,465	10,302	3,171,767
	<u>\$ 7,251,971</u>	<u>\$ 189,670</u>	<u>\$ 7,441,641</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year is as follows:

	June 30, 2013	Additions	Deletions/ Adjustments	June 30, 2014
Governmental Activities				
Capital Assets Not Depreciated:				
Land	\$ 8,036,536	\$ -	\$ (187,780)	\$ 7,848,756
Construction in Progress	26,995	136,704	(26,995)	136,704
Building/Land Held for Resale	4,102,450	-	4,377,731	8,480,181
Total Assets Not Depreciated	<u>\$ 12,165,981</u>	<u>\$ 136,704</u>	<u>\$ 4,162,956</u>	<u>\$ 16,465,641</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 197,892,956	\$ 604,617	\$(4,189,951)	\$ 194,307,622
Furniture and Equipment	37,091,855	1,473,402	(209,656)	38,355,601
Vehicles	2,959,567	-	-	2,959,567
Total Assets Depreciated	<u>237,944,378</u>	<u>2,078,019</u>	<u>(4,399,607)</u>	<u>235,622,790</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(94,759,118)	(4,417,719)	2,548,525	(96,628,312)
Furniture and Equipment	(31,636,315)	(1,981,080)	209,656	(33,407,739)
Vehicles	(2,694,844)	(90,921)	-	(2,785,765)
Building/Land Held for Resale	<u>(1,914,476)</u>	<u>(64,370)</u>	<u>(2,548,525)</u>	<u>(4,527,371)</u>
Total Accumulated Depreciation	<u>(131,004,753)</u>	<u>(6,554,090)</u>	<u>209,656</u>	<u>(137,349,187)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 106,939,625</u>	<u>\$ (4,476,071)</u>	<u>\$(4,189,951)</u>	<u>\$ 98,273,603</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Building	\$ 6,645,264	\$ -	\$ -	\$ 6,645,264
Equipment	1,250,134	3,595	(4,417)	1,249,312
Vehicles	106,317	-	-	106,317
Total Assets Depreciated	<u>8,001,715</u>	<u>3,595</u>	<u>(4,417)</u>	<u>8,000,893</u>
Less Accumulated Depreciation:				
Building	(1,331,763)	(316,185)	-	(1,647,948)
Equipment	(1,080,469)	(72,995)	4,417	(1,149,047)
Vehicles	<u>(106,317)</u>	<u>-</u>	<u>-</u>	<u>(106,317)</u>
Total Accumulated Depreciation	<u>(2,518,549)</u>	<u>(389,180)</u>	<u>4,417</u>	<u>(2,903,312)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 5,483,166</u>	<u>\$ (385,585)</u>	<u>\$ -</u>	<u>\$ 5,097,581</u>

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:		
Instruction		\$ 6,475,530
Support Services:		
Student Transportation		12,686
Administration		43,916
Operation and Maintenance		<u>21,958</u>
Total Depreciation Expense- Governmental Activities		<u>\$ 6,554,090</u>
Business-Type Activities:		
Food Service		334,448
Stadium Commission		<u>54,732</u>
Total Depreciation Expense- Business-Type Activities		<u>\$ 389,180</u>

NOTE 7 - CAPITAL LEASES

The School District is obligated under certain leases accounted for as capital leases. The leased assets are accounted for in the Governmental Activities and Food Service Fund. The leased obligations are accounted for in the governmental activities. The assets acquired through capital leases are as follows:

	Governmental Activities	Food Service Fund	Total
Building	\$ 6,582,400	\$ 4,686,252	\$ 11,268,652
Equipment	3,209,188	-	3,209,188
Less Accumulated Depreciation	<u>(3,915,616)</u>	<u>(740,946)</u>	<u>(4,656,562)</u>
Carrying Value of Building And Equipment	<u>\$ 5,875,972</u>	<u>\$ 3,945,306</u>	<u>\$ 9,821,278</u>

During the fiscal year end June 30, 2012 the District entered into a sale and capital leaseback agreement whereby the District agreed to sell four buildings for \$10,285,000. Under the terms of the agreement, the District agrees to pay the buyer interest on a semiannual basis on April 1 and October 1 at rates ranging from 2.75% to 6.00%. The agreement requires principal payments beginning April 1, 2013 through 2031. The District realized a net loss of \$551,440 in 2011/2012 as a result of this transaction.

NOTE 7 - CAPITAL LEASES (CONTINUED)

The following is a schedule of future minimum lease payments under capital leases together with the net present value of the minimum lease payments as of June 30, 2014:

2015	\$ 896,300
2016	899,750
2017	897,788
2018	895,550
2019	898,938
2020-2024	4,484,879
2025-2029	4,486,001
2030-2034	<u>1,176,301</u>
Total Minimum Lease Payments	14,635,507
Less Amount Representing Interest	<u>(5,000,507)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 9,635,000</u>

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Food Service	General Fund	\$ 8,648

The outstanding balances between funds results mainly from the time lag between the date that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

NOTE 9 - LONG -TERM DEBT

Governmental Activities

The notes payable at June 30, 2014 consist of a note from PNC Bank for the purchase of American Meter Building. The note has a fixed interest rate of 4.40%, the duration of the note is November 14, 2005 through November 14, 2014 and has payments of \$6,738 due monthly.

General obligation bonds are direct general obligations of the School District. Principal and interest payments are backed by the full faith, credit and taxing power of the School District. Debt service for all general obligation bonds is budgeted and paid from the general fund. Bonds payable consist of the following:

NOTE 9 - LONG -TERM DEBT (CONTINUED)

General Obligation Bonds, Series of 1998, in the original principal amount of \$48,635,752. These capital appreciation bonds mature in varying amounts from September 1, 1998 through 2025. The bonds bear interest ranging from 4.5% to 6.167%. The bonds maturing September 1, 2000 through 2003 have been determined to be taxable, the remaining bonds are tax-exempt.

General Obligation Bonds, Series of 2000, in the original principal amount of \$37,137,023. The bonds bear interest ranging from 5.09% to 6.23%. The bonds require interest payments semi-annually on September 1 and March 1 commencing on September 1, 2001. The bonds mature beginning September 1, 2001 and ending September 1, 2030. The current interest bonds maturing September 1, 2001 through September 1, 2029 were defeased by the funds provided by the 2001 Series General Obligation Bonds. The remaining bonds are capital appreciation bonds for which interest is being accrued.

On December 14, 2011, the School District issued \$37,310,000 aggregate principal amount Variable Rate Demand Revenue Bonds. The purpose of the bonds was the refunding of the 2001 Series A General Obligation Bonds. The 2011 bonds mature on September 1 of each year beginning in 2012. The bonds require monthly interest payments beginning in January 2012, with a variable rate interest.

On March 1, 2012, the School District issued \$5,825,000 aggregate principal amount General Obligation Bonds Series of 2011. The purpose of the bonds was the refunding of the Bond Anticipation Note Series of 2011. The 2012 bonds mature on September 1 of each year beginning in 2012. The bonds require semi-annual interest payments on March 1 and September 1 of each year, beginning September 1, 2012, with interest on the bonds ranging from 2.0% to 4.0%.

