

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

SINGLE AUDIT REPORT

JUNE 30, 2011

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

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Erie, Pennsylvania as of and for the year ended June 30, 2011, 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, 2011, 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 10, 2012 on our consideration of the School District of the City of Erie, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 on pages 6 through 12 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 and the budgetary comparison schedule 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, the budgetary comparison schedule 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 31, 2012
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The Management Discussion and Analysis of the School District of the City of Erie provides an overall review of the School District's financial activities for the year ended June 30, 2011. 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 2011 are as follows:

- In total, net assets decreased \$16,791,187. Net assets of governmental activities decreased by \$16,346,548, whereas net assets of business – type activities decreased by \$444,639.
- Total revenues were \$172,242,217. General revenues accounted for \$47,246,232 or 27.4% of all revenues. Program specific revenue in the form of charges for services and grants accounted for \$124,995,985 of total revenues.
- The Erie School District had \$181,630,253 in expenses related to governmental activities: \$118,040,136 of these expenses was offset by program-specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$47,243,569 offset expenses with \$16,346,548 of net assets covering the balance of expenses.
- At the end of the current fiscal year, unrestricted fund balance of the general fund was a (deficit) of (\$16,973,871).

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 2010-2011?” *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 causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, student enrollment, facility conditions, mandated educational programs and other factors.

In the *Statement of Net 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 (deficit) were (\$13,515,348) as of June 30, 2011, as compared to \$3,275,839 as of June 30, 2010.

	Governmental Activities 2011	Business- Type Activities 2011	Total 2011	Total 2010
Current and other assets	\$ 31,369,910	\$ 653,821	\$ 32,023,731	\$ 33,361,911
Capital assets	118,810,686	6,218,583	125,029,269	129,548,723
Noncurrent assets	1,171,874	142,714	1,314,588	1,380,206
Total Assets	\$ 151,352,470	\$ 7,015,118	\$ 158,367,588	\$ 164,290,840
Current and other liabilities	\$ 50,464,491	\$ (703,405)	\$ 49,761,086	\$ 37,921,969
Long-term liabilities	117,861,850	4,260,000	122,121,850	123,093,032
Total Liabilities	168,326,341	3,556,595	171,882,936	161,015,001
Net assets				
Invested in capital assets, net of related debt	15,720,471	1,873,583	17,594,054	19,974,847
Restricted for capital projects	126,426	-	126,426	1,309,666
Unrestricted (deficit)	(32,820,768)	1,584,940	(31,235,828)	(18,008,674)
Total Net Assets	(16,973,871)	3,458,523	(13,515,348)	3,275,839
Total Liabilities and Net Assets	\$ 151,352,470	\$ 7,015,118	\$ 158,367,588	\$ 164,290,840

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 2011.

	Governmental Activities 2011	Business- Type Activities 2011	Total 2011	Total 2010
Revenues				
Operating grants and contributions	\$ 115,570,767	\$ 6,057,549	\$ 121,628,316	\$ 121,040,737
Charges for services	2,469,369	898,300	3,367,669	5,257,791
General revenues:				
Property taxes	39,928,226	-	39,928,226	38,783,836
Earned income and LST	6,285,590	-	6,285,590	6,003,553
Transfer tax	556,203	-	556,203	638,983
Public utility	63,277	-	63,277	67,767
Interest earnings (loss)	1,113,211	2,663	1,115,874	(480,436)
Miscellaneous	265,211	-	265,211	678,525
Loss on Sale Delinquent Taxes	(968,149)	-	(968,149)	-
	<u>\$ 165,283,705</u>	<u>\$ 6,958,512</u>	<u>\$ 172,242,217</u>	<u>\$ 171,990,756</u>
Expenses				
Instructional	\$ 121,705,230	\$ -	\$ 121,705,230	\$ 108,883,717
Pupil personnel	8,693,810	-	8,693,810	11,376,651
Instructional student support	7,367,738	-	7,367,738	7,806,158
Administrative and financial	11,261,357	-	11,261,357	10,685,658
Pupil health	1,448,990	-	1,448,990	1,354,638
Business	2,040,445	-	2,040,445	2,052,401
Operation of plant	13,656,183	-	13,656,183	13,993,654
Student transportation	4,121,349	-	4,121,349	4,671,162
Other support services	153,088	-	153,088	1,090,606
Staff services	1,781,300	-	1,781,300	1,973,535
Student activities	1,753,274	-	1,753,274	1,844,065
Community services	473,690	-	473,690	443,955
Other	-	128,029	128,029	114,992
Interest on debt	7,173,799	-	7,173,799	7,020,949
Food service	-	7,275,122	7,275,122	7,009,255
	<u>181,630,253</u>	<u>7,403,151</u>	<u>189,033,404</u>	<u>180,321,396</u>
Increase (decrease) in net assets	<u>\$ (16,346,548)</u>	<u>\$ (444,639)</u>	<u>\$ (16,791,187)</u>	<u>\$ (8,330,640)</u>

