

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

SINGLE AUDIT REPORT

JUNE 30, 2010

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
The 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, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Erie, Pennsylvania's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2011 on our consideration of the School District of the City of Erie, Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditors' Report
(Continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

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 financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards are presented for purposes of additional analysis as required by the 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. The combining and individual nonmajor 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

January 20, 2011
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Management's Discussion and Analysis
For the Year Ended June 30, 2010

The Management Discussion and Analysis of the School District of the City of Erie, Pennsylvania provides an overall review of the School District's financial activities for the year ended June 30, 2010. 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 2010 are as follows:

- In total, net assets decreased \$8,330,640. Net assets of governmental activities decreased by \$8,279,097, whereas net assets of business – type activities decreased by \$51,543.
- Total revenues were \$171,990,756. General revenues accounted for \$45,692,228, or 26.6% of all revenues. Program specific revenue in the form of charges for services and grants accounted for \$126,298,528 of total revenues.
- The Erie School District had \$173,197,149 in expenses related to governmental activities: \$119,136,416 of these expenses was offset by program-specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$45,781,636 offset expenses with \$8,279,097 of net assets covering the balance of expenses.
- At the end of the current fiscal year, unreserved fund balance of the general fund was a (deficit) of (\$15,451,739).

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 Assets* 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 Assets 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 2009-2010?" The *Statements of Net Assets* 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 assets and changes in those assets. This change in net assets 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 cause 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 Assets* 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 13 and 14-15 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 16. 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 Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements on pages 17 and 19, 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 Assets* provides the perspective of the School District as a whole. The School District's total net assets were \$3,275,839 as of June 30, 2010, as compared to \$11,606,479 as of June 30, 2009.

	Governmental Activities 2010	Business- Type Activities 2010	Total 2010	Total 2009
Current and other assets	\$ 32,700,578	\$ 661,333	\$ 33,361,911	\$ 37,542,292
Capital assets	123,154,334	6,394,389	129,548,723	129,968,765
Noncurrent assets	1,232,395	147,811	1,380,206	1,441,719
Total Assets	\$ 157,087,307	\$ 7,203,533	\$ 164,290,840	\$ 168,952,776
Current and other liabilities	\$ 38,966,598	\$ (1,044,629)	\$ 37,921,969	\$ 34,771,831
Long-term liabilities	118,748,032	4,345,000	123,093,032	122,574,466
Total Liabilities	157,714,630	3,300,371	161,015,001	157,346,297
Net assets				
Invested in capital assets, net of related debt	17,208,581	1,964,389	19,172,970	19,544,146
Restricted for capital projects	1,309,666	-	1,309,666	1,979,783
Unrestricted (deficit)	(19,145,570)	1,938,773	(17,206,797)	(9,917,450)
Total Net Assets	(627,323)	3,903,162	3,275,839	11,606,479
Total Liabilities and Net Assets	\$ 157,087,307	\$ 7,203,533	\$ 164,290,840	\$ 168,952,776

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 2010.

	Governmental Activities 2010	Business- Type Activities 2010	Total 2010	Total 2009
Revenues				
Operating grants and contributions	\$ 114,828,241	\$ 6,212,496	\$ 121,040,737	\$ 115,154,044
Charges for services	4,308,175	949,616	5,257,791	5,024,820
General revenues:				
Property taxes	38,783,836	-	38,783,836	38,622,564
Earned income and LST	6,003,553	-	6,003,553	6,292,170
Transfer tax	638,983	-	638,983	644,811
Public utility	67,767	-	67,767	67,554
Interest earnings (loss)	(486,028)	5,592	(480,436)	263,929
Miscellaneous	678,525	-	678,525	113,136
Transfer in/(out)	95,000	(95,000)	-	-
Total revenues	164,918,052	7,072,704	171,990,756	166,183,028

	Governmental Activities 2010	Business- Type Activities 2010	Total 2010	Total 2009
Expenses				
Instructional	\$ 108,883,717	\$ -	\$ 108,883,717	\$ 111,215,223
Pupil personnel	11,376,651	-	11,376,651	8,590,749
Instructional student support	7,806,158	-	7,806,158	7,345,295
Administrative and financial	10,685,658	-	10,685,658	10,184,952
Pupil health	1,354,638	-	1,354,638	1,288,865
Business	2,052,401	-	2,052,401	2,466,593
Operation of plant	13,993,654	-	13,993,654	14,183,539
Student transportation	4,671,162	-	4,671,162	4,118,775
Other support services	1,090,606	-	1,090,606	1,750,982
Staff services	1,973,535	-	1,973,535	1,813,500
Student activities	1,844,065	-	1,844,065	1,538,681
Community services	443,955	-	443,955	500,468
Scholarship and awards	-	-	-	138
Other	-	114,992	114,992	349,816
Interest on debt	7,020,949	-	7,020,949	5,737,823
Food service	-	7,009,255	7,009,255	6,189,271
Total Expenses	<u>173,197,149</u>	<u>7,124,247</u>	<u>180,321,396</u>	<u>177,274,670</u>
Increase (decrease) in net assets	<u>\$ (8,279,097)</u>	<u>\$ (51,543)</u>	<u>\$ (8,330,640)</u>	<u>\$ (11,091,642)</u>

Governmental Activities

Governmental activities for 2010 resulted in a decrease in net assets of \$8,279,097, as compared to a decrease of \$11,223,478 in governmental activities for 2009. The decrease is primarily the result of a decrease in earned income tax revenue and rising salaries and benefits.

The School District's revenue consists of local (taxes and other): 26.6%, and state and federal revenues (subsidies and grants): 73.4%.

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 \$7,072,704 and expenses and other uses of \$7,124,247. While these activities receive no support from local tax revenues, the food service program received federal and state grants of \$6,212,496. 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 16. These funds are accounted for by using modified accrual basis of accounting. All government funds had total revenues of \$165,078,422, other financing sources of \$1,651,906, and expenditures of \$173,343,613. The net decrease in fund balance was \$6,613,285, mainly resulting from a shortfall in state revenue received and capital project expenditures. The general fund accounted for \$166,600,288 in revenues and other finance sources and \$172,543,456 in expenses, or a shortfall in revenues over expenses of \$5,943,168 as compared to a shortfall of \$5,304,481 in 2009. The capital project fund incurred \$800,157 of capital outlay expenditures for 2010, as compared to \$3,483,960 for 2009.

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 \$165,301,523. We experienced a shortfall in actual revenues of \$258,141. This was the result of a shortfall in federal funding along with a reduction in local taxes received.

The expenditure budget was \$171,291,611, compared to the actual expenditures of \$172,543,456. A review of budget to actual expenditures indicates that in total, actual expenditures were over budget by \$1,251,845 for the fiscal year 2010. Most of this was due to rising salaries and benefits.

At June 30, 2010, the District's governmental funds reported a combined fund balance of (\$6,620,931), which is a decrease of \$6,613,285 from June 30, 2009.

The School District's fund balance has significantly decreased over the 2010 year due to a decline in local tax revenues along with a shortfall in federal revenues, capital project expenditures and rising salaries and benefits.

Capital Assets and Debt Administration

As of the end of fiscal year 2010, the School District had \$129,548,723 invested in land, buildings and equipment.

The School District maintains 21 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. The School District has 11 buildings which, based on their average age, will continue to require work in the future. The most pressing building requiring major work is Roosevelt Middle School, which will require the district to make decisions on replacement within the next year. This will entail additional bond issues in the future.

Debt Administration

At June 30, 2010, the School District had a principal balance of \$109,573,876 in bonds and notes outstanding, \$6,262,935 was due and paid in the 2010 fiscal year.

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

For the Future

The 2010-11 fiscal year is the last year for the American Recovery and Reinvestment Act (ARRA) funding, which was provided to school districts by the State of Pennsylvania to help preserve jobs that would have been eliminated due to budget shortfalls. The loss of this funding for the 2011-12 fiscal year will result in a revenue shortfall of approximately \$7.3 million. Additionally, we had anticipated receiving Race to the Top monies, School Improvement Grant monies, and Education Jobs Fund monies, all of which are either federal or state allocations, amounting to approximately \$6.8 million. As of February 2011, we have not received any of these funds, and may not due to state budget cuts or inability to procure the competitive grants. These factors combined with the economic downturn affecting our local revenues will result in a very challenging budget for the Erie City School District. The loss of stimulus money and economic downturn is affecting every school district throughout the nation.

Furthermore, the district did not increase local real estate taxes from 2006-07 through 2009-10 because we are cognizant of the large burden this places on taxpayers. In the 2010-11 fiscal year, the school board increased taxes .73 mills for capital needs throughout the district but did not increase monies for general operations. With state revenues making up over 60% of school districts' funding, decreases in state revenues will place an additional burden on the district as well as the community in order to help fund our budget.

Over the past eight years former Governor Rendell has increased funding more than ever before, but with this increase comes the dependency on it to survive. Given the financial position of the State of Pennsylvania today, we can no longer count on those historic increases.

Despite the challenging financial outlook of the district, the school board, administration, teachers, and non-instructional employees are working together to solve the problem. Several groups have agreed to wage freezes for the 2011-12 fiscal year, which will save a significant amount of money. The district is also exploring staff restructuring in order to increase efficiency throughout the district. This will result in a loss of jobs, but will help bring our budget to acceptable levels.

The GE Foundation, the philanthropic organization of General Electric Company, continues to fund the College Bound program for the Erie School District. The total grant award was \$15 million, awarded as \$3 million per year for five years. We are in the third year of this grant, which is intended to increase enrollment and science and math scores. Funding has gone towards and will continue to go toward the student information system and upgrading of the district financial software, along with the introduction of new math and science curriculum that focuses on hands-on, collaborative learning and fewer chalkboards and textbooks. These monies continue to make a significant impact on student achievement.

The district, under the leadership of the superintendent and school board, is prepared to make the necessary changes to realign the budget in order to move forward and continue the success we have realized over the last several years.

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.