On March 1, 2012, the School District borrowed \$13,407,000 from the State Public School Building Authority of the Commonwealth of Pennsylvania. The purpose of the bonds was to provide funds for various building renovation projects of the District. The loan requires semi-annual interest payments on March 15 and September 15 of each year beginning March 15, 2012 with interest at rates ranging from 5.088% to 5.138%. The loans requires a lump sum payment on June 30, 2030.

In the prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

Compensated absences include accrued sick and personal days.

The District has incurred a liability for special termination benefits, which include various early retirement incentive programs. Under such programs, retirees are eligible for monthly or annual payments until age sixty-two. The long-term liability for future benefits has been discounted using an 8% factor.

NOTE 9 - LONG -TERM DEBT (CONTINUED)

Business-Type Activities

General Obligation Bonds Series of 2011, in the original principal amount of \$4,510,000. The bonds have a varying interest rate ranging from 1.5% to 5.25%. The bonds mature in varying amounts from March 1, 2011 through March 1, 2039. Interest is payable March 1 and September 1, commencing September 1, 2010. The bonds were issued to fund improvements to the District's cafeteria facilities.

The following summarizes the maturities and interest payments for general obligation bonds/notes and notes payable as of June 30, 2014.

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,920,482	\$ 543,008	\$ 7,463,490
2016	6,668,807	809,793	7,478,600
2017	6,435,852	1,030,023	7,465,875
2018	6,117,158	1,240,477	7,357,635
2019	5,812,692	1,474,220	7,286,912
2020-2024	25,922,888	8,083,635	34,006,523
2025-2029	41,578,989	2,235,175	43,814,164
2030-2034	12,093,459	10,917,815	23,011,274
	<u>\$111,550,327</u>	<u>\$ 26,334,146</u>	<u>\$137,884,473</u>

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 90,000	\$ 137,262	\$ 227,262
2016	95,000	133,691	228,691
2017	95,000	130,000	225,000
2018	100,000	126,182	226,182
2019	105,000	122,235	227,235
2020-2024	-	547,104	547,104
2025-2029	1,365,000	426,220	1,791,220
2030-2034	-	283,326	283,326
2035-2039	2,235,000	114,415	2,349,415
	<u>\$ 4,085,000</u>	<u>\$ 2,020,435</u>	<u>\$ 6,105,435</u>

NOTE 9 - LONG -TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30, 2014 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$115,449,781	\$ 3,133,232	\$ (7,032,686)	\$111,550,327	\$ 6,920,482
Compensated Absences	4,889,715	1,265,520	(690,435)	5,464,800	1,300,000
Capital Lease Payable	9,963,356	-	(328,356)	9,635,000	420,000
Retirement Incentive	2,309,594	75,985	(669,521)	1,716,058	667,593
	<u>\$132,612,446</u>	<u>\$ 4,474,737</u>	<u>\$ (8,720,998)</u>	<u>\$128,366,185</u>	<u>\$ 9,308,075</u>

The liability for compensated absences and retirement incentive is normally liquidated by the general fund.

Business-Type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 4,175,000	\$ -	\$ (90,000)	\$ 4,085,000	\$ 90,000
Bond Discount	(75,295)	-	2,896	(72,399)	-
	<u>\$ 4,099,705</u>	<u>\$ -</u>	<u>\$ (87,104)</u>	<u>\$ 4,012,601</u>	<u>\$ 90,000</u>

NOTE 10 - RETIREMENT PLAN

A. Plan Description

The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Public School Employee Retirement System (PSERS). Benefit provisions of the Plan are established under the provisions of the PSERS Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The Plan provides retirement, disability and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying Plan members and beneficiaries. It also provides for refunds of a member’s accumulated contribution upon termination of a member’s employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the Plan. That report may be obtained by writing to PSERS, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125.

NOTE 10 - RETIREMENT PLAN (CONTINUED)

B. Funding Policy

Public School Employees' Retirement System has four membership classes: T-C, T-D, T-E and T-F. The rate of the contribution an employee pays toward his account is based on the date of hire and/or membership class selected as follows:

- A Class T-C member who enrolled before July 22, 1983 has a contribution rate of 5.25 percent. A Class T-D member who enrolled before July 22, 1983 has a contribution rate of 6.50 percent.
- A Class T-C member enrolled on July 22, 1983 through and including June 30, 2011 will have a contribution rate of 6.50 percent. A Class T-D member who enrolled on July 22, 1983 through and including June 30, 2011 will have a contribution rate of 7.50 percent.

Those who become members for the first time on or after July 1, 2011 may choose between two classes of membership in the System.

- A Class T-E member's base employee contribution rate with "shared risk" contribution levels may fluctuate between 7.50 and 9.50 percent.
- A Class T-F member's base employee contribution rate with "shared risk" contribution levels may fluctuate between 10.30 and 12.30 percent.

For the fiscal year ended June 30, 2014, the rate of employer contribution was 16.93 percent of covered payroll.

The School District's contributions to the System for the years ending June 30, 2014, 2013, and 2012 were \$11,947,419, \$7,873,043, and \$6,047,996, respectively, equal to the required contributions for each year.

Shared Risk

With a "shared risk" program, Class T-E and Class T-F members benefit when investments of the fund are doing well and share some of the risk when investments under-perform. With a Class T-E or Class T-F, your contribution rate will stay within the specified range, but may increase or decrease by 0.50 percent within the specified range every three years, starting on July 1, 2015. The member contribution rate will never go below the base rate or above the highest percentage rate.

NOTE 11 - SELF-INSURANCE

The District maintains self-insurance programs for health insurance, workers' compensation coverage and a dental plan, which are being accounted for as internal service funds. The funds charge premiums to the general fund based on an amount determined by the administering insurance company. The insurance company serves as claims administrator and reviews and processes claims. The premiums are based on anticipated claims and estimated costs of administering and satisfying claims. The District maintains an insurance policy that limits the maximum workers' compensation liability per occurrence to \$350,000. No such policy is maintained for the dental plan. Through an insurance policy, the District's health insurance liability is limited to \$125,000 per individual. Claims expenditures and liabilities are reported when it is probable that a loss can be reasonably estimated.

At June 30, 2014, the workers' compensation fund had a liability of \$95,094, which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers' compensation claim payments totaled \$138,070 for the year ended June 30, 2014.

Health insurance claim payments totaled \$20,223,886 for the year ended June 30, 2014 and a liability of \$3,666,904 at June 30, 2014.

The dental plan has a liability of \$32,491, which represents current year claims paid by the administrator but not reimbursed by the District as of June 30, 2014. Claim payments totaled \$781,568 for the year ended June 30, 2014.

At June 30, 2014, the workers' compensation, health insurance and dental plan had a net position balance of \$930,618, \$1,348,871 and \$26,619, respectively.