Governmental Activities

Governmental activities for 2011 resulted in a decrease in net assets of \$ 16,346,548, as compared to a decrease of \$ 8,279,097 in governmental activities for 2010. The decrease is primarily the result of rising salaries and benefits.

The School District's revenue consists of local (taxes and other): 27.4 percent, and state and federal revenues (subsidies and grants): 72.6 percent.

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

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

Business-Type Activities

Business-type activities include the food service program, stadium commission, and Play Erie. These programs had revenues of \$6,958,512 and expenses and other uses of \$ 7,403,151. While these activities receive no support from local tax revenues, the food service program received federal and state grants of \$6,057,549. 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 \$168,738,588, other financing uses of \$155,437, and expenditures of \$176,512,816. The net decrease in fund balance was \$7,932,665, mainly resulting from a shortfall in state revenue received. The general fund accounted for \$168,436,943 in revenues and other financing uses and \$176,458,090 in expenditures, or a shortfall in revenues over expenditures of \$8,021,147 as compared to a shortfall of \$5,943,168 in 2010. The capital project fund incurred \$54,726 of capital outlay expenditures for 2011, as compared to \$800,157 for 2010.

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 \$172,855,244. We experienced a shortfall in actual revenues of \$4,262,864. This was the result of a shortfall in state funding.

The expenditure budget was \$171,873,344, compared to the actual expenditures of \$176,458,090. A review of budget to actual expenditures indicates that in total, actual expenditures were over budget by \$4,584,746 for the fiscal year 2011. Most of this was due to rising salaries and benefits.

At June 30, 2011, the District's governmental funds reported a combined fund balance (deficit) of (\$14,553,596), which is a decrease of \$7,932,665 from June 30, 2010.

The School District's fund balance has significantly decreased over the 2011 year due to a decline in state revenues along with rising salaries and benefits.

Capital Assets and Debt Administration

As of the end of fiscal year 2011, the School District had \$125,029,269 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, 2011, the School District had a principal balance of \$106,948,346 in bonds and notes outstanding, \$2,625,530 was due and paid in the 2011 fiscal year.

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

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

The 2011-12 fiscal year budget was challenging in many respects. The board and administration had to balance the budget with a \$26 million deficit, which resulted in a reduction of approximately 200 employees, including teachers, administrators and support personnel. Programs were reduced or eliminated. The District consolidated a middle school with one of our high schools – eliminating the lease for space we utilized to house this middle school. We modified the District's health plan for administrative employees by creating a three-tiered benefit program where employees pay a monthly contribution based on the level of benefit desired. The new monthly contribution is considerably higher than the previous, which resulted in additional funds to offset annual medical costs. We also reviewed all contracts with outside agencies, in some cases, eliminating them, reducing the total cost to the District.