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 432,996	\$ 93,138	\$ 526,134
Investments	1,215,259	251,919	1,467,178
Taxes Receivable, Net	10,946,678	-	10,946,678
Intergovernmental Receivables	12,865,753	211,278	13,077,031
Accrued Interest Receivable	-	1,532	1,532
Other Receivables	461,314	36,015	497,329
Inventories	6,288,747	67,451	6,356,198
Prepaid Items	489,831	-	489,831
Total Current Assets	32,700,578	661,333	33,361,911
Non-Current Assets			
Deferred Charges	-	147,811	147,811
Other Assets	1,232,395	-	1,232,395
Land and Other Nondepreciable Assets	8,408,326	-	8,408,326
Capital Assets, Net	114,746,008	6,394,389	121,140,397
Total Non-Current Assets	124,386,729	6,542,200	130,928,929
Total Assets	\$ 157,087,307	\$ 7,203,533	\$ 164,290,840
LIABILITIES			
Current Liabilities			
Cash Overdraft	\$ 985,897	\$ -	\$ 985,897
Accounts Payable	7,171,001	270,371	7,441,372
Accrued Salaries and Benefits	11,305,343	-	11,305,343
Unearned Revenue	7,848,210	-	7,848,210
Internal Balances	1,400,000	(1,400,000)	-
Accrued Interest Payable	3,175,342	-	3,175,342
Bond and Notes Payable	5,869,876	85,000	5,954,876
Compensated Absences	685,196	-	685,196
Lease Payable	315,007	-	315,007
Retirement Incentive	210,726	-	210,726
Total Current Liabilities	38,966,598	(1,044,629)	37,921,969
Non-Current Liabilities			
Other Liabilities - Swaption	8,289,890	-	8,289,890
Other Post-Employment Benefits	6,485,095	-	6,485,095
Bonds and Notes Payable	99,274,000	4,345,000	103,619,000
Compensated Absences	3,882,774	-	3,882,774
Lease Payable	486,870	-	486,870
Retirement Incentive	329,403	-	329,403
Total Non-Current Liabilities	118,748,032	4,345,000	123,093,032
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	17,208,581	1,964,389	19,172,970
Restricted for Capital Projects	1,309,666	-	1,309,666
Unrestricted (Deficit)	(19,145,570)	1,938,773	(17,206,797)
Total Net Assets	(627,323)	3,903,162	3,275,839
Total Liabilities and Net Assets	\$ 157,087,307	\$ 7,203,533	\$ 164,290,840

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, 2010

<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	\$ 108,883,717	\$ 4,174,042	\$ 111,184,072	\$ -
Pupil Personnel	11,376,651	-	94,368	-
Instructional Student Support	7,806,158	-	31,456	-
Administrative and Financial	10,685,658	-	377,473	-
Pupil Health	1,354,638	-	500,514	-
Business	2,052,401	-	88,077	-
Operation and Maintenance of				
Plant Services	13,993,654	-	408,929	-
Student Transportation	4,671,162	-	2,020,673	-
Other Support Services	1,090,606	-	56,621	-
Staff Services	1,973,535	-	-	-
Student Activities	1,844,065	134,133	50,330	-
Community Services	443,955	-	15,728	-
Interest on Debt	7,020,949	-	-	-
Total Governmental Activities	173,197,149	4,308,175	114,828,241	-
<u>Business-Type Activities</u>				
Food Service	7,009,255	829,634	6,212,496	-
Stadium Commission	114,992	119,982	-	-
Play Erie	-	-	-	-
Total Business-Type Activities	7,124,247	949,616	6,212,496	-
Total Primary Government	\$ 180,321,396	\$ 5,257,791	\$ 121,040,737	\$ -
<u>General Revenues</u>				
Taxes				
Property Taxes				
Earned Income and Local Services				
Taxes				
Transfer Tax				
Public Utility Realty				
Investment Earnings/(Loss)				
Miscellaneous Income				
Transfers in/(out)				
Total Revenues				
Change in Net Assets				
Net Assets, July 1, 2009, as restated				
Net Assets, June 30, 2010				

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

Net (Expense)/Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ 6,474,397	\$ -	\$ 6,474,397
(11,282,283)	-	(11,282,283)
(7,774,702)	-	(7,774,702)
(10,308,185)	-	(10,308,185)
(854,124)	-	(854,124)
(1,964,324)	-	(1,964,324)
(13,584,725)	-	(13,584,725)
(2,650,489)	-	(2,650,489)
(1,033,985)	-	(1,033,985)
(1,973,535)	-	(1,973,535)
(1,659,602)	-	(1,659,602)
(428,227)	-	(428,227)
(7,020,949)	-	(7,020,949)
<u>(54,060,733)</u>	<u>-</u>	<u>(54,060,733)</u>
-	32,875	32,875
-	4,990	4,990
-	-	-
<u>-</u>	<u>37,865</u>	<u>37,865</u>
<u>(54,060,733)</u>	<u>37,865</u>	<u>(54,022,868)</u>
38,783,836	-	38,783,836
6,003,553	-	6,003,553
638,983	-	638,983
67,767	-	67,767
(486,028)	5,592	(480,436)
678,525	-	678,525
95,000	(95,000)	-
<u>45,781,636</u>	<u>(89,408)</u>	<u>45,692,228</u>
(8,279,097)	(51,543)	(8,330,640)
<u>7,651,774</u>	<u>3,954,705</u>	<u>11,606,479</u>
<u>\$ (627,323)</u>	<u>\$ 3,903,162</u>	<u>\$ 3,275,839</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Balance Sheet - Governmental Funds

June 30, 2010

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ -	\$ -	\$ 3,722	\$ 3,722
Taxes Receivable, Net	10,946,678	-	-	10,946,678
Intergovernmental Receivables	12,865,753	-	-	12,865,753
Interfund Receivable	-	85,000	1,268,000	1,353,000
Other Receivables	423,082	-	-	423,082
Inventories	6,288,747	-	-	6,288,747
Other Assets	1,232,395	-	-	1,232,395
	\$ 31,756,655	\$ 85,000	\$ 1,271,722	\$ 33,113,377
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Cash Overdraft	\$ 979,784	\$ 6,113	\$ -	\$ 985,897
Accounts Payable	6,485,314	40,943	-	6,526,257
Accrued Salaries and Benefits	11,305,343	-	-	11,305,343
Interfund Payable	3,798,000	-	-	3,798,000
Deferred Revenues	17,118,811	-	-	17,118,811
	39,687,252	47,056	-	39,734,308
FUND BALANCES				
Reserved for Capital Projects	-	37,944	1,271,722	1,309,666
Reserved for Inventories	6,288,747	-	-	6,288,747
Reserved for Other Assets	1,232,395	-	-	1,232,395
Unreserved - Undesignated (Deficit)	(15,451,739)	-	-	(15,451,739)
	(7,930,597)	37,944	1,271,722	(6,620,931)
	\$ 31,756,655	\$ 85,000	\$ 1,271,722	\$ 33,113,377

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 Assets
For the Year Ended June 30, 2010

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

Fund balances - governmental funds		\$ (6,620,931)
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		123,154,334
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Deferred taxes		9,270,601
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 Assets		2,572,852
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Other liabilities - swaption	(8,289,890)	
Other post employment benefits	(6,485,095)	
Bonds and notes payable	(105,143,876)	
Compensated absences	(4,567,970)	
Lease payable	(801,877)	
Retirement incentive	(540,129)	
Accrued interest payable	(3,175,342)	(129,004,179)
Net assets of governmental activities		\$ (627,323)

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, 2010

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Sources	\$ 54,330,297	\$ -	\$ 35,040	\$ 54,365,337
State Sources	85,016,417	-	-	85,016,417
Federal Sources	25,696,668	-	-	25,696,668
Total Revenues	<u>165,043,382</u>	<u>-</u>	<u>35,040</u>	<u>165,078,422</u>
EXPENDITURES				
Instruction	105,646,233	-	-	105,646,233
Support Services	53,195,987	-	-	53,195,987
Noninstructional Services	2,256,692	-	-	2,256,692
Facilities Acquisition, Construction, and Improvements	1,424,132	765,321	34,836	2,224,289
Debt Service	10,020,412	-	-	10,020,412
Total Expenditures	<u>172,543,456</u>	<u>765,321</u>	<u>34,836</u>	<u>173,343,613</u>
Excess of Revenues Over (Under) Expenditures	<u>(7,500,074)</u>	<u>(765,321)</u>	<u>204</u>	<u>(8,265,191)</u>
Other Financing Sources (Uses)				
Transfers - In	200,000	95,000	-	295,000
Change in Inventory	1,356,906	-	-	1,356,906
Total Other Financing Sources	<u>1,556,906</u>	<u>95,000</u>	<u>-</u>	<u>1,651,906</u>
Net Change in Fund Balance	<u>(5,943,168)</u>	<u>(670,321)</u>	<u>204</u>	<u>(6,613,285)</u>
Fund Balance - July 1, 2009, as restated	<u>(1,987,429)</u>	<u>708,265</u>	<u>1,271,518</u>	<u>(7,646)</u>
Fund Balance - June 30, 2010	<u>\$ (7,930,597)</u>	<u>\$ 37,944</u>	<u>\$ 1,271,722</u>	<u>\$ (6,620,931)</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, 2010

Differences in amounts reported for governmental activities in the Statement of Activities:

Net change in fund balances - total governmental funds		\$ (6,613,285)
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Assets		1,806,438
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(6,286,727)
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 deferred revenue		314,086
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 other liabilities-swaption	(588,697)	
Change in accrued and accreted interest	(3,118,460)	
Other post employment benefits	<u>(2,409,865)</u>	(6,117,022)
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		1,402,488
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 Assets In current year, these amounts are:		
Bonds and note payments	\$ 6,182,935	
Capital lease payments	962,930	
Changes in retirement incentive	111,197	
Change in compensated absences	<u>(42,137)</u>	<u>7,214,925</u>
Change in net assets of governmental activities		<u><u>\$ (8,279,097)</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 - Budget and Actual - General Fund
For the Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 56,978,010	\$ 54,377,476	\$ 54,330,297	\$ (47,179)
State Sources	96,959,834	84,528,193	85,016,417	488,224
Federal Sources	27,464,339	26,395,854	25,696,668	(699,186)
Total Revenues	<u>181,402,183</u>	<u>165,301,523</u>	<u>165,043,382</u>	<u>(258,141)</u>
EXPENDITURES				
Instruction	107,572,588	105,278,486	105,646,233	(367,747)
Support Services	57,723,731	52,667,103	53,195,987	(528,884)
Noninstructional Services	3,528,346	2,209,161	2,256,692	(47,531)
Facilities Acquisition, Construction and Improvement Services	1,642,136	1,266,321	1,424,132	(157,811)
Debt Service	9,586,854	9,870,540	10,020,412	(149,872)
Total Expenditures	<u>180,053,655</u>	<u>171,291,611</u>	<u>172,543,456</u>	<u>(1,251,845)</u>
Excess of Revenues Over (Under) Expenditures	<u>1,348,528</u>	<u>(5,990,088)</u>	<u>(7,500,074)</u>	<u>(1,509,986)</u>
Other Financing Sources (Uses)				
Transfers - In/Out	(1,033,298)	(987,875)	200,000	1,187,875
Change in Inventory	-	-	1,356,906	1,356,906
Budget Reserve	(315,230)	(92,067)	-	92,067
Total Other Financing Sources (Uses)	<u>(1,348,528)</u>	<u>(1,079,942)</u>	<u>1,556,906</u>	<u>2,636,848</u>
Net Change in Fund Balance	-	(7,070,030)	(5,943,168)	1,126,862
Fund Balance - July 1, 2009	<u>(1,987,429)</u>	<u>(1,987,429)</u>	<u>(1,987,429)</u>	<u>-</u>
Fund Balance - June 30, 2010	<u><u>\$ (1,987,429)</u></u>	<u><u>\$ (9,057,459)</u></u>	<u><u>\$ (7,930,597)</u></u>	<u><u>\$ 1,126,862</u></u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Statement of Net Assets - Proprietary Funds