Changes in the balances of claims liabilities during the years ended June 30, 2013 through 2014 are as follows:

	<u>Workers' Comp.</u>	<u>Dental Plan</u>	<u>Health Insurance</u>	<u>Total</u>
Unpaid Claims, June 30, 2012	\$ 163,238	\$ 33,622	\$ 3,653,777	\$ 3,850,637
Incurred Claims	270,203	817,565	21,149,844	22,237,612
Claim Payments	<u>(282,648)</u>	<u>(814,925)</u>	<u>(19,487,217)</u>	<u>(20,584,790)</u>
Unpaid Claims, July 1, 2013	150,793	36,262	5,316,404	5,503,459
Incurred Claims	82,371	777,797	18,615,236	19,475,404
Claim Payments	<u>(138,070)</u>	<u>(781,568)</u>	<u>(20,264,836)</u>	<u>(21,184,474)</u>
Unpaid Claims, June 30, 2014	<u>\$ 95,094</u>	<u>\$ 32,491</u>	<u>\$ 3,666,804</u>	<u>\$ 3,794,389</u>

The amount, if any, of future liability that may arise as a result of self-insurance is not readily determinable and cannot be reasonably estimated. Accordingly, the financial statements do not reflect a liability for any unasserted claims related to the current or prior period. To fund future health insurance claims, the District maintained a prepaid deposit with Highmark of \$440,000 and BAI for \$394,850. The District also maintains \$26,619 for future dental insurance claims.

NOTE 12 - CONTRACTS/COMMITMENTS

The School District has entered into labor agreements with bargaining units and contracts expire as follows:

<u>Bargaining Unit</u>	<u>Contract Expires</u>
The Erie Education Association	June 30, 2014
The International Union of Operating Engineers	June 30, 2016
The Erie Educational Secretaries Association	June 30, 2014
The Erie County Civil Service Employees of Painters and Allied Trades, AFL-CIO	June 30, 2016
Administrative Personnel	June 30, 2015

NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in note 10, the District provides post-employment health insurance benefits through a single-employer defined benefit plan. The benefits are established in accordance with the requirements set forth by the bargaining unit contracts. The Plan is not allocated for as a trust fund, an irrevocable trust has not been established, the Plan does not issue a separate report and activity of the Plan is reported in the District's general fund. The School District has implemented GASB Statement No. 45 prospectively for the year ended June 30, 2008.

Hospitalization coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of June 30, 2014, 234 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$3,697,834 (\$4,014,000 net of retiree contributions of \$316,166 in 2013/14).

Funding Policy

The benefits are expensed when incurred and are financed on a pay-as-you-go basis. Retirees currently pay a portion of the monthly premium. The District covers the balance of the premium not paid by the retiree. Retiree and dependent coverage, group plans, and costs to the retiree are subject to change. A spouse may be covered as a dependent until the death of the retiree; thereafter, they are eligible to continue coverage by paying 100% of the monthly insurance premium.

The District's annual OPEB cost is calculated based on the annual required contribution of the employees (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No 45. The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actually determined in accordance with the requirements so that if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both normal cost for each year and the amortized unfunded liability.

**NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(CONTINUED)**

The following table shows the component of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the District's net OPEB obligation:

Annual Required Contribution	\$ 5,484,043
Interest on Net OPEB Obligation	664,716
Adjustment to Annual Required Contributions	<u>(906,842)</u>
Annual OPEB Cost	5,241,917
Contribution Made	<u>(3,697,834)</u>
Increase in Net OPEB Obligation	1,544,083
Net OPEB Obligation - Beginning of Year	<u>14,771,463</u>
 Net OPEB Obligation - End of Year	 <u>\$ 16,315,546</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2014	\$ 5,241,917	32.12%	\$ 16,315,546
June 30, 2013	6,172,131	41.79%	14,771,463
June 30, 2012	6,203,262	50.33%	12,325,288
June 30, 2011	5,947,209	47.26%	9,621,688
June 30, 2010	5,986,711	59.7%	6,485,095

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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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 presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 the 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 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 ARC for the current year was computed as of June 30, 2014 using the following actuarial assumptions: (1) actuarial cost method: entry age normal; (2) amortization method level dollar; (3) amortization period 30 years; (4) discount rate of 4.50% compounded annually; (5) PSERS defined benefit pension plan mortality rates, and (6) health care cost trend rates of 7%, decreasing by .5% per year to 5.5% in 2016 decreasing to 5.3% in 2017.

NOTE 14 - RISK MANAGEMENT

The School District is involved, in varying stages, with various pending or unasserted litigation. The District has notified its insurance carrier of these actions. Although the outcome of these proceedings is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

The School District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

During the year ended June 30, 2014 and the two previous fiscal years, no settlement exceeded insurance coverage.

NOTE 15 - INTEREST RATE SWAP AGREEMENT RELATED TO 2001 G.O. BONDS (SWAPTION)

On July 29, 2003, the School District approved an interest rate swap agreement (the "2003 Swaption").

Objectives of the 2003 Swaption Due to Federal tax law restrictions, the School District was not permitted to advance refund its 2001 Bonds at a time when interest savings could have otherwise been available. In an effort to reduce its debt service costs, the District used a synthetic fixed rate refunding structure (which was accomplished using the 2003 Swaption) that was designed to provide the District with some of the benefit of reduced interest rates. The 2003 Swaption was structured with all savings taken up front, as opposed to over time.

The School District entered into the 2003 Swaption with JP Morgan and in return, JP Morgan provided the District an upfront payment of \$785,000. The 2003 Swaption granted JP Morgan, as counterparty, the option to require the District to enter into a fixed payor interest rate swap at a future date. If the option is exercised, the District would then expect to issue variable rate refunding bonds which would be swapped to a synthetic fixed rate upon the effective date of the Swaption.

Terms The Trade Date for the 2003 Swaption was September 4, 2003. The \$785,000 payment was based on a notional amount of \$37,310,000. The Counterparty has the option to exercise the agreement on September 1, 2011, or any March 1, or September 1, thereafter. The 2001 bond issue's first call date is September 1, 2011. The fixed swap rate (approximately 4.77%) was set at a rate that will approximate the average coupon rate of the 2001 bonds to be refunded. The 2003 Swaption's variable rate payment would be 67% of the one-month London Interbank Offered Rate (LIBOR).

Swaption Restructuring

In 2006, the District restructured its 2003 Swaption.

Objective of the Restructuring The District restructured its 2003 Swaption by entering into a new Swaption with PNC Bank. The new Swaption was structured initially so that PNC would pay the Bond Market Association Municipal Swap Index (now referred to as SIFMA); however, the District and PNC immediately entered into a basis swap whereby the District agreed to pay SIFMA in return for 67% of one month LIBOR. As part of the restructuring, the District received an additional upfront payment of \$732,000 and the new counterparty paid the prior counterparty \$2,938,000 in order to terminate the 2003 Swaption on July 5, 2006.

NOTE 15 - INTEREST RATE SWAP AGREEMENT RELATED TO 2001 G.O. BONDS (SWAPTION) (CONTINUED)

Terms The payments referred to above were based on a notional amount of \$37,310,000 for the new swaption (the “2006 Swaption”) and \$38,115,000 on the basis swap. The new counterparty (PNC) has exercised on November 1, 2011 the “SIFMA SWAP” and Basis Interest Rate Swap. The District has issued variable rate bonds for the purpose of currently refunding the 2001 Bond issue.

A second swap agreement with the counterparty was entered into on October 13, 2006. Under this agreement, the District agreed to pay PNC 67% of one month LIBOR and will receive from PNC 58.76% of the 10-year maturity of USD-ISDA Swap Rate. This agreement is based upon the amortization of the 2001 Series A Bonds and became effective on March 1, 2011. Both swaps are scheduled to terminate as of September 1, 2029.