In addition to this \$26 million budget deficit, the District had a \$16 million cash flow deficit at June 30, 2011 which resulted over several years where expenditures exceeded revenues. In order to overcome our cash flow deficit, we sold our delinquent tax liens, netting approximately \$4.2 million, we borrowed available monies from other funds, and reviewed all accounts receivables to ensure they were up-to-date, in addition to several other steps.

The District is currently looking into eliminating its cash flow deficit in the 2011-12 fiscal year with a financing strategy called Leaseback Financing. If successful, we could eliminate the cash flow deficit completely, which would considerably accelerate the financial recovery of the District.

Moving forward, the Superintendent has formed three independent committees to help with these and other major issues:

Fiscal Advisory Team, consisting of CEOs from the Erie area; played a critical role in helping work through many financial scenarios to help balance the 2010-11 budget.

Academic Advisory Committee, consisting of members of the four area colleges; play a critical role in the areas of curriculum instruction and how best to collaborate with local colleges and universities to utilize their expertise.

Community Advisory Committee, consisting of various members of our community to help develop and foster good communication throughout the community on all district issues.

The District approved a contract with independent financial advisors, Public Resources Advisory Group (PRAG), who work with the District on annual budgets, and are putting together a template for a multiple-year budget so that the District can project future issues moving forward.

The District is currently working on a facilities strategic plan with L.P. Ciminelli and McKissick Associates, to aid the District in right-sizing its facilities to match its student population and curriculum needs.

We continue to face serious challenges ahead as a result of decreased state funding, a level tax base and economic instability, but the steps noted above are an indication that the school board and administration have taken great measures to move the District forward and continue to look toward the future.

Contacting the District's Financial Management

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,669,379	\$ 89,359	\$ 1,758,738
Investments	2,077,149	221,601	2,298,750
Taxes Receivable, Net	5,212,187	-	5,212,187
Intergovernmental Receivables	14,999,050	178,982	15,178,032
Accrued Interest Receivable	-	1,532	1,532
Other Receivables	846,789	44,598	891,387
Inventories	6,073,591	117,749	6,191,340
Prepaid Items	491,765	-	491,765
Total Current Assets	31,369,910	653,821	32,023,731
Non-Current Assets			
Deferred Charges	-	142,714	142,714
Other Assets	1,171,874	-	1,171,874
Land and Other Nondepreciable Assets	8,625,875	-	8,625,875
Capital Assets, Net	110,184,811	6,218,583	116,403,394
Total Non-Current Assets	119,982,560	6,361,297	126,343,857
Total Assets	\$ 151,352,470	\$ 7,015,118	\$ 158,367,588
LIABILITIES			
Current Liabilities			
Cash Overdraft	\$ 1,623,637	\$ 1,085,198	\$ 2,708,835
Accounts Payable	11,454,034	226,397	11,680,431
Accrued Salaries and Benefits	11,766,709	-	11,766,709
Unearned Revenue	12,682,947	-	12,682,947
Internal Balances	2,100,000	(2,100,000)	-
Accrued Interest Payable	3,175,342	-	3,175,342
Bond and Notes Payable	5,868,681	85,000	5,953,681
Compensated Absences	1,000,000	-	1,000,000
Lease Payable	223,012	-	223,012
Retirement Incentive	570,129	-	570,129
Total Current Liabilities	50,464,491	(703,405)	49,761,086
Non-Current Liabilities			
Other Liabilities - Swaption	7,239,997	-	7,239,997
Other Post-Employment Benefits	9,621,688	-	9,621,688
Bonds and Notes Payable	96,734,665	4,260,000	100,994,665
Compensated Absences	2,684,844	-	2,684,844
Lease Payable	263,857	-	263,857
Retirement Incentive	1,316,799	-	1,316,799
Total Non-Current Liabilities	117,861,850	4,260,000	122,121,850
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	15,720,471	1,873,583	17,594,054
Restricted for Capital Projects	126,426	-	126,426
Unrestricted (Deficit)	(32,820,768)	1,584,940	(31,235,828)
Total Net Assets	(16,973,871)	3,458,523	(13,515,348)
Total Liabilities and Net Assets	\$ 151,352,470	\$ 7,015,118	\$ 158,367,588