June 30, 2010

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 50,966	\$ 42,172	\$ 93,138	\$ 429,274
Investments	-	251,919	251,919	1,215,259
Receivables				
Interfund	1,400,000	-	1,400,000	1,045,000
Intergovernmental	211,278	-	211,278	-
Accrued Interest Receivable	-	1,532	1,532	-
Other	36,015	-	36,015	2,116,655
Inventories	67,451	-	67,451	-
Prepaid Expenses	-	-	-	489,831
Total Current Assets	1,765,710	295,623	2,061,333	5,296,019
Non-Current Assets				
Deferred Charges	147,811	-	147,811	-
Buildings and Building Improvements	6,305,878	397,622	6,703,500	-
Machinery and Equipment	1,001,726	198,023	1,199,749	-
Accumulated Depreciation	(1,263,383)	(245,477)	(1,508,860)	-
Total Non-Current Assets	6,192,032	350,168	6,542,200	-
Total Assets	\$ 7,957,742	\$ 645,791	\$ 8,603,533	\$ 5,296,019
Liabilities				
Current Liabilities				
Accounts Payable	\$ 270,371	\$ -	\$ 270,371	\$ 2,723,167
Current Portion of Bonds Payable	85,000	-	85,000	-
Total Current Liabilities	355,371	-	355,371	2,723,167
Long Term Liabilities				
Bonds Payable	4,345,000	-	4,345,000	-
Total Long Term Liabilities	4,345,000	-	4,345,000	-
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,614,221	350,168	1,964,389	-
Unrestricted	1,643,150	295,623	1,938,773	2,572,852
Total Net Assets	3,257,371	645,791	3,903,162	2,572,852
Total Liabilities and Net Assets	\$ 7,957,742	\$ 645,791	\$ 8,603,533	\$ 5,296,019

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 Assets - Proprietary Funds

For the Year Ended June 30, 2010

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Operating Revenues				
Food Service Revenue	\$ 788,795	\$ -	\$ 788,795	\$ -
Charges for Services	-	59,604	59,604	22,151,075
Other Income	40,839	60,378	101,217	-
Total Operating Revenues	<u>829,634</u>	<u>119,982</u>	<u>949,616</u>	<u>22,151,075</u>
Operating Expenses				
Salaries	297,434	9,448	306,882	-
Employee Benefits	36,663	-	36,663	-
Purchased Professional and Technical Service	5,857,643	-	5,857,643	-
Supplies and Food	664,899	13,951	678,850	-
Depreciation	145,832	49,478	195,310	-
Other Operating Expenses	6,784	42,115	48,899	1,079,920
Insurance Expense	-	-	-	1,131,037
Claim Payments	-	-	-	18,356,871
Total Operating Expenses	<u>7,009,255</u>	<u>114,992</u>	<u>7,124,247</u>	<u>20,567,828</u>
Operating Income (Loss)	<u>(6,179,621)</u>	<u>4,990</u>	<u>(6,174,631)</u>	<u>1,583,247</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	2,226	3,366	5,592	19,241
State Sources	345,359	-	345,359	-
Federal Sources	5,867,137	-	5,867,137	-
Total Nonoperating Revenues	<u>6,214,722</u>	<u>3,366</u>	<u>6,218,088</u>	<u>19,241</u>
Income (Loss) Before Operating Transfers	35,101	8,356	43,457	1,602,488
Operating Transfers In (Out)	<u>-</u>	<u>(95,000)</u>	<u>(95,000)</u>	<u>(200,000)</u>
Change in Net Assets	35,101	(86,644)	(51,543)	1,402,488
Net Assets, July 1, 2009	<u>3,222,270</u>	<u>732,435</u>	<u>3,954,705</u>	<u>1,170,364</u>
Net Assets, June 30, 2010	<u>\$ 3,257,371</u>	<u>\$ 645,791</u>	<u>\$ 3,903,162</u>	<u>\$ 2,572,852</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, 2010

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:				
Cash Received from Users	\$ 853,369	\$ 119,982	\$ 973,351	\$ 19,021,032
Cash Payments to Employees for Services	(334,097)	(9,448)	(343,545)	-
Cash Payments to Suppliers for Goods and Services	(5,947,188)	(13,951)	(5,961,139)	(19,049,901)
Cash Payments for Operating Expenses	(6,784)	(42,115)	(48,899)	-
Net Cash Provided by (Used for) Operating Activities	(5,434,700)	54,468	(5,380,232)	(28,869)
Cash Flows from Noncapital Financing Activities:				
State Sources	340,555	-	340,555	-
Federal Sources	5,256,167	-	5,256,167	-
Transfers	-	(95,000)	(95,000)	(200,000)
Net Cash Provided by Noncapital Financing Activities	5,596,722	(95,000)	5,501,722	(200,000)
Cash Flows from Capital and Related Financing Activities:				
Purchase of Capital Assets	(4,255,557)	-	(4,255,557)	-
Advance to Other Funds	(1,400,000)	-	(1,400,000)	-
Repayment of Advance to Other Funds	4,108,375	-	4,108,375	-
Bond Payments	(74,903)	-	(74,903)	-
Net Cash (Used by) Capital and Related Financing Activities	(1,622,085)	-	(1,622,085)	-
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	2,226	3,366	5,592	19,241
Purchase of Investments	-	(8,938)	(8,938)	(36,368)
Net Cash Provided by Investing Activities	2,226	(5,572)	(3,346)	(17,127)
Net Increase (Decrease) in Cash	(1,457,837)	(46,104)	(1,503,941)	(245,996)
Cash at Beginning of Year	1,508,803	88,276	1,597,079	675,270
Cash at End of Year	\$ 50,966	\$ 42,172	\$ 93,138	\$ 429,274
Reconciliation of Operating Income to Net Cash (Used for)				
Operating Activities:				
Operating Income (Loss)	\$ (6,179,621)	\$ 4,990	\$ (6,174,631)	\$ 1,583,247
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used for) Operating Activities				
Depreciation	145,832	49,478	195,310	-
Donated Commodities	533,793	-	533,793	-
(Increase) Decrease in Accounts Receivables	23,735	-	23,735	(3,130,043)
(Increase) Decrease in Inventories	(16,831)	-	(16,831)	-
(Increase) Decrease in Prepaid Expenses	-	-	-	309,574
Increase (Decrease) in Accounts Payable	58,392	-	58,392	1,208,353
	\$ (5,434,700)	\$ 54,468	\$ (5,380,232)	\$ (28,869)

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 239,421	\$ 109,318
Total Assets	<u>\$ 239,421</u>	<u>\$ 109,318</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable Due to Student Groups	<u>\$ -</u>	<u>\$ 109,318</u>
NET ASSETS		
Held in Trust for Scholarships	<u>239,421</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 239,421</u>	<u>\$ 109,318</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 Assets
Fiduciary Funds
For the Year Ended June 30, 2010

	Private Purpose Trust
Additions:	
Earnings on Investments	\$ 1,059
Contributions	47,043
Total Additions	48,102
Deductions:	
Scholarships	35,364
Other Expense	43,601
Total Deductions	78,965
Change in Net Assets	(30,863)
Net Assets, July 1, 2009	270,284
Net Assets, June 30, 2010	\$ 239,421

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, 2010

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. Reporting Entity

For financial reporting purposes, the School District of the City of Erie, Pennsylvania 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, Pennsylvania and its blended component unit, the Erie School District Foundation.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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)

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary funds of the School District, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

The Capital Reserve Fund accounts for transfers from other funds used to fund future capital projects.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the District reports the following fund types:

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.

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

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.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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

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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

Cash and cash equivalents are cash on hand, as well as demand deposits, investments, and certificates of deposit included in pooled cash and non-pooled investments with original maturities of three months or less.

E. Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District 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 or 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.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All trade receivables are shown net of an allowance for uncollectibles.

G. Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

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 are 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, 2010.

A physical inventory of the proprietary fund's food and supplies was taken as of June 30, 2010. 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.

H. 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 District does not have any infrastructure assets. Assets with a cost of greater than \$1,500 and an expected life beyond one year are capitalized. 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 assets life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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 and Improvements	30-50
Equipment	7-10
Autos, Trucks and Vans	5-7

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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. Outstanding encumbrances, which carry over to the next budget year, totaled \$10,759,891 as of June 30, 2010.

J. Compensated Absences

The District accrues accumulated unpaid vacation and sick leave when (1) the obligation relates to rights that vest or accumulate, (2) the payment of the obligation is probable, and (3) the amount can be reasonably estimated. The long-term and current portion that has been accrued is recorded in the government-wide financial statements. Only the current portion has been accrued in the governmental fund financial statements.

K. 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, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

L. Estimates

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

M. Property Tax Calendar

Property taxes are levied and billed January 1 on property values assessed as of the same date. Taxpayers received a 2% rebate for payments received by February 28. Payments from March 1 through April 30 are collected at face. Taxpayers may pay their taxes in four monthly installments beginning April 30. A 10% penalty is added for payments received after May 1. Delinquent taxes are turned over to the Erie County Tax Claim Bureau for collection as of December 31.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

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.

1. Prior to June 30, the budget is legally adopted through passage of an ordinance.
2. 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.
3. 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.

The general fund expenditures exceeded appropriations in all functions.

These variances are primarily related to salaries exceeding appropriations and additional debt expenditures.

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, 2010, \$2,506,211 of the District's bank balance of \$3,128,483 was exposed to custodial credit risk.

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

Reconciliation to Financial Statements

Insured Amount	\$ 622,272
Uninsured and Collateralized Held by the Pledging Bank's Trust Department not in the District's Name	2,506,211
Less: Outstanding Checks	<u>(2,604,199)</u>
Carrying Amount of Bank Balance	524,284
Plus: Petty Cash	<u>1,850</u>
Total Cash and Cash Equivalents per Financial Statements	<u>\$ 526,134</u>

Investments

As of June 30, 2010, the District had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasury Notes	Less than 3 years	<u>\$ 1,467,178</u>

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. The District has purchased life insurance policies subject to custodial credit risk. See footnote 15 for additional information.