Fair Value

Because interest rates have declined from rates that were in effect on dates the swaps were entered into, both swaps have a negative fair value as of June 30, 2014. The fair values of the swaps were developed by an independent pricing consultant to the District that does not have a financial interest in the swaps, using a market accepted method similar to the zero coupon method example described in GASB 53 of calculating fair value. The methodology used consists of calculating the future net settlement payments required by the swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement date of the swap.

As of June 30, 2014, the swaps had a fair value of negative \$9,327,000, which is a decrease in value of \$47,000 recorded in the statement of net position and statement of activities, respectively.

Risks

Basis Risk The Fixed Payor SWAP requires the District to pay a fixed payment of 4.1106% to the counterparty and the District receives 58.76% of the 10 year USD – ISDA SWAP Rate. If the rates on the bonds exceeds 58.76% of the 10 year USD – ISDA SWAP Rate, the District is required to pay 4.1106% plus the difference between the two.

Interest Rate Risk The School District is exposed to interest rate risk on its fixed interest rate swap. As the LIBOR increases, the School District’s payment on the swap increases.

Credit Risk As of June 30, 2014, the District was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the value of the swaps become positive, the District would be exposed to credit risk in the amount equal to the swaps’ fair value. PNC Bank, N.A., the counterparty to the swaps, is rated AA- by Standard and Poor’s and Aa3 by Moody’s Investors Service. The Counterparty has entered into a Credit Support Annex that could enable it to avoid termination upon downgrade by posting certain specified collateral.

Termination Risk The swap agreements provide for certain events that could cause the counterparties or the District to terminate the swaps. The swaps may be terminated by the counterparties or the District if the other party fails to perform under the terms of the swap agreements. If the swaps are terminated, the District would no longer have synthetic fixed rate obligations. Also, if at the time of termination of one of its swaps the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap’s fair value.

NOTE 16 – DELINQUENT REAL ESTATE TAX SALE

In March 2011, the District entered into an agreement with Northwest Pennsylvania Incubator Association (NPIA) to sell delinquent real estate tax claims outstanding as of May 18, 2011. The District has agreed to negotiate with NPIA concerning NPIA’s acquiring future tax claims from the District for the fiscal year ending June 30, 2011 and thereafter pursuant to the terms and conditions of the agreement. The District sold the 2012 delinquent real estate tax claims during the year ended June 30, 2013. The District sold the 2013 delinquent real estate tax claims during the year ended June 30, 2014. The purchase price for the tax claims was \$3,388,118, less fees of \$203,275 and reserve account of \$7,955, for a net of \$3,176,888. Tax claims outstanding at date of sale was \$3,647,788. The net loss realized in the Statement of Activities was \$251,638.

To obtain the monies necessary to fund the purchase, NPIA obtained a loan from First Trust Savings Bank (First Trust) and pledged all of the tax claims as security. If delinquent tax payments received by NPIA and First Trust under the terms of the agreement are not sufficient to retire the outstanding balance owed to First Trust, the District agrees to satisfy the balance due to First Trust, after deduction for amounts held in the reserve account.

NOTE 17 – RESTATEMENT OF NET POSITION

Net position of the Food Service Fund and Business-type Activities was restated to reflect the following:

	<u>Food Service Fund Net Position</u>	<u>Business-Type Activities Net Position</u>
Beginning Balance	\$ 2,495,815	3,089,868
Restatement:		
Reduction in bond issuance costs due to Implementation of GASB 65	<u>(57,226)</u>	<u>(57,226)</u>
Beginning Balance, as restated	<u>\$ 2,438,589</u>	<u>\$ 3,032,642</u>

Required Supplementary Information

POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Schedule of funding progress for other post-employment health insurance benefits is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)-PUC (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)</u>
July 1, 2013	-	\$53,223,943	\$53,223,943	0%	\$ 56,970,633	93.4%
July 1, 2011	-	60,743,894	60,743,894	0%	67,093,945	90.5%
July 1, 2009	-	53,085,669	53,085,669	0%	73,926,514	71.8%

Supplementary Information

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual - General Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 57,800,968	\$ 58,121,596	\$ 56,198,782	\$ (1,922,814)
State Sources	93,508,443	94,368,935	93,105,355	(1,263,580)
Federal Sources	17,036,953	16,419,536	19,016,998	2,597,462
Total Revenues	<u>168,346,364</u>	<u>168,910,067</u>	<u>168,321,135</u>	<u>(588,932)</u>
Expenditures and Other Financing Uses				
Instruction				
Regular Programs	75,683,010	79,346,267	85,633,504	(6,287,237)
Special Education Program	22,483,720	21,446,398	21,499,721	(53,323)
Vocational Education Programs	4,473,267	4,408,760	4,424,244	(15,484)
Other Instructional Programs	1,101,109	1,188,512	1,055,214	133,298
Nonpublic School Programs	596,236	601,162	568,166	32,996
Adult Education Programs	15,358	769	1,079	(310)
Higher Education Programs	4,500	-	553	(553)
Pre Kindergarten	1,180,470	1,196,190	1,171,857	24,333
Total Instruction	<u>105,537,670</u>	<u>108,188,058</u>	<u>114,354,338</u>	<u>(6,166,280)</u>
Support Services				
Pupil Personnel	6,588,266	6,005,033	6,189,996	(184,963)
Instructional Staff	5,952,093	4,445,773	5,174,613	(728,840)
Administrative	10,255,780	10,054,574	10,443,898	(389,324)
Pupil Health	1,381,847	1,333,852	1,412,104	(78,252)
Business	3,224,978	3,224,276	3,668,671	(444,395)
Operation and Maintenance of				-
Plant Services	13,238,805	13,296,941	13,521,811	(224,870)
Student Transportation Services	5,285,216	5,343,563	4,856,793	486,770
Support Services-Central	1,485,855	1,458,091	1,558,055	(99,964)
Other Support Services	361,800	371,814	232,660	139,154
Total Support Services	<u>47,774,640</u>	<u>45,533,917</u>	<u>47,058,601</u>	<u>(1,524,684)</u>
Operation of Noninstructional Services				
Student Activities	2,142,766	2,139,146	2,005,995	133,151
Community Services	1,176,203	1,190,905	1,166,449	24,456
Total Noninstructional Services	<u>3,318,969</u>	<u>3,330,051</u>	<u>3,172,444</u>	<u>157,607</u>
Facilities Acquisition, Construction and Improvement Services				
	<u>139,500</u>	<u>139,500</u>	<u>163,851</u>	<u>(24,351)</u>

Schedule continued on the next page.