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, 2011

Functions/Programs	<u>Expenses</u>	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities</u>				
Instruction	\$ 121,705,230	\$ 2,321,135	\$ 111,787,829	\$ -
Pupil Personnel	8,693,810	-	105,500	-
Instructional Student Support	7,367,738	-	35,170	-
Administrative and Financial	11,261,357	-	422,000	-
Pupil Health	1,448,990	-	498,817	-
Business	2,040,445	-	98,500	-
Operation and Maintenance of Plant Services	13,656,183	-	457,300	-
Student Transportation	4,121,349	-	2,039,173	-
Other Support Services	153,088	-	70,178	-
Staff Services	1,781,300	-	-	-
Student Activities	1,753,274	148,234	56,300	-
Community Services	473,690	-	-	-
Interest on Debt	7,173,799	-	-	-
Total Governmental Activities	181,630,253	2,469,369	115,570,767	-
<u>Business-Type Activities</u>				
Food Service	7,275,122	801,894	6,057,549	-
Stadium Commission	128,029	96,406	-	-
Play Erie	-	-	-	-
Total Business-Type Activities	7,403,151	898,300	6,057,549	-
Total Primary Government	\$ 189,033,404	\$ 3,367,669	\$ 121,628,316	\$ -
<u>General Revenues</u>				
Taxes				
Property Taxes				
Earned Income and Local Services				
Taxes				
Transfer Tax				
Public Utility Realty				
Investment Earnings/(Loss)				
Miscellaneous Income				
Loss on Sale of Delinquent Taxes				
Total Revenues				
Change in Net Assets				
Net Assets, July 1, 2010				
Net Assets, June 30, 2011				

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

Net (Expense)/Revenue and Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$ (7,596,266)	\$ -	\$ (7,596,266)
(8,588,310)	-	(8,588,310)
(7,332,568)	-	(7,332,568)
(10,839,357)	-	(10,839,357)
(950,173)	-	(950,173)
(1,941,945)	-	(1,941,945)
(13,198,883)	-	(13,198,883)
(2,082,176)	-	(2,082,176)
(82,910)	-	(82,910)
(1,781,300)	-	(1,781,300)
(1,548,740)	-	(1,548,740)
(473,690)	-	(473,690)
(7,173,799)	-	(7,173,799)
<u>(63,590,117)</u>	<u>-</u>	<u>(63,590,117)</u>
-	(415,679)	(415,679)
-	(31,623)	(31,623)
-	-	-
<u>-</u>	<u>(447,302)</u>	<u>(447,302)</u>
<u>(63,590,117)</u>	<u>(447,302)</u>	<u>(64,037,419)</u>
39,928,226	-	39,928,226
6,285,590	-	6,285,590
556,203	-	556,203
63,277	-	63,277
1,113,211	2,663	1,115,874
265,211	-	265,211
(968,149)	-	(968,149)
<u>47,243,569</u>	<u>2,663</u>	<u>47,246,232</u>
(16,346,548)	(444,639)	(16,791,187)
<u>(627,323)</u>	<u>3,903,162</u>	<u>3,275,839</u>
<u>\$ (16,973,871)</u>	<u>\$ 3,458,523</u>	<u>\$ (13,515,348)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Balance Sheet - Governmental Funds