NOTE 4 - TAXES RECEIVABLES

Based upon assessments provided by the County, the School District levies property taxes at a rate of 17.0687 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 1/2% earned income tax and \$5 local services tax.

NOTE 4 - TAXES RECEIVABLES (CONTINUED)

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, 2010 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate	\$ 11,564,160	\$ 690,000	\$ 10,874,160	\$ 1,603,559	\$ 9,270,601
Transfer Tax	72,518	-	72,518	72,518	-
	<u>\$ 11,636,678</u>	<u>\$ 690,000</u>	<u>\$ 10,946,678</u>	<u>\$ 1,676,077</u>	<u>\$ 9,270,601</u>

Deferred revenue also includes unexpended grant funding of \$7,848,210.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2010, the following amounts are due from other governmental units:

	General Fund	Food Service Fund	Total
Federal	\$ 11,759,630	\$ 197,877	\$ 11,957,507
State	1,106,123	13,401	1,119,524
	<u>\$ 12,865,753</u>	<u>\$ 211,278</u>	<u>\$ 13,077,031</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year is as follows:

	June 30, 2009	Additions	Deletions	June 30, 2010
Governmental Activities				
Capital Assets Not Depreciated:				
Land	\$ 8,408,326	\$ -	\$ -	\$ 8,408,326
Construction in Progress	111,957	242,462	(354,419)	-
Total Assets Not Depreciated	<u>8,520,283</u>	<u>242,462</u>	<u>(354,419)</u>	<u>8,408,326</u>
Capital Assets Depreciated:				
Buildings and Improvements	197,160,519	354,419	-	197,514,938
Furniture and Equipment	34,346,871	1,126,051	(71,744)	35,401,178
Vehicles	2,794,707	437,925	(153,915)	3,078,717
Total Assets Depreciated	<u>234,302,097</u>	<u>1,918,395</u>	<u>(225,659)</u>	<u>235,994,833</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(87,041,683)	(4,044,476)	-	(91,086,159)
Furniture and Equipment	(25,853,470)	(2,045,849)	71,744	(27,827,575)
Vehicles	(2,292,604)	(196,402)	153,915	(2,335,091)
Total Accumulated Depreciation	<u>(115,187,757)</u>	<u>(6,286,727)</u>	<u>225,659</u>	<u>(121,248,825)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 119,114,340</u>	<u>\$ (4,368,332)</u>	<u>\$ -</u>	<u>\$ 114,746,008</u>
Business-Type Activities				
Capital Assets Not Depreciated:				
Construction in Progress	\$ 761,114	\$ 4,108,375	\$(4,869,489)	\$ -
Total Assets Not Depreciated	<u>\$ 761,114</u>	<u>\$ 4,108,375</u>	<u>\$(4,869,489)</u>	<u>\$ -</u>
Capital Assets Being Depreciated:				
Building	\$ 1,834,011	\$ 4,869,488	\$ -	\$ 6,703,499
Equipment	946,248	147,183	-	1,093,431
Vehicles	106,317	-	-	106,317
Total Assets Depreciated	<u>2,886,576</u>	<u>5,016,671</u>	<u>-</u>	<u>7,903,247</u>
Less Accumulated Depreciation:				
Building	(542,780)	(105,678)	-	(648,458)
Equipment	(683,578)	(78,156)	-	(761,734)
Vehicles	(87,190)	(11,476)	-	(98,666)
Total Accumulated Depreciation	<u>(1,313,548)</u>	<u>(195,310)</u>	<u>-</u>	<u>(1,508,858)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 1,573,028</u>	<u>\$ 4,821,361</u>	<u>\$ -</u>	<u>\$ 6,394,389</u>

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:		
Instruction		\$ 6,036,351
Support Services:		
Student Transportation		101,285
Administration		85,254
Operation and Maintenance		<u>63,837</u>
Total Depreciation Expense- Governmental Activities		<u>\$ 6,286,727</u>
Business-Type Activities:		
Food Service		\$ 145,832
Stadium Commission		<u>49,478</u>
Total Depreciation Expense- Business-Type Activities		<u>\$ 195,310</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The composition of interfund balances as of June 30, 2010 is as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Total</u>
General Fund	Workers Compensation	\$ 200,000
Capital Projects Fund	Stadium Commission	<u>95,000</u>
		<u>\$ 295,000</u>

Transfers are used to move fund revenues to finance expenditures that the District incurred in the General Fund.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General Fund	\$ 85,000
Capital Reserve	General Fund	1,268,000
Food Service Fund	General Fund	1,400,000
Health Plan	General Fund	<u>1,045,000</u>
		<u>\$ 3,798,000</u>

The outstanding balances between funds result mainly from loans made to the general fund at year end to provide cash flow necessary to repay the 2009 tax anticipation note.

NOTE 8 - CAPITAL LEASES

The School District is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for as Governmental Activities. The assets acquired through capital leases are as follows:

Equipment	\$ 3,318,404
Less Accumulated Depreciation	<u>(2,278,822)</u>
Carrying Value of Equipment	1,039,582
Textbooks	<u>3,429,189</u>
	<u>\$ 4,468,771</u>

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, 2010:

2011	\$ 315,007
2012	237,669
2013	162,580
2014	<u>134,470</u>
Total Minimum Lease Payments	849,726
Less Amount Representing Interest	<u>(47,849)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 801,877</u>

NOTE 9 - LONG -TERM DEBT

Governmental Activities

The notes payable at June 30, 2010 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:

The 1996 Series A and the Series B bonds are capital appreciation bonds with original stated value at issuance of \$16,988,544 and \$14,366,275, respectively. The capital appreciation bonds mature at various amounts from May 1, 1997 to 2023 with bond yield ranging from 4.15% to 6.25%. The Series A bonds maturing May 2001 through 2023 were defeased by the 1998 bond issue.

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, 1999 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.

General Obligation Bonds, Series A of 2001, in the original principal amount of \$38,695,000. The Series A bonds have a varying interest rate ranging from 3.2% to 5%. The Series A bonds are current interest bonds maturing in various amounts from 2001 to 2029. Interest is payable March 1 and September 1, commencing on September 1, 2001.

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.

During the year, the District obtained a \$32,000,000 tax and revenue anticipation note. The proceeds were used for general cash flow needs. The note has been paid off as of June 30, 2010.

Business-Type Activities

General Obligation Bonds Series of 2010, 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, 2010 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.

NOTE 9 - LONG - TERM DEBT (CONTINUED)

The following summarizes the maturities and interest payments for general obligation bonds/notes and notes payable as of June 30, 2010.

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,869,876	\$ 2,033,429	\$ 7,903,305
2012	5,594,420	2,292,218	7,886,638
2013	5,329,333	2,555,153	7,884,486
2014	5,082,119	2,804,714	7,886,833
2015	4,795,134	3,046,288	7,841,422
2016-2020	20,595,365	18,430,441	39,025,806
2021-2025	16,307,317	22,730,058	39,037,375
2026-2030	36,918,368	8,060,132	44,978,500
2031-2032	4,651,944	11,520,463	16,172,407
	<u>\$105,143,876</u>	<u>\$ 73,472,896</u>	<u>\$178,616,772</u>

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 85,000	\$ 210,863	\$ 295,863
2012	85,000	209,078	294,078
2013	85,000	207,123	292,123
2014	90,000	204,955	294,955
2015	90,000	202,390	292,390
2016-2020	505,000	964,700	1,469,700
2021-2025	630,000	840,438	1,470,438
2026-2030	800,000	667,744	1,467,744
2031-2035	1,025,000	438,375	1,463,375
2036-2039	1,035,000	139,385	1,174,385
	<u>\$ 4,430,000</u>	<u>\$ 4,085,051</u>	<u>\$ 8,515,051</u>

NOTE 9 - LONG - TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30, 2010 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$108,246,317	\$ 3,080,494	\$ 6,182,935	\$105,143,876	\$ 5,869,876
Compensated Absences	4,525,833	1,421,473	1,379,336	4,567,970	685,196
Capital Lease Payable	1,764,807	-	962,930	801,877	315,007
Retirement Incentive	651,326	114,283	225,480	540,129	210,726
	<u>\$115,188,283</u>	<u>\$ 4,616,250</u>	<u>\$ 8,750,681</u>	<u>\$111,053,852</u>	<u>\$ 7,080,805</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	\$ 4,510,000	-	\$ 80,000	\$ 4,430,000	\$ 85,000

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

The contribution policy is set by the Code and requires contribution by active employees and by participating employers. Plan members are required to contribute 5.25% of their compensation if they joined the plan before July 22, 1983, and 6.25 % if they joined on or after that date. Under Act 2001-9, May 17, 2001, members may elect to increase their contribution rate by 1.25% as of January 1, 2002, thereby increasing their benefit. Employees hired after January 1, 2002 are required to contribute 7.5%. The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2010, the rate of employer contributions was 4.78% of covered payroll. Before July 1, 1995, School Districts and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, School Districts are required to pay the entire employer contributions rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. The School District's contributions to PSERS for years ending June 30, 2010, 2009, and 2008 were \$4,169,572, \$5,429,058, and \$5,093,032, respectively. Those amounts are equal to the required contribution for each year.

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, 2010, the workers' compensation fund had a liability of \$118,053, which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers' compensation claim payments totaled \$3,120 for the year ended June 30, 2010.

Health insurance claim payments totaled \$17,437,115 for the year ended June 30, 2010 and a liability of \$2,566,882 at June 30, 2010.

The dental plan has a liability of \$38,232, which represents current year claims paid by the administrator but not reimbursed by the District as of June 30, 2010. Claim payments totaled \$916,636 for the year ended June 30, 2010

At June 30, 2010, the workers' compensation, health insurance and dental plan had a net assets balance of \$887,465, \$1,635,556 and \$49,831, respectively.