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2014
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 11,738,469	\$ 11,367,488	\$ 10,458,393	\$ 909,095
Total Expenditures	<u>168,509,248</u>	<u>168,559,014</u>	<u>175,207,627</u>	<u>(6,648,613)</u>
Excess of Revenues Over/(Under) Expenditures	<u>(162,884)</u>	<u>351,053</u>	<u>(6,886,492)</u>	<u>(7,237,545)</u>
Other Financing Sources (Uses)				
Transfers - (out)	-	(326,534)	-	326,534
Change in Inventory	-	-	(666,846)	(666,846)
Refund of Prior Year Expenditures	422,407	114,800	374,852	260,052
Refund of Prior Year Revenues	-	-	(153,141)	(153,141)
Budgetary Reserve	<u>(283,569)</u>	<u>(139,319)</u>	<u>-</u>	<u>139,319</u>
Total Other Financing Sources (Uses)	<u>138,838</u>	<u>(351,053)</u>	<u>(445,135)</u>	<u>(94,082)</u>
Net Change in Fund Balance	(24,046)	-	(7,331,627)	(7,331,627)
Fund Balance - July 1, 2013	<u>2,596,902</u>	<u>2,596,902</u>	<u>2,596,902</u>	<u>-</u>
Fund Balance - June 30, 2014	<u>\$ 2,572,856</u>	<u>\$ 2,596,902</u>	<u>\$ (4,734,725)</u>	<u>\$ (7,331,627)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Position - Nonmajor Proprietary Funds
June 30, 2014

	Stadium Commission	Play Erie	Total Nonmajor Proprietary Funds
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 55,577	\$ 2,103	\$ 57,680
Investments	260,744	-	260,744
Total Current Assets	316,321	2,103	318,424
Non-Current Assets			
Buildings and Building Improvements	522,622	-	522,622
Machinery and Equipment	200,093	-	200,093
Accumulated Depreciation	(460,567)	-	(460,567)
Total Non-Current Assets	262,148	-	262,148
Total Assets	\$ 578,469	\$ 2,103	\$ 580,572
Net Position			
Net Investment in Capital Assets	\$ 262,148	\$ -	\$ 262,148
Unrestricted	316,321	2,103	318,424
Total Net Position	578,469	2,103	580,572
Total Liabilities and Net Position	\$ 578,469	\$ 2,103	\$ 580,572

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenses and Changes
in Net Position - Nonmajor Proprietary Funds
For the Year Ended June 30, 2014

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues			
Charges for Services	\$ 50,274	\$ -	\$ 50,274
Other Income	52,134	-	52,134
Total Operating Revenues	<u>102,408</u>	<u>-</u>	<u>102,408</u>
Operating Expenses			
Salaries	8,600	-	8,600
Supplies and Food	21,092	-	21,092
Depreciation	54,732	-	54,732
Other Operating Expenses	31,406	-	31,406
Total Operating Expenses	<u>115,830</u>	<u>-</u>	<u>115,830</u>
Operating Income/(Loss)	<u>(13,422)</u>	<u>-</u>	<u>(13,422)</u>
Nonoperating Revenues/(Expenses)			
Earnings/(Loss) on Investments	(60)	1	(59)
Total Nonoperating Revenues/(Expenses)	<u>(60)</u>	<u>1</u>	<u>(59)</u>
Change in Net Position	(13,482)	1	(13,481)
Net Position, July 1, 2013	<u>591,951</u>	<u>2,102</u>	<u>594,053</u>
Net Position, June 30, 2014	<u>\$ 578,469</u>	<u>\$ 2,103</u>	<u>\$ 580,572</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Cash Flows - Nonmajor Proprietary Funds
For the Year Ended June 30, 2014

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash Received from Users	\$ 102,408	\$ -	\$ 102,408
Cash Payments to Employees for Services	(8,600)	-	(8,600)
Cash Payments to Suppliers for Goods and Services	(21,092)	-	(21,092)
Cash Payments for Operating Expenses	(31,406)	-	(31,406)
Net Cash (Used for) Operating Activities	<u>41,310</u>	<u>-</u>	<u>41,310</u>
Cash Flows From Non-Capital Financing Activities:			
Transfers to Investment Account	(20,000)	-	(20,000)
Net Cash Used By Non-Capital Financing Activities	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of Capital Assets	(3,595)	-	(3,595)
Net Cash Used By Capital and Related Financing Activities	<u>(3,595)</u>	<u>-</u>	<u>(3,595)</u>
Cash Flows from Investing Activities:			
Earnings (Loss) from Investments	(60)	1	(59)
Purchase of Investments	(129,696)	-	(129,696)
Sale of Investments	90,634	-	90,634
Net Cash Provided by Investing Activities	<u>(39,122)</u>	<u>1</u>	<u>(39,121)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,407)	1	(21,406)
Cash and Cash Equivalents at Beginning of Year	<u>76,984</u>	<u>2,102</u>	<u>79,086</u>
Cash and Cash Equivalents at End of Year	<u>\$ 55,577</u>	<u>\$ 2,103</u>	<u>\$ 57,680</u>
Reconciliation of Operating Income to Net Cash (Used for)			
Operating Activities:			
Operating Income (Loss)	\$ (13,422)	\$ -	\$ (13,422)
Adjustment to Reconcile Operating Income (Loss) to Net Cash			
(Used) for Operating Activities			
Depreciation	54,732	-	54,732
	<u>\$ 41,310</u>	<u>\$ -</u>	<u>\$ 41,310</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Position - Internal Service Funds
June 30, 2014

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 460,383	\$ -	\$ 1,998,359	\$ 2,458,742
Investments	565,329	-	1,063,316	1,628,645
Interfund Receivables	-	-	1,950,000	1,950,000
Receivables - Other	-	32,491	-	32,491
Prepaid Expenses	-	26,619	834,850	861,469
Total Current Assets	<u>1,025,712</u>	<u>59,110</u>	<u>5,846,525</u>	<u>6,931,347</u>
 Total Assets	 <u>\$ 1,025,712</u>	 <u>\$ 59,110</u>	 <u>\$ 5,846,525</u>	 <u>\$ 6,931,347</u>
Liabilities				
Current Liabilities				
Accounts Payable	<u>\$ 95,094</u>	<u>\$ 32,491</u>	<u>\$ 3,666,804</u>	<u>\$ 3,794,389</u>
Total Current Liabilities	<u>95,094</u>	<u>32,491</u>	<u>3,666,804</u>	<u>3,794,389</u>
Net Position				
Unrestricted	<u>930,618</u>	<u>26,619</u>	<u>2,179,721</u>	<u>3,136,958</u>
Total Net Position	<u>930,618</u>	<u>26,619</u>	<u>2,179,721</u>	<u>3,136,958</u>
 Total Liabilities and Net Position	 <u>\$ 1,025,712</u>	 <u>\$ 59,110</u>	 <u>\$ 5,846,525</u>	 <u>\$ 6,931,347</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenditures and Changes
in Net Position - Internal Service Funds
For the Year Ended June 30, 2014

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 309,356	\$ 828,590	\$ 21,987,136	\$ 23,125,082
Total Operating Revenues	<u>309,356</u>	<u>828,590</u>	<u>21,987,136</u>	<u>23,125,082</u>
Operating Expenses				
Other Operating Expenses	2,598	48,100	1,035,690	1,086,388
Insurance Expense	-	-	712,426	712,426
Claim Expense	<u>82,371</u>	<u>777,797</u>	<u>18,615,236</u>	<u>19,475,404</u>
Total Operating Expenses	<u>84,969</u>	<u>825,897</u>	<u>20,363,352</u>	<u>21,274,218</u>
Operating Income (Loss)	<u>224,387</u>	<u>2,693</u>	<u>1,623,784</u>	<u>1,850,864</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	<u>2,758</u>	<u>-</u>	<u>8,022</u>	<u>10,780</u>
Total Nonoperating Revenue (Expense)	<u>2,758</u>	<u>-</u>	<u>8,022</u>	<u>10,780</u>
Change in Net Position	227,145	2,693	1,631,806	1,861,644
Net Position, July 1, 2013	<u>703,473</u>	<u>23,926</u>	<u>547,915</u>	<u>1,275,314</u>
Net Position, June 30, 2014	<u>\$ 930,618</u>	<u>\$ 26,619</u>	<u>\$ 2,179,721</u>	<u>\$ 3,136,958</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2014

	Workers' Comp.	Dental Plan	Health Plan	Total
Cash Flows From Operating Activities:				
Cash Received from Users	\$ 309,356	\$ 828,590	\$ 20,037,136	\$ 21,175,082
Cash Payments to Suppliers for Goods and Services	(140,668)	(828,590)	(22,407,802)	(23,377,060)
Net Cash Provided by Operating Activities	<u>168,688</u>	<u>-</u>	<u>(2,370,666)</u>	<u>(2,201,978)</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	2,758	-	8,022	10,780
Purchase of Investments	(201,818)	-	(848,093)	(1,049,911)
Sale of Investments	104,867	-	819,394	924,261
Net Cash Provided by Investing Activities	<u>(94,193)</u>	<u>-</u>	<u>(20,677)</u>	<u>(114,870)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	74,495	-	(2,391,343)	(2,316,848)
Cash and Cash Equivalents at Beginning of Year	<u>385,888</u>	<u>-</u>	<u>4,389,702</u>	<u>4,775,590</u>
Cash and Cash Equivalents at End of Year	<u>\$ 460,383</u>	<u>\$ -</u>	<u>\$ 1,998,359</u>	<u>\$ 2,458,742</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 224,387	\$ 2,693	\$ 1,623,784	\$ 1,850,864
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities				
(Increase) Decrease in Receivables	-	3,771	(1,950,000)	(1,946,229)
(Increase) Decrease in Prepaid Expenses	-	(2,693)	(394,850)	(397,543)
Increase (Decrease) in Accounts Payable	<u>(55,699)</u>	<u>(3,771)</u>	<u>(1,649,600)</u>	<u>(1,709,070)</u>
	<u>\$ 168,688</u>	<u>\$ -</u>	<u>\$ (2,370,666)</u>	<u>\$ (2,201,978)</u>

The accompanying notes are an integral part of these financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Fiduciary Net Position
June 30, 2014

	<u>Phelps</u>	<u>Drug Free</u>	<u>Mentoring Community Service</u>	<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
ASSETS							
Cash and Cash Equivalents	\$ 13,215	\$ 1,574	\$ 173	\$ 1,954	\$ 40,253	\$ 11,940	\$ 3,730
Total Assets	<u>\$ 13,215</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 1,954</u>	<u>\$ 40,253</u>	<u>\$ 11,940</u>	<u>\$ 3,730</u>
NET Position							
Held in Trust for Scholarships	\$ 13,215	\$ 1,574	\$ 173	\$ 1,954	\$ 40,253	\$ 11,940	\$ 3,730
Total Liabilities and Net Position	<u>\$ 13,215</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 1,954</u>	<u>\$ 40,253</u>	<u>\$ 11,940</u>	<u>\$ 3,730</u>

The accompanying notes are an integral part of these financial statements.

<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ 799	\$ 2,264	\$ 3,361	\$ 314	\$ 70,044	\$ 149,621
<u>\$ 799</u>	<u>\$ 2,264</u>	<u>\$ 3,361</u>	<u>\$ 314</u>	<u>\$ 70,044</u>	<u>\$ 149,621</u>
\$ 799	\$ 2,264	\$ 3,361	\$ 314	\$ 70,044	\$ 149,621
<u>\$ 799</u>	<u>\$ 2,264</u>	<u>\$ 3,361</u>	<u>\$ 314</u>	<u>\$ 70,044</u>	<u>\$ 149,621</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

	<u>Phelps</u>	<u>Drug Free</u>	<u>Mentoring Community Service</u>	<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
Additions:							
Earnings on Investments	\$ 2	\$ 1	\$ -	\$ 38	\$ 40	\$ 18	\$ 15
Contributions	-	-	-	-	1,250	-	-
Total Additions	<u>2</u>	<u>1</u>	<u>-</u>	<u>38</u>	<u>1,290</u>	<u>18</u>	<u>15</u>
Deductions:							
Scholarships	-	-	-	-	29,790	-	-
Other Expense	-	-	-	-	-	-	-
Total Deductions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,790</u>	<u>-</u>	<u>-</u>
Change in Net Position	2	1	-	38	(28,500)	18	15
Net Position, July 1, 2013	<u>13,213</u>	<u>1,573</u>	<u>173</u>	<u>1,916</u>	<u>68,753</u>	<u>11,922</u>	<u>3,715</u>
Net Position, June 30, 2014	<u>\$ 13,215</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 1,954</u>	<u>\$ 40,253</u>	<u>\$ 11,940</u>	<u>\$ 3,730</u>

The accompanying notes are an integral part of these financial statements.

<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ -	\$ 1	\$ 5	\$ 1	\$ 36	\$ 157
-	-	-	-	2,652	3,902
-	1	5	1	2,688	4,059
-	-	-	-	3,102	32,892
-	-	-	-	-	-
-	-	-	-	3,102	32,892
-	1	5	1	(414)	(28,833)
799	2,263	3,356	313	70,458	178,454
<u>\$ 799</u>	<u>\$ 2,264</u>	<u>\$ 3,361</u>	<u>\$ 314</u>	<u>\$ 70,044</u>	<u>\$ 149,621</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
<u>U.S. Department of Agriculture</u>				
Passed Through the PA Department of Agriculture				
National School Lunch Program - Donated Commodities	I	10.555	2-01-25-100	7/1/13-6/30/14
Passed Through the PA Department of Education				
National School Lunch Program	I	10.555	362	7/1/12-6/30/13
National School Lunch Program	I	10.555	362	7/1/13-6/30/14
After School Snacks	I	10.555	359	7/1/12-6/30/13
Subtotal				
Severe Needy Breakfast Program	I	10.553	367	7/1/12-6/30/13
Severe Needy Breakfast Program	I	10.553	367	7/1/13-6/30/14
Regular Needy Breakfast Program	I	10.553	365	7/1/12-6/30/13
Regular Needy Breakfast Program	I	10.553	365	7/1/13-6/30/14
Subtotal				
Total Child Nutrition Cluster				
Elect & Fatherhood Initiative	I	10.561	110-100009	7/1/12-6/30/13
Elect & Fatherhood Initiative	I	10.561	110-110009	7/1/13-6/30/14
Subtotal				
Total U.S. Department of Agriculture				

The accompanying notes are an integral part of this schedule.