NOTE 11 - SELF-INSURANCE (CONTINUED)

Changes in the balances of claims liabilities during the years ended June 30, 2008 through 2010 are as follows:

	<u>Workers' Comp.</u>	<u>Dental Plan</u>	<u>Health Insurance</u>	<u>Total</u>
Unpaid Claims, June 30, 2008	\$ 394,570	\$ 31,735	\$ 1,095,390	\$ 1,521,695
Incurred Claims	36,594	859,955	17,249,370	18,145,919
Claim Payments	<u>(117,822)</u>	<u>(860,077)</u>	<u>(17,174,901)</u>	<u>(18,152,800)</u>
Unpaid Claims, July 1, 2009	313,342	31,613	1,169,859	1,514,814
Incurred Claims	(192,169)	923,255	18,834,138	19,565,224
Claim Payments	<u>(3,120)</u>	<u>(916,636)</u>	<u>(17,437,115)</u>	<u>(18,356,871)</u>
Unpaid Claims, June 30, 2010	<u>\$ 118,053</u>	<u>\$ 38,232</u>	<u>\$ 2,566,882</u>	<u>\$ 2,723,167</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. The District also maintains \$49,831 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, 2013
The Erie Educational Secretaries Association	June 30, 2014
The Erie County Civil Service Employees of Painters and Allied Trades, AFL-CIO	June 30, 2013
Administrative Personnel	June 30, 2010

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, 2010, 272 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$3,576,846, net of retiree contributions of \$208,717 in 2009/10.

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 actually 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.

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	\$ 6,053,510
Interest on Net OPEB Obligation	183,385
Adjustment to Annual Required Contributions	<u>(250,184)</u>
Annual OPEB Cost	5,986,711
Contribution Made	<u>(3,576,846)</u>
Increase in Net OPEB Obligation	2,409,865
Net OPEB Obligation - Beginning of Year	<u>4,075,230</u>
Net OPEB Obligation - End of Year	<u><u>\$ 6,485,095</u></u>

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

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, 2010	\$ 5,986,711	108.3%	\$ 6,485,095
June 30, 2009	5,449,465	64.8%	4,075,230
June 30, 2008	5,484,837	60.7%	2,157,930

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, 2010 using the following actuarial assumptions: (1) actuarial cost method projected unit credit; (2) amortization method level dollar; (3) amortization period 30 years; (4) discount rate of 5% compounded annually; (5) 1983 Group Annuity Mortality Tables for men and women and (6) health care cost trend rates of 10%, grading to 5% per year.

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

The schedule of funding progress for the post-employment health insurance benefits is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-PUC (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2009	-	\$ 53,085,669	\$ 53,085,669	0%	\$ 73,926,514	71.8%
July 1, 2007	-	49,078,959	49,078,959	0%	73,926,514	66.4%

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, 2010 and the two previous fiscal years, no settlement exceeded insurance coverage.

NOTE 15 - OTHER ASSETS

The School District has purchased \$1,500,000 in variable universal life insurance policies covering certain employees. The District is the named beneficiary of the policies. The policies have no guaranteed contract value. The contract value varies to reflect the investment performance based on the investment options selected by the District. The policies are subject to investment risks, including possible loss of principal investment. The policies are uninsured, unregistered and held by the insurance company in the name of the District. The cash surrender value of the policies at June 30, 2010 was \$1,232,395.

NOTE 16 - 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. If the option is exercised, the swap will also commence 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).

For the year ended June 30, 2010, the value of the swaps declined \$588,697, which is reported in the Investment Earnings/(Loss) on the Governmental Activities.

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 16 - 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 the right to require the District to enter into a fixed payor interest rate swap starting on September 1, 2011 and on each March 1, and September 1, thereafter, through and including March 1, 2029, under which the District pays a fixed rate equal to the 4.77% to the counterparty. Upon exercise of the 2006 Swaption, the District may issue variable rate bonds for the purpose of currently refunding the 2001 bonds, or issue fixed rate bonds for the purpose of currently refunding the 2001 bonds and any termination amount. In February 2010, the District resolved to terminate the 2006 constant maturity swap. As part of the restructuring, the basis swap was entered into with PNC and effectively converted PNC’s obligation from an agreement to pay the BMA index to an agreement to pay 67 % of one month LIBOR. This agreement is based upon the amortization of the 2001 Series A Bonds and has already become effective - it is not subject to the option of the counterparty.

A third 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, 2010. All three 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, all swaps have a negative fair value as of June 30, 2010. 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 the GASB Technical Bulletin No. 2003-1 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, 2010, the swaps had a fair value of negative \$8,289,890.

Risks

Basis Risk The Swaps currently expose the District to basis risk. The District is receiving a variable rate payment from PNC equal to 58.76% of the 10-year maturity of USD-ISDA Swap Rate and pays a floating rate equal to the SIFMA Index. Prior to the time the 2006 Swaption is exercised, the District will pay or receive the difference between (i) 58.76% of the 10 year maturity of the USD-ISDA Swap Rate and the SIFMA Index. If the 2006 Swaption is exercised, the basis risk will continue, however the District will be subject to basis risk that will be based upon a different relationship – the relationship between the rate on the variable rate refunding bonds and 58.76% of the 10-year maturity of USD-ISDA Swap Rate . If the 2006 Swaption is exercised and the District issues floating rate bonds, the District will have to pay the floating rate on the bonds plus, the District will pay a fixed payment of 4.77% to the counterparty and the District will receive 58.76% of the 10 Year USD-ISDA Swap Rate. If the floating rate on the bonds exceeds 58.76% of the 10Year USD-ISDA Swap Rate, the District will pay 4.77% plus the difference between the two.

**NOTE 16 - INTEREST RATE SWAP AGREEMENT RELATED TO 2001 G.O. BONDS
(SWAPTION) (CONTINUED)**

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, 2010, 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.

Market-access risk If the option is exercised, variable rate refunding bonds would be expected to be issued so that the 2001 bonds would be refunded. Recently, obtaining liquidity facilities and actually issuing enhanced variable rate demand bonds has become increasingly difficult. Many issuers are unable to access this market at this time. If the market for variable rate demand bonds were not accessible and the swaption were to be exercised, the District would be required to terminate the swap at the then existing market. If the swaps were terminated on June 30, 2010, the amount payable by the District would have been as set forth above. The amount of the termination in 2011, however, cannot be estimated or determined as it depends on a variety of market conditions, interest rates and interest rate relationships.

NOTE 17 - RESTATEMENT OF FUND BALANCE/NET ASSETS

Beginning Capital Projects Fund Balance and Governmental Activities net assets were restated due to an overstated liability. Beginning Governmental Activities net assets were restated to reflect the implementation of GASB 53 and report the value of Swap agreements as of June 30, 2009.

	<u>Capital Projects Fund Balance</u>	<u>Governmental Activities Net Assets</u>
Beginning balance	\$ 420,834	\$ 13,548,536
Restatement:		
Capital projects liability	287,431	287,431
Governmental Activities Swaption	<u>-</u>	<u>(6,184,193)</u>
Beginning balance, as restated	<u>\$ 708,265</u>	<u>\$ 7,651,774</u>

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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Local Sources	\$ 56,978,010	\$ 54,377,476	\$ 54,330,297	\$ (47,179)
State Sources	96,959,834	84,528,193	85,016,417	488,224
Federal Sources	27,464,339	26,395,854	25,696,668	(699,186)
Total Revenues	<u>181,402,183</u>	<u>165,301,523</u>	<u>165,043,382</u>	<u>(258,141)</u>
Expenditures and Other Financing Uses				
Instruction				
Regular Programs	79,407,134	74,944,052	76,500,061	(1,556,009)
Special Education Program	20,477,447	20,429,987	19,894,518	535,469
Vocational Education Programs	4,577,624	4,633,305	4,728,466	(95,161)
Other Instructional Programs	1,358,687	3,415,208	2,617,349	797,859
Adult Education Programs	530,996	542,709	509,116	33,593
Pre Kindergarten	1,220,700	1,259,158	1,326,753	(67,595)
Community/Junior College	-	54,067	69,970	(15,903)
Total Instruction	<u>107,572,588</u>	<u>105,278,486</u>	<u>105,646,233</u>	<u>(367,747)</u>
Support Services				
Pupil Personnel	11,434,717	10,866,499	11,304,355	(437,856)
Instructional Staff	10,043,919	7,951,089	7,733,862	217,227
Administrative	11,342,167	10,348,011	10,644,576	(296,565)
Pupil Health	1,121,359	1,393,341	1,400,371	(7,030)
Business	2,479,750	2,086,258	2,087,189	(931)
Operation and Maintenance of				-
Plant Services	15,164,014	13,820,032	13,664,732	155,300
Student Transportation Services	3,980,410	4,107,632	4,259,290	(151,658)
Staff Services	1,977,696	1,940,334	1,951,846	(11,512)
Other Support Services	179,699	153,907	149,766	4,141
Total Support Services	<u>57,723,731</u>	<u>52,667,103</u>	<u>53,195,987</u>	<u>(528,884)</u>
Operation of Noninstructional Services				
Student Activities	3,014,650	1,779,502	1,824,786	(45,284)
Community Services	513,696	429,659	431,906	(2,247)
Total Noninstructional Services	<u>3,528,346</u>	<u>2,209,161</u>	<u>2,256,692</u>	<u>(47,531)</u>
Facilities Acquisition, Construction and Improvement Services				
Total Facilities Acquisition, Construction, and Improvement Services	<u>1,642,136</u>	<u>1,266,321</u>	<u>1,424,132</u>	<u>(157,811)</u>

Schedule continued on the next page.

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, 2010
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 9,586,854	\$ 9,870,540	\$ 10,020,412	\$ (149,872)
Total Expenditures	<u>180,053,655</u>	<u>171,291,611</u>	<u>172,543,456</u>	<u>(1,251,845)</u>
Excess of Revenues Over/(Under) Expenditures	<u>1,348,528</u>	<u>(5,990,088)</u>	<u>(7,500,074)</u>	<u>(1,509,986)</u>
Other Financing Sources (Uses)				
Transfers - In/(Out)	(1,033,298)	(987,875)	200,000	1,187,875
Change in Inventory	-	-	1,356,906	1,356,906
Budget Reserve	<u>(315,230)</u>	<u>(92,067)</u>	<u>-</u>	<u>92,067</u>
Total Other Financing Uses	<u>(1,348,528)</u>	<u>(1,079,942)</u>	<u>1,556,906</u>	<u>2,636,848</u>
Net Change in Fund Balance	-	(7,070,030)	(5,943,168)	1,126,862
Fund Balance - July 1, 2009	<u>(1,987,429)</u>	<u>(1,987,429)</u>	<u>(1,987,429)</u>	<u>-</u>
Fund Balance - June 30, 2010	<u><u>\$ (1,987,429)</u></u>	<u><u>\$ (9,057,459)</u></u>	<u><u>\$ (7,930,597)</u></u>	<u><u>\$ 1,126,862</u></u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Assets - Nonmajor Proprietary Funds
June 30, 2010