<u>Accrued/ (Deferred) Revenue at July 1, 2013</u>	<u>Total Received for the Year</u>	<u>Expenditures</u>	<u>Accrued/ (Deferred) Revenue at June 30, 2014</u>
\$ (49,964) (b)	\$ 556,328 (a)	\$ 507,901 (c)	\$ (98,391) (d)
120,281	120,281	-	-
-	4,382,592	4,522,985	140,393
317	317	-	-
<u>70,634</u>	<u>5,059,518</u>	<u>5,030,886</u>	<u>42,002</u>
29,653	29,653	-	-
-	-	38,337	38,337
1,311	1,311	-	-
-	1,179,706	1,180,344	638
<u>30,964</u>	<u>1,210,670</u>	<u>1,218,681</u>	<u>38,975</u>
<u>101,598</u>	<u>6,270,188</u>	<u>6,249,567</u>	<u>80,977</u>
27,586	27,586	-	-
-	51,166	70,911	19,745
<u>27,586</u>	<u>78,752</u>	<u>70,911</u>	<u>19,745</u>
<u>129,184</u>	<u>6,348,940</u>	<u>6,320,478</u>	<u>100,722</u>

Schedule continued on next page.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014
(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
<u>U.S. Department of Education</u>				
Passed Through PA Department of Education				
Title I Improving Basics Program	I	84.010	013-130139	7/1/12-9/30/13
Title I Improving Basics Program	I	84.010	013-140139	7/1/13-9/30/14
Prog. Improvement-Set Aside	I	84.010	042-130139	7/1/12-9/30/13
Prog. Improvement-Set Aside	I	84.010	042-140139	7/1/13-9/30/14
Total Title I Cluster				
School Improvement Grant	I	84.377	142-130139	7/1/12-9/30/13
School Improvement Grant	I	84.377	142-142139	7/1/13-9/30/14
Subtotal				
Title II Improving Teacher Quality	I	84.367	020-130139	7/1/12-9/30/13
Title II Improving Teacher Quality	I	84.367	020-140139	7/1/13-9/30/14
Subtotal				
Title III Language Inst LEP Immigrant Students	I	84.365	010-120139	7/1/11-9/30/12
Title III Language Inst LEP Immigrant Students	I	84.365	010-130139	7/1/12-9/30/13
Title III Language Inst LEP Immigrant Students	I	84.365	010-140139	7/1/13-9/30/14
Subtotal				
Carol M. White PEP grant	I	84.215F	N/A	7/1/13-6/30/14

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2013	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2014
\$ 1,673,822	\$ 4,043,155	\$ 2,369,333	\$ -
-	5,082,623	7,115,672	2,033,049
-	232,272	232,272	-
-	136,462	194,946	58,484
<u>1,673,822</u>	<u>9,494,512</u>	<u>9,912,223</u>	<u>2,091,533</u>
166,667	166,667	-	-
-	2,500,000	2,500,000	-
<u>166,667</u>	<u>2,666,667</u>	<u>2,500,000</u>	<u>-</u>
354,783	631,795	277,012	-
-	406,031	810,981	404,950
<u>354,783</u>	<u>1,037,826</u>	<u>1,087,993</u>	<u>404,950</u>
(24,514)	49,732	74,246	-
(22,772)	131,184	197,684	43,728
-	116,943	304,051	187,108
<u>(47,286)</u>	<u>297,859</u>	<u>575,981</u>	<u>230,836</u>
<u>-</u>	<u>-</u>	<u>34,231</u>	<u>34,231</u>

Schedule continued on next page

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014
(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
Secondary Education/Perkins	I	84.048	380-122055	9/1/13-6/30/14
Subtotal				
Passed Through Midwestern Intermediate Unit #IV				
Homeless Children & Youth	I	84.196	081-110008	7/1/12-6/30/13
Homeless Children & Youth	I	84.196	081-110008	7/1/13-6/30/14
Subtotal				
Passed Through Northwest Tri-County Intermediate Unit				
EHA-B IDEA	I	84.027	062-02-0-005	7/1/13-6/30/14
Subtotal				
State Access Direct	I	84.173	N/A	7/1/13-6/30/14
Subtotal				
Total Special Education Cluster				
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/12-6/30/13
Total U.S. Dept of Education				
<u>U.S Department of Health and Human Services</u>				
Passed Through PA Department of Welfare				
State Access Indirect	I	93.778	410-0009941	7/1/12-6/30/13
State Access Indirect	I	93.778	410-0009941	7/1/13-6/30/14
Early Intervention	I	93.778	092-007139	7/1/13-6/30/14
Subtotal				
Passed Through Erie County				
Family Center	I	93.556	4100057297	7/1/12-6/30/13
Family Center	I	93.556	4100057297	7/1/13-6/30/14
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2013	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2014
\$ -	\$ 363,755	\$ 363,755	\$ -
<u>-</u>	<u>363,755</u>	<u>363,755</u>	<u>-</u>
79,983	79,983	-	-
<u>-</u>	<u>-</u>	<u>69,122</u>	<u>69,122</u>
(1) <u>79,983</u>	<u>79,983</u>	<u>69,122</u>	<u>69,122</u>
<u>-</u>	<u>973,545</u>	<u>1,557,851</u>	<u>584,306</u>
<u>-</u>	<u>973,545</u>	<u>1,557,851</u>	<u>584,306</u>
<u>-</u>	<u>195,598</u>	<u>419,940</u>	<u>224,342</u>
<u>-</u>	<u>195,598</u>	<u>419,940</u>	<u>224,342</u>
<u>-</u>	<u>1,169,143</u>	<u>1,977,791</u>	<u>808,648</u>
<u>207,420</u>	<u>207,420</u>	<u>-</u>	<u>-</u>
<u>2,435,389</u>	<u>15,317,165</u>	<u>16,521,096</u>	<u>3,639,320</u>
40,775	101,703	60,928	-
-	107,866	162,972	55,106
<u>-</u>	<u>37,531</u>	<u>37,531</u>	<u>-</u>
<u>40,775</u>	<u>247,100</u>	<u>261,431</u>	<u>55,106</u>
141,011	141,011	-	-
<u>-</u>	<u>160,462</u>	<u>285,389</u>	<u>124,927</u>
<u>141,011</u>	<u>301,473</u>	<u>285,389</u>	<u>124,927</u>

Schedule continued on next page

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014
(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
Passed Through PA Department of Welfare				
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/12-6/30/13
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/13-6/30/14
Subtotal				
Passed Through PA Department of Education				
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/12-6/30/13
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/13-6/30/14
Subtotal				
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/12-8/14/13
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/13-8/14/14
Subtotal				
Total U.S. Department of Health & Human Services				
Total U.S. Dept of Education				
Total Federal Awards				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2013	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2014
\$ 5,509	\$ 5,509	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>27,151</u>	<u>27,151</u>
<u>5,509</u>	<u>5,509</u>	<u>27,151</u>	<u>27,151</u>
148,081	148,081	-	-
<u>-</u>	<u>282,802</u>	<u>455,486</u>	<u>172,684</u>
<u>148,081</u>	<u>430,883</u>	<u>455,486</u>	<u>172,684</u>
21,369	72,542	51,173	-
<u>-</u>	<u>-</u>	<u>51,573</u>	<u>51,573</u>
<u>21,369</u>	<u>72,542</u>	<u>102,746</u>	<u>51,573</u>
<u>356,745</u>	<u>1,057,507</u>	<u>1,132,203</u>	<u>431,441</u>
<u>\$ 2,921,318</u>	<u>\$ 22,723,612</u>	<u>\$ 23,973,777</u>	<u>\$ 4,171,483</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
Footnotes and Other Information
For the Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the School District of the City of Erie, Pennsylvania under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School District of the City of Erie, Pennsylvania.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein contained types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 - LEGEND

- a) Total amount of commodities received from Department of Agriculture.
 - b) Beginning inventory at July 1.
 - c) Total amount of commodities used.
 - d) Ending inventory at June 30.
-
- I = Indirect funding
 - D = Direct funding
 - (1) = Restated beginning balance



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' 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 Members of the Board
School District of the City of Erie, Pennsylvania
Erie, Pennsylvania

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Erie, Pennsylvania as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements and have issued our report, thereon dated December 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District of the City of Erie, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Erie, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Erie, Pennsylvania's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedules of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

**Independent Auditors' 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
(Continued)**

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. We consider the finding 2014-01 discussed in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-02 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Erie, Pennsylvania's financial statements are free from material misstatement, we 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District of the City of Erie, Pennsylvania's Response to Findings

School District of the City of Erie, Pennsylvania's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. School District of the City of Erie, Pennsylvania's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Independent Auditors' 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
(Continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 22, 2014
Erie, Pennsylvania



FELIX & GLOEKLER, P.C.

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**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by
OMB Circular A-133**

To The Members of the Board
School District of the City of Erie, Pennsylvania
Erie, Pennsylvania

Report on Compliance for each Major Federal Program

We have audited the School District of the City of Erie, Pennsylvania's compliance 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 the School District of the City of Erie, Pennsylvania's major federal programs for the year ended June 30, 2014. The School District of the City of Erie, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District of the City of Erie, Pennsylvania's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 State, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we 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 the School District of the City of Erie, Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by
OMB Circular A-133
(Continued)**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District of the City of Erie, Pennsylvania's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Erie, Pennsylvania complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of the School District of the City of Erie, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District of the City of Erie, Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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, we do not express an opinion on the effectiveness of the School District of the City of Erie, Pennsylvania'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by
OMB Circular A-133
(Continued)**

Our consideration of the 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 22, 2014
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

1. Summary of auditors' results
 - i. Type of Auditors' report issued on the financial statements: Unqualified opinion.
 - ii. Internal Control over financial reporting:

Material weakness (es) identified:	Yes
Significant deficiency (ies) identified:	Yes
 - iii. The audit disclosed no noncompliance which is material to the financial statements.
 - iv. Internal control over financial reporting:

Material weakness (es) identified:	None
Significant deficiency (ies) identified:	None
 - v. Type of report issued on compliance for major programs: Unqualified opinion.
 - vi. The audit disclosed no audit findings which are required to be reported in accordance with Section 510 (a) of OMB Circular A-133.
 - vii. Major programs:

	<u>CFDA #</u>
Child Nutrition Cluster	10.553/10.555
Title I Cluster	84.010
Title II	84.367
 - viii. Dollar threshold used to distinguish between Type A and Type B programs: \$719,213.
 - ix. The School District of the City of Erie, Pennsylvania did not qualify as a low-risk auditee.
2. Findings required to be reported in accordance with generally accepted government auditing standards
2014 – 01 Oversight over financial reporting

During the audit performed, we recommended over fifty adjusting journal entries in the general fund and departmental funds. Substantially all of the entries were to correct bookkeeping errors or to record accruals and other adjustments that should have been made by the finance department. We believe that a review and evaluation of transactions and proper monthly and year-end closing procedures, including reconciliation of all balance sheet accounts, will provide more accurate reporting to the Board of Directors. We also recommend that the finance department develop quarterly reports that resemble the audited financial statements to present the financial information in a summarized format that is easily understood in order to make informed decisions.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued)

2014 – 02 Reconciliation of Grant Program Expenditures

During audit procedures performed, we noted that the grant program coordinators for the IDEA program and the State Access program were not reconciling the expenditures per the general ledger to the program grant reports. The School District should develop a policy requiring monthly reconciliation of all grant expenditures per the general ledger to the grant reports in order to ensure accuracy of the financial statements. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. All reconciling differences should be corrected before the books are closed at the end of the period.

3. Findings and questioned costs for Federal awards

None.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014

1. Prior significant deficiencies:
 - 2013 – 01 Oversight over financial reporting
 - 2013 – 02 Reconciliation of Grant Program Expenditures
2. Prior material noncompliance with provisions of laws, regulations, contracts or grant agreements related to a major program: None.
3. Known questioned costs greater than \$10,000: None.
4. There were no findings in the prior year.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Corrective Action Plan
For the Year Ended June 30, 2014

Internal Control Over Financial Reporting

Finding: 2014-01 Oversight Over Financial Reporting

Response: In the June 30, 2015 fiscal year, the Finance Department will post revenue as earned and review grant budgets to reduce the number of adjusting journal entries proposed by the auditors.

In the June 30, 2015 fiscal year, the Finance Department continues to work with the software company to develop and improve the financial reports presented to the Board of Directors.

Finding: 2014-02 Reconciliation of Grant Program Expenditures

Response: In the June 30, 2015 fiscal year, the Finance Department is providing weekly reports to the grant program managers to allow the managers to review accounts that are overspent and make necessary adjustments. The managers have received instructions on what is to be done with these reports.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
List of Report Distribution
For the Year Ended June 30, 2014

The following is a listing of all agencies that the audit reports are distributed to:

1. United States Bureau of the Census
2. Commonwealth of Pennsylvania, Bureau of Audits
3. Northwest Tri-County Intermediate Unit
4. Regional Center for Workforce Excellence
5. Midwestern Intermediate Unit



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive · Erie, Pennsylvania 16506

**INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

To The Members of the Board
School District of the City of Erie, Pennsylvania
Erie, Pennsylvania

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania, Department of Public Welfare (DPW), and The School District of the City of Erie, Pennsylvania solely to assist you with respect to the financial schedules and exhibits required by the DPW Single Audit Supplement. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the DPW. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

The procedures and associated findings are as follows:

- (a) We have verified by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DPW for fiscal year ended June 30, 2014, have been accurately compiled and reflect the audited books and records of The School District of the City of Erie, Pennsylvania. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in format required by the DPW Single Audit Supplement pertaining to this period.

<u>Program Name</u>	<u>Number</u>	<u>Referenced Schedule/Exhibit</u>
Family Center	Exhibit/IIa	Schedule of Revenues and Expenditures

- (b) We have inquired of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to DPW for the period in question.
- (c) The processes detailed in paragraphs (a) and (b) above disclosed no adjustments and/or findings.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES
(Continued)

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Department of Public Welfare and should not be used by those who have not agreed to the procedures, and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 22, 2014
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Revenues and Expenditures
Family Center Program
For the year ended June 30, 2014

Grant number		
	<u>Budget</u>	<u>Actual</u>
Revenues		
DPW Grant Revenue	\$ 304,259	\$ 304,259
Total Revenues	<u>\$ 304,259</u>	<u>\$ 304,259</u>
Expenditures		
Personnel	<u>\$ 282,361</u>	<u>\$ 282,361</u>
Operations		
Training and Conferences	1,450	1,450
Equipment	1,737	1,737
Transportation and Travel	6,000	6,000
Service Contracts	1,000	1,000
Facility Expenses	10,000	10,000
Other	250	250
Indirect Costs	<u>1,461</u>	<u>1,461</u>
Total Operations	<u>21,898</u>	<u>21,898</u>
Total Expenditures	<u>\$ 304,259</u>	<u>\$ 304,259</u>