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 40,077	\$ 2,095	\$ 42,172
Investments	251,919	-	251,919
Accrued Interest Receivable	1,532	-	1,532
Total Current Assets	<u>293,528</u>	<u>2,095</u>	<u>295,623</u>
Non-Current Assets			
Buildings and Building Improvements	397,622	-	397,622
Machinery and Equipment	198,023	-	198,023
Accumulated Depreciation	(245,477)	-	(245,477)
Total Non-Current Assets	<u>350,168</u>	<u>-</u>	<u>350,168</u>
Total Assets	<u>\$ 643,696</u>	<u>\$ 2,095</u>	<u>\$ 645,791</u>
Net Assets			
Invested in Capital Assets	\$ 350,168	\$ -	\$ 350,168
Unrestricted	<u>293,528</u>	<u>2,095</u>	<u>295,623</u>
Total Net Assets	<u>643,696</u>	<u>2,095</u>	<u>645,791</u>
Total Liabilities and Net Assets	<u>\$ 643,696</u>	<u>\$ 2,095</u>	<u>\$ 645,791</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, Expenses and Changes
in Net Assets - Nonmajor Proprietary Funds
For the Year Ended June 30, 2010

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues			
Charges for Services	\$ 59,604	\$ -	\$ 59,604
Other Income	60,378	-	60,378
 Total Operating Revenues	 <u>119,982</u>	 <u>-</u>	 <u>119,982</u>
Operating Expenses			
Salaries	9,448	-	9,448
Supplies and Food	13,951	-	13,951
Depreciation	49,478	-	49,478
Other Operating Expenses	42,115	-	42,115
 Total Operating Expenses	 <u>114,992</u>	 <u>-</u>	 <u>114,992</u>
 Operating Income	 <u>4,990</u>	 <u>-</u>	 <u>4,990</u>
Nonoperating Revenues			
Earnings on Investments	3,361	5	3,366
 Total Nonoperating Revenues	 <u>3,361</u>	 <u>5</u>	 <u>3,366</u>
 Income (Loss) before Operating Transfers	 8,351	 5	 8,356
 Operating Transfers In (Out)	 <u>(95,000)</u>	 <u>-</u>	 <u>(95,000)</u>
 Change in Net Assets	 (86,649)	 5	 (86,644)
 Net Assets, July 1, 2009	 <u>730,345</u>	 <u>2,090</u>	 <u>732,435</u>
 Net Assets, June 30, 2010	 <u>\$ 643,696</u>	 <u>\$ 2,095</u>	 <u>\$ 645,791</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, 2010

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash Received from Users	\$ 119,982	\$ -	\$ 119,982
Cash Payments to Employees for Services	(9,448)	-	(9,448)
Cash Payments to Suppliers for Goods and Services	(13,951)	-	(13,951)
Cash Payments for Operating Expenses	(42,115)	-	(42,115)
Net Cash (Used for) Operating Activities	<u>54,468</u>	<u>-</u>	<u>54,468</u>
Cash Flows from Investing Activities:			
Earnings (Loss) from Investments	3,361	5	3,366
Purchase of Investments	(8,938)	-	(8,938)
Net Cash Provided by Investing Activities	<u>(5,577)</u>	<u>5</u>	<u>(5,572)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers	(95,000)	-	(95,000)
Net Cash Used by Noncapital Financing Activities	<u>(95,000)</u>	<u>-</u>	<u>(95,000)</u>
Net Increase (Decrease) in Cash	(46,109)	5	(46,104)
Cash at Beginning of Year	<u>86,186</u>	<u>2,090</u>	<u>88,276</u>
Cash at End of Year	<u>\$ 40,077</u>	<u>\$ 2,095</u>	<u>\$ 42,172</u>
Reconciliation of Operating Income to Net Cash (Used for)			
Operating Activities:			
Operating Income (Loss)	\$ 4,990	\$ -	\$ 4,990
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities			
Depreciation	<u>49,478</u>	<u>-</u>	<u>49,478</u>
	<u>\$ 54,468</u>	<u>\$ -</u>	<u>\$ 54,468</u>

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

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Combining Statement of Net Assets - Internal Service Funds

June 30, 2010

	<u>Workers'</u>			
	<u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 429,209	\$ -	\$ 65	\$ 429,274
Investments	576,309	-	638,950	1,215,259
Interfund Receivables	-	-	1,045,000	1,045,000
Receivables - Other	-	38,232	2,078,423	2,116,655
Prepaid Expenses	-	49,831	440,000	489,831
Total Current Assets	<u>1,005,518</u>	<u>88,063</u>	<u>4,202,438</u>	<u>5,296,019</u>
 Total Assets	 <u>\$ 1,005,518</u>	 <u>\$ 88,063</u>	 <u>\$ 4,202,438</u>	 <u>\$ 5,296,019</u>
Liabilities				
Current Liabilities				
Accounts Payable	\$ 118,053	\$ 38,232	\$ 2,566,882	\$ 2,723,167
Total Current Liabilities	<u>118,053</u>	<u>38,232</u>	<u>2,566,882</u>	<u>2,723,167</u>
Net Assets				
Unrestricted	<u>887,465</u>	<u>49,831</u>	<u>1,635,556</u>	<u>2,572,852</u>
Total Net Assets	<u>887,465</u>	<u>49,831</u>	<u>1,635,556</u>	<u>2,572,852</u>
 Total Liabilities and Net Assets	 <u>\$ 1,005,518</u>	 <u>\$ 88,063</u>	 <u>\$ 4,202,438</u>	 <u>\$ 5,296,019</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 Assets - Internal Service Funds
For the Year Ended June 30, 2010

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 488,970	\$ 961,982	\$ 20,700,123	\$ 22,151,075
Total Operating Revenues	<u>488,970</u>	<u>961,982</u>	<u>20,700,123</u>	<u>22,151,075</u>
Operating Expenses				
Other Operating Expenses	2,583	54,919	1,022,418	1,079,920
Insurance Expense	-	-	1,131,037	1,131,037
Claim Payments	<u>3,120</u>	<u>916,636</u>	<u>17,437,115</u>	<u>18,356,871</u>
Total Operating Expenses	<u>5,703</u>	<u>971,555</u>	<u>19,590,570</u>	<u>20,567,828</u>
Operating Income (Loss)	<u>483,267</u>	<u>(9,573)</u>	<u>1,109,553</u>	<u>1,583,247</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	<u>9,074</u>	<u>-</u>	<u>10,167</u>	<u>19,241</u>
Total Nonoperating Revenue (Expense)	<u>9,074</u>	<u>-</u>	<u>10,167</u>	<u>19,241</u>
Income (Loss) before Operating Transfers	492,341	(9,573)	1,119,720	1,602,488
Operating Transfers In (Out)	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Change in Net Assets	292,341	(9,573)	1,119,720	1,402,488
Net Assets, July 1, 2009	<u>595,124</u>	<u>59,404</u>	<u>515,836</u>	<u>1,170,364</u>
Net Assets , June 30, 2010	<u>\$ 887,465</u>	<u>\$ 49,831</u>	<u>\$ 1,635,556</u>	<u>\$ 2,572,852</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, 2010

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Cash Flows From Operating Activities:				
Cash Received from Users	\$ 488,970	\$ 955,362	\$ 17,576,700	\$ 19,021,032
Cash Payments to Suppliers for Goods and Services	(200,992)	(955,362)	(17,893,547)	(19,049,901)
Net Cash Provided by Operating Activities	<u>287,978</u>	<u>-</u>	<u>(316,847)</u>	<u>(28,869)</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	9,074	-	10,167	19,241
Purchase of Investments	(14,479)	-	(21,889)	(36,368)
Net Cash Provided by Investing Activities	<u>(5,405)</u>	<u>-</u>	<u>(11,722)</u>	<u>(17,127)</u>
Cash Flows from Noncapital Financing Activities				
Transfers	(200,000)	-	-	(200,000)
Net Cash Used by Noncapital Financing Activities	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net Increase (Decrease) in Cash	82,573	-	(328,569)	(245,996)
Cash at Beginning of Year	<u>346,636</u>	<u>-</u>	<u>328,634</u>	<u>675,270</u>
Cash at End of Year	<u>\$ 429,209</u>	<u>\$ -</u>	<u>\$ 65</u>	<u>\$ 429,274</u>
Reconciliation of Operating Income to Net Cash				
Provided by Operating Activities:				
Operating Income (Loss)	\$ 483,267	\$ (9,573)	\$ 1,109,553	\$ 1,583,247
Adjustment to Reconcile Operating Income (Loss)				
to Net Cash (Used) for Operating Activities				
(Increase) Decrease in Receivables	-	(6,620)	(3,123,423)	(3,130,043)
(Increase) Decrease in Prepaid Expenses	-	9,574	300,000	309,574
Increase (Decrease) in Accounts Payable	(195,289)	6,619	1,397,023	1,208,353
	<u>\$ 287,978</u>	<u>\$ -</u>	<u>\$ (316,847)</u>	<u>\$ (28,869)</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 Assets
June 30, 2010

	Phelps	Project Dare	Drug Free	Mentoring Community Service
ASSETS				
Cash and Cash Equivalents	\$ 12,597	\$ 1,085	\$ 1,567	\$ 173
Total Assets	\$ 12,597	\$ 1,085	\$ 1,567	\$ 173
NET ASSETS				
Held in Trust for Scholarships	\$ 12,597	\$ 1,085	\$ 1,567	\$ 173
Total Liabilities and Net Assets	\$ 12,597	\$ 1,085	\$ 1,567	\$ 173

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

<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
\$ 1,633	\$ 149,522	\$ 11,724	\$ 3,863
<u>\$ 1,633</u>	<u>\$ 149,522</u>	<u>\$ 11,724</u>	<u>\$ 3,863</u>
\$ 1,633	\$ 149,522	\$ 11,724	\$ 3,863
<u>\$ 1,633</u>	<u>\$ 149,522</u>	<u>\$ 11,724</u>	<u>\$ 3,863</u>

Schedule continued on next page.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Fiduciary Net Assets
June 30, 2010
(Continued)

	Uniform Dress Code	Tile Resoration & Preservation	Musical Instrument Equipment
ASSETS			
Cash and Cash Equivalents	\$ 2,257	\$ 3,333	\$ 312
Total Assets	\$ 2,257	\$ 3,333	\$ 312
NET ASSETS			
Held in Trust for Scholarships	\$ 2,257	\$ 3,333	\$ 312
Total Liabilities and Net Assets	\$ 2,257	\$ 3,333	\$ 312

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

<u>CHAMPS Fundraising</u>	<u>United We Stand Hometown Charities</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ 115	\$ 6,712	\$ 44,528	\$ 239,421
<u>\$ 115</u>	<u>\$ 6,712</u>	<u>\$ 44,528</u>	<u>\$ 239,421</u>
\$ 115	\$ 6,712	\$ 44,528	\$ 239,421
<u>\$ 115</u>	<u>\$ 6,712</u>	<u>\$ 44,528</u>	<u>\$ 239,421</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2010

	<u>Phelps</u>	<u>Project Dare</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	\$ 63	\$ -	\$ 4	\$ -	\$ 59	\$ 711	\$ 57	\$ 44
Contributions	-	-	-	-	-	12,775	-	-
Total Additions	<u>63</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>59</u>	<u>13,486</u>	<u>57</u>	<u>44</u>
Deductions:								
Scholarships	-	-	-	-	-	35,250	-	114
Other Expense	-	-	-	-	-	-	-	-
Total Deductions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,250</u>	<u>-</u>	<u>114</u>
Change in Net Assets	63	-	4	-	59	(21,764)	57	(70)
Net Assets, July 1, 2009	<u>12,534</u>	<u>1,085</u>	<u>1,563</u>	<u>173</u>	<u>1,574</u>	<u>171,286</u>	<u>11,667</u>	<u>3,933</u>
Net Assets, June 30, 2010	<u>\$ 12,597</u>	<u>\$ 1,085</u>	<u>\$ 1,567</u>	<u>\$ 173</u>	<u>\$ 1,633</u>	<u>\$ 149,522</u>	<u>\$ 11,724</u>	<u>\$ 3,863</u>

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

<u>Uniform Dress Code</u>	<u>Tile Resoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>CHAMPS Fundraising</u>	<u>United We Stand Hometown Charities</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ 6	\$ 15	\$ -	\$ -	\$ 31	\$ 69	\$ 1,059
-	-	-	115	9,175	24,978	47,043
<u>6</u>	<u>15</u>	<u>-</u>	<u>115</u>	<u>9,206</u>	<u>25,047</u>	<u>48,102</u>
-	-	-	-	-	-	35,364
-	-	-	-	21,083	22,518	43,601
-	-	-	-	21,083	22,518	78,965
6	15	-	115	(11,877)	2,529	(30,863)
<u>2,251</u>	<u>3,318</u>	<u>312</u>	<u>-</u>	<u>18,589</u>	<u>41,999</u>	<u>270,284</u>
<u>\$ 2,257</u>	<u>\$ 3,333</u>	<u>\$ 312</u>	<u>\$ 115</u>	<u>\$ 6,712</u>	<u>\$ 44,528</u>	<u>\$ 239,421</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

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 Education				
Value of Donated Commodities	I	10.555	2-01-25-100	7/1/09-6/30/10
National School Lunch Program	I	10.555	362	7/1/08-6/30/09
National School Lunch Program	I	10.555	362	7/1/09-6/30/10
After School Snacks	I	10.555	359	7/1/08-6/30/09
After School Snacks	I	10.555	359	7/1/09-6/30/10
Subtotal				
Severe Needy Breakfast Program	I	10.553	367	7/1/08-6/30/09
Severe Needy Breakfast Program	I	10.553	367	7/1/09-6/30/10
Regular Needy Breakfast Program	I	10.553	365	7/1/08-6/30/09
Regular Needy Breakfast Program	I	10.553	365	7/1/09-6/30/10
Subtotal				
Total Child Nutrition Cluster				
School Food SVC Equip	I	10.579	129-000035-000047	6/8/09-9/30/09
Elect & Fatherhood Initiative	I	10.561	110-080009	7/1/08-6/30/10
Elect & Fatherhood Initiative	I	10.561	110-090009	7/1/09-6/30/10
Subtotal				
Total U.S. Department of Agriculture				
<u>U.S. Department of Education</u>				
Passed Through Tri-County OIC Adult Learning Center				
Public Library Improvement	I	45.310	202-909038	5/8/09-5/31/10
Passed Through PA Department of Education				
Adult Basic Education	I	84.002	041-099075	7/1/08-6/30/10
Adult Basic Education	I	84.002	041-100036	7/1/09-6/30/10
Sec 223 Adult Education	I	84.002	061-099011	7/1/08-6/30/09
Sec 223 Adult Education	I	84.002	061-099011	7/1/09-6/30/10
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2010
\$ (18,761) (b)	\$ 548,350 (a)	\$ 533,792 (c)	\$ (33,319) (d)
93,244	93,244	-	-
-	3,935,108	4,092,440	157,332
61	61	-	-
-	106,411	106,486	75
<u>74,544</u>	<u>4,683,174</u>	<u>4,732,718</u>	<u>124,088</u>
27,179	27,179	-	-
-	954,550	994,492	39,942
216	216	-	-
-	9,491	10,020	529
<u>27,395</u>	<u>991,436</u>	<u>1,004,512</u>	<u>40,471</u>
* 101,939	5,674,610	5,737,230	164,559
* -	115,349	115,349	-
39,643	36,336	(3,307)	-
-	-	650,908	650,908
* 39,643	36,336	647,601	650,908
<u>141,582</u>	<u>5,826,295</u>	<u>6,500,180</u>	<u>815,467</u>
* (385)	4,615	5,000	-
(15,880)	-	15,880	-
-	341,476	343,327	1,851
11,279	11,173	(106)	-
-	39,329	40,088	759
* (4,601)	391,978	399,189	2,610

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

(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 Education				
Title I Improving Basics Program	I	84.010	013-080139	7/1/07-9/30/09
Title I Improving Basics Program	I	84.010	013-090139	8/12/08-9/30/10
Title I Improving Basics Program	I	84.010	013-100139	7/1/09-9/30/10
Title I Academic Achievement	I	84.010	077-090139	8/12/08-9/30/09
Title I Improving Basics Program/Prog. Imp-Set Aside	I	84.010	042-080139	5/5/08-9/30/09
Title I Improving Basics Program/Prog. Imp-Set Aside	I	84.010	042-090139	11/20/08-9/30/10
Passed Through Mid-West Intermediate Unit				
Title I - Parent Involvement	I	84.010	N/A	7/1/08-06/30/10
Title I - Parent Involvement	I	84.010	N/A	7/1/09-06/30/10
Subtotal				
ARRA-Title I	I	84.389	127-100139	5/18/09-09/30/10
Total Title I Cluster				
School Improvement Grants	I	84.377	042-090139	11/20/08-9/30/10
ARRA-State Fiscal Stabilization Funds	I	84.394	127-100139	5/18/09-9/30/10
ARRA-State Fiscal Stabilization Funds	I	84.394	126-100139	7/1/09-06/30/10
Subtotal				
Secondary Education/Perkins	I	84.048	380-088109	7/1/07-9/30/09
Secondary Education/Perkins	I	84.048	380-099091	9/5/08-6/30/10
Secondary Education/Perkins	I	84.048	380-110115	12/10/09-6/30/10
Subtotal				
Drug Free Schools	I	84.186	100-090139	10/14/08-3/31/10
Drug Free Schools	I	84.186	100-100139	11/2/09-09/30/10
Drug Free Schools-Bullying Prevention	I	84.186	DP-ST-15952	7/1/08-6/30/10
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2010
\$ 52,273	\$ -	\$ (52,273)	\$ -
563,366	2,948,104	2,384,738	-
-	5,330,129	6,082,155	752,026
5,174	18,643	13,469	-
(9,678)	-	7,652	(2,026)
(13,244)	22,883	33,014	(3,113)
2,422	3,200	778	-
-	4,200	2,789	(1,411)
<u>600,313</u>	<u>8,327,159</u>	<u>8,472,322</u>	<u>745,476</u>
-	3,276,556	2,167,978	(1,108,578)
* <u>600,313</u>	<u>11,603,715</u>	<u>10,640,300</u>	<u>(363,102)</u>
* <u>(10,446)</u>	<u>18,026</u>	<u>25,938</u>	<u>(2,534)</u>
-	3,280,616	4,118,778	838,162
-	1,405,978	1,901,272	495,294
* <u>-</u>	<u>4,686,594</u>	<u>6,020,050</u>	<u>1,333,456</u>
(755)	-	755	-
(93,484)	115,130	208,614	-
-	302,056	310,442	8,386
* <u>(94,239)</u>	<u>417,186</u>	<u>519,811</u>	<u>8,386</u>
11,202	41,922	25,524	(5,196)
-	23,534	74,561	51,027
<u>37,091</u>	<u>45,802</u>	<u>8,711</u>	<u>-</u>
* <u>48,293</u>	<u>111,258</u>	<u>108,796</u>	<u>45,831</u>

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

(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 Mid-West Intermediate Unit				
Title II Education Technology	I	84.318	055-080139	7/1/07-9/30/09
Title II Education Technology	I	84.318	055-090139	8/12/08-9/30/10
Subtotal				
Title II Improving Teacher Quality	I	84.367	020-080139	7/1/07-9/30/09
Title II Improving Teacher Quality	I	84.367	020-090139	8/12/08-9/30/10
Title II Improving Teacher Quality	I	84.367	020-100139	7/1/09-09/30/10
Subtotal				
Title III Language Inst LEP Immigrant Students	I	84.365	010-080139	10/25/07-9/30/10
Title III Language Inst LEP Immigrant Students	I	84.365	010-090139	11/16/08-9/30/10
Title III Language Inst LEP Immigrant Students	I	84.365	010-100139	9/24/09-09/30/10
Subtotal				
Homeless Children & Youth	I	84.196	081-070008	10/1/07-9/30/10
Homeless Children & Youth	I	84.196	081-080008	10/1/08-6/30/10
Homeless Children & Youth	I	84.196	081-090008	10/1/09-6/30/10
Subtotal				
Passed Through Northwest Tri-County Intermediate Unit				
EHA-B IDEA	I	84.027	062-02-0-005	7/1/08-6/30/10
EHA-B IDEA	I	84.027	062-02-0-005	7/1/09-06/30/10
Subtotal				
EHA-B Early Intervention	I	84.173	N/A	7/1/08-9/30/09
EHA-B Early Intervention Flow Thru		84.173	N/A	7/1/9-6/30/10
State Access Direct	I	84.173	N/A	7/1/07-06/30/08
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2010
\$ (68,516)	\$ 16,000	\$ 84,302	\$ (214)
<u>258,840</u>	<u>710,750</u>	<u>428,345</u>	<u>(23,565)</u>
* <u>190,324</u>	<u>726,750</u>	<u>512,647</u>	<u>(23,779)</u>
(179,523)	-	179,523	-
(210,102)	701,687	965,714	53,925
<u>-</u>	<u>612,700</u>	<u>601,411</u>	<u>(11,289)</u>
* <u>(389,625)</u>	<u>1,314,387</u>	<u>1,746,648</u>	<u>42,636</u>
28,810	29,042	232	-
(30,999)	66,344	91,087	(6,256)
<u>-</u>	<u>143,841</u>	<u>96,500</u>	<u>(47,341)</u>
* <u>(2,189)</u>	<u>239,227</u>	<u>187,819</u>	<u>(53,597)</u>
(7)	-	7	-
98,420	104,670	6,570	320
<u>-</u>	<u>-</u>	<u>116,631</u>	<u>116,631</u>
* <u>98,413</u>	<u>104,670</u>	<u>123,208</u>	<u>116,951</u>
212,075	358,251	146,176	-
<u>-</u>	<u>2,155,742</u>	<u>1,493,632</u>	<u>(662,110)</u>
<u>212,075</u>	<u>2,513,993</u>	<u>1,639,808</u>	<u>(662,110)</u>
-	319,809	319,809	-
-	445,172	464,468	19,296
<u>91,364</u>	<u>91,364</u>	<u>-</u>	<u>-</u>
<u>91,364</u>	<u>856,345</u>	<u>784,277</u>	<u>19,296</u>

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

(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 Northwest Tri-County Intermediate Unit				
ARRA-EHAB IDEA		84.391	N/A	7/1/09-06/30/10
EHAB Spec Ed/ EI Flow Thru	I	84.392	N/A	7/1/09-06/30/10
Total Special Education Cluster				
Passed Through PA Department of Welfare				
State Access Indirect	I	93.778	410-0009941	7/1/07-6/30/10
State Access Indirect	I	93.778	410-0009941	7/1/08-6/30/10
State Access Indirect	I	93.778	410-0009941	7/1/09-6/30/10
Early Intervention	I	93.778	092-007139	7/1/09-6/30/10
State Access Direct/Medical Assistance	I	93.778	044-007139	7/1/06-6/30/07
Subtotal				
Passed Through PA Department of Welfare				
Parent-Child Home Program	D	93.556	4100034249	7/1/08-06/30/10
Parent-Child Home Program	D	93.556	4100034249	7/1/09-06/30/10
Time Limited Family Reunification	D	93.556	4100044427	7/1/07-06/30/10
Family Center	D	93.556	4100044222	7/1/08-06/30/10
Family Center	D	93.556	4100044222	7/1/09-06/30/10
Subtotal				
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/08-06/30/09
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/09-06/30/10
Subtotal				
Total U.S. Dept of Education				
<u>U.S. Department of Public Welfare</u>				
Passed Through PA Department of Education				
Foreign Language Program	I	84.293C	16 4100032217	7/1/07-6/30/10

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2010
\$ -	\$ 786,230	\$ 51,840	\$ (734,390)
-	-	197,049	197,049
* 303,439	4,156,568	2,672,974	(1,180,155)
(191,830)	-	191,830	-
(218,118)	96,759	314,877	-
-	285,037	338,119	53,082
-	100,357	-	(100,357)
276,636	276,636	-	-
* (133,312)	758,789	844,826	(47,275)
23,586	42,400	18,814	-
-	116,939	149,572	32,633
(993)	-	993	-
94,411	94,623	212	-
-	83,648	357,787	274,139
* 117,004	337,610	527,378	306,772
11,982	13,728	1,746	-
-	21,446	2,758	(18,688)
* 11,982	35,174	4,504	(18,688)
734,971	24,906,547	24,339,088	167,512
* 5,000	21,400	16,400	-

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

(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 Education				
Elect & Fatherhood Initiative	I	93.558	110-080009	7/1/08-6/30/10
Elect & Fatherhood Initiative	I	93.558	110-080009	7/1/09-6/30/10
Subtotal				
Passed Through PA Department of Education				
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100038461	10/1/07-9/30/09
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100038461	10/1/08-9/30/09
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	1/1/08-6/30/10
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/08-6/30/10
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/09-6/30/10
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/09-6/30/10
Subtotal				
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/08-8/14/09
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/09-8/14/10
Subtotal				
Learn & Serve	I	94.004	09-080019	10/1/08-06/30/10
Learn & Serve	I	94.004	09-090019	10/13/09-06/30/10
Learn & Serve	I	94.004	19-092050	10/13/09-06/30/10
Subtotal				
Total U.S. Department of Health & Human Services				
<u>Department of Environmental Protection</u>				
Passed Through PA Dept of Community & Econ Development				
Instruct Imp/PA Harvest	I	84.041	41-00049003	10/01/09-12/31/09
Total Department of Environmental Protection				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2010
\$ 226,027	\$ 185,712	\$ (2,778)	\$ 37,537
<u>-</u>	<u>-</u>	<u>364,508</u>	<u>364,508</u>
* 226,027	185,712	361,730	402,045
(4,035)	-	4,035	-
201,182	285,041	194,309	110,450
(1,683)	-	1,683	-
200,773	209,802	4,852	(4,177)
-	108,022	352,739	244,717
<u>-</u>	<u>-</u>	<u>15,400</u>	<u>15,400</u>
* 396,237	602,865	573,018	366,390
12,876	22,722	9,846	-
<u>-</u>	<u>21,110</u>	<u>26,352</u>	<u>5,242</u>
* 12,876	43,832	36,198	5,242
722	889	167	-
-	11,000	10,155	(845)
<u>-</u>	<u>6,222</u>	<u>7,530</u>	<u>1,308</u>
* 722	18,111	17,852	463
<u>640,862</u>	<u>871,920</u>	<u>1,005,198</u>	<u>774,140</u>
<u>-</u>	<u>89,406</u>	<u>109,600</u>	<u>20,194</u>
<u>-</u>	<u>89,406</u>	<u>109,600</u>	<u>20,194</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, 2010

(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 Labor & Industry</u>				
Passed Through Regional Center for Workforce Excellence				
Workforce Investment Act Non-TANF	I	17.259	N/A	7/1/08-6/30/10
Workforce Investment Act Non-TANF	I	17.259	N/A	7/1/09-6/30/10
Subtotal				
Workforce Investment Act TANF	I	93.558	N/A	7/1/08-6/30/10
Workforce Investment Act TANF	I	93.558	N/A	7/1/09-6/30/10
Subtotal				
Total U.S. Department of Labor & Industry				
Total Federal Awards				

* Denotes CFDA/Cluster total.

The accompanying notes are an integral part of this schedule.

<u>Accrued/ (Deferred) Revenue at July 1, 2009</u>	<u>Total Received for the Year</u>	<u>Expenditures</u>	<u>Accrued/ (Deferred) Revenue at June 30, 2010</u>
\$ 144,516	\$ 177,890	\$ 33,374	\$ -
<u>-</u>	<u>313,754</u>	<u>491,539</u>	<u>177,785</u>
<u>144,516</u>	<u>491,644</u>	<u>524,913</u>	<u>177,785</u>
143,607	176,848	33,241	-
<u>-</u>	<u>140,402</u>	<u>219,805</u>	<u>79,403</u>
<u>143,607</u>	<u>317,250</u>	<u>253,046</u>	<u>79,403</u>
<u>288,123</u>	<u>808,894</u>	<u>777,959</u>	<u>257,188</u>
<u>\$ 1,805,538</u>	<u>\$ 32,503,062</u>	<u>\$ 32,732,025</u>	<u>\$ 2,034,501</u>
(1)			

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, 2010

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, 2010. 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) Accruals/deferrals at July 1, 2009 were adjusted to reflect proper balances.

NOTE 4 - NON CASH ASSISTANCE

The School District received noncash federal assistance in the year ended June 30, 2010 through the donated commodities program of the Department of Agriculture. The District received \$548,350 and used \$533,792 in donated commodities during the year.



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 School Board
School District of the City of Erie, Pennsylvania
Erie, Pennsylvania

We have audited 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, 2010, which collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements and have issued our report thereon dated January 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of Erie, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Erie, Pennsylvania's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

**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)**

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

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 of 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of School District of the City of Erie, Pennsylvania in a separate letter dated January 20, 2011.

This report is intended solely for the information and use of management, Board members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

January 20, 2011
Erie, Pennsylvania



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of the School District of the City of Erie, Pennsylvania with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Erie, Pennsylvania's management. Our responsibility is to express an opinion on the School District of the City of Erie, Pennsylvania's compliance based on our audit.

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 States, Local Governments, 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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District of the City of Erie, Pennsylvania's compliance with those requirements.

In our opinion, the School District of the City of Erie, Pennsylvania complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedure disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs as item 2010-1.

Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133
(Continued)

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 requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Erie, Pennsylvania's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, 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 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.

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

The School District of the City of Erie, Pennsylvania's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School District of the City of Erie, Pennsylvania's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

January 20, 2011
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

1. Summary of auditors' results

- i. Type of report issued on the financial statements: Unqualified opinion.
- ii. Significant deficiencies that were material weaknesses in internal control: N/A.
- iii. The audit disclosed no noncompliance which is material to the financial statements.
- iv. Significant deficiencies that are material weaknesses in internal control over major programs: N/A.
- v. Type of report issued on compliance for major programs: Unqualified opinion.
- vi. Findings which are required to be reported: 2010-1
- vii. Major programs:

	<u>CFDA #</u>
Special Education Cluster	84.027/84.173/84.391/84.392
Workforce Investment Act	17.259
Title I Cluster	84.010/84.384
State Fiscal Stabilization Funds	84.394
- viii. Dollar threshold used to distinguish between Type A and Type B programs:
\$981,961
- ix. The School District of the City of Erie, Pennsylvania did qualify as a low-risk auditee.

2. Findings required to be reported in accordance with generally accepted government auditing standards

None.

3. Findings and questioned costs for Federal awards

2010-1 Title I Cluster CFDA No. 84.010/84.384
 Special Education Cluster CFDA No. 84.027/84.173/84.391/84.392

Criteria: When grant funds are received in advance, the School District is to maintain these funds in accordance with the cash management requirements. These requirements require that the School District maintain advanced grant funds for the specific purpose of the grant.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010
(Continued)

Condition: The School District used advanced grant funds to assist with the repayment of debt.

Prospective Information: The amount of advanced grant funds used to assist in the repayment of debt was:

Title I Cluster	\$2,640,000
Special Education Cluster	\$1,729,000

Potential Effect: The granting agency can request the School District to return the advanced funds.

Recommendation: The School District should follow the cash management requirements and maintain advanced funds for the specific purpose of the grant.

Response: See corrective action plan

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

1. Prior significant deficiencies: None.
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. Immaterial noncompliance and immaterial questioned costs: None.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
List of Report Distribution
June 30, 2010

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, Office of the Budget
3. Northwest Tri-County Intermediate Unit
4. City of Erie, GECAC