June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 126,426	\$ 126,426
Taxes Receivable, Net	5,212,187	-	5,212,187
Intergovernmental Receivables	14,999,050	-	14,999,050
Other Receivables	801,546	-	801,546
Inventories	6,073,591	-	6,073,591
Other Assets	1,171,874	-	1,171,874
	<u>\$ 28,258,248</u>	<u>\$ 126,426</u>	<u>\$ 28,384,674</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Cash Overdraft	\$ 1,623,637	\$ -	\$ 1,623,637
Accounts Payable	10,055,871	-	10,055,871
Accrued Salaries and Benefits	11,766,709	-	11,766,709
Interfund Payable	2,100,000	-	2,100,000
Deferred Revenues	17,392,053	-	17,392,053
	<u>42,938,270</u>	<u>-</u>	<u>42,938,270</u>
FUND BALANCES			
Committed for Capital Projects	-	126,426	126,426
Nonspendable - Inventories	6,073,591	-	6,073,591
Unassigned (Deficit)	(20,753,613)	-	(20,753,613)
	<u>(14,680,022)</u>	<u>126,426</u>	<u>(14,553,596)</u>
Total Fund Balances	<u>(14,680,022)</u>	<u>126,426</u>	<u>(14,553,596)</u>
Total Liabilities and Fund Balances	<u>\$ 28,258,248</u>	<u>\$ 126,426</u>	<u>\$ 28,384,674</u>

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
June 30, 2011

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

Fund balances (deficit) - governmental funds		\$ (14,553,596)
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		118,810,686
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Deferred taxes		4,709,106
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		2,758,947
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Other liabilities - swaption	\$ (7,239,997)	
Other post employment benefits	(9,621,688)	
Bonds and notes payable	(102,603,346)	
Compensated absences	(3,684,844)	
Lease payable	(486,869)	
Retirement incentive	(1,886,928)	
Accrued interest payable	(3,175,342)	(128,699,014)
Net assets of governmental activities		\$ (16,973,871)

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, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources	\$ 56,594,965	\$ 143,208	\$ 56,738,173
State Sources	82,156,822	-	82,156,822
Federal Sources	29,840,593	-	29,840,593
Total Revenues	<u>168,592,380</u>	<u>143,208</u>	<u>168,735,588</u>
EXPENDITURES			
Instruction	113,294,588	-	113,294,588
Support Services	50,251,678	-	50,251,678
Noninstructional Services	2,226,964	-	2,226,964
Facilities Acquisition, Construction, and Improvements	970,531	54,726	1,025,257
Debt Service	9,714,329	-	9,714,329
Total Expenditures	<u>176,458,090</u>	<u>54,726</u>	<u>176,512,816</u>
Excess of Revenues Over (Under) Expenditures	<u>(7,865,710)</u>	<u>88,482</u>	<u>(7,777,228)</u>
Other Financing Sources (Uses)			
Refund Prior Year Expense	59,719	-	59,719
Change in Inventory	(215,156)	-	(215,156)
Total Other Financing Sources	<u>(155,437)</u>	<u>-</u>	<u>(155,437)</u>
Net Change in Fund Balance	<u>(8,021,147)</u>	<u>88,482</u>	<u>(7,932,665)</u>
Fund Balance (Deficit) - July 1, 2010	<u>(6,658,875)</u>	<u>37,944</u>	<u>(6,620,931)</u>
Fund Balance (Deficit) - June 30, 2011	<u>\$ (14,680,022)</u>	<u>\$ 126,426</u>	<u>\$ (14,553,596)</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, 2011

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

Net change in fund balances - total governmental funds	\$	(7,932,665)
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Assets		1,992,847
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(6,336,495)
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		(4,561,495)
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	\$ 1,049,893	
Other post-employment benefits	<u>(3,136,593)</u>	(2,086,700)
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		186,095
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	2,540,530	
Capital lease payments	315,008	
Changes in retirement incentive	(1,346,799)	
Change in compensated absences	<u>883,126</u>	<u>2,391,865</u>
Change in net assets of governmental activities	\$	<u><u>(16,346,548)</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Local Sources	\$ 56,306,776	\$ 54,318,633	\$ 56,594,965	\$ 2,276,332
State Sources	96,191,675	95,155,987	82,156,822	(12,999,165)
Federal Sources	27,180,961	23,380,624	29,840,593	6,459,969
Total Revenues	<u>179,679,412</u>	<u>172,855,244</u>	<u>168,592,380</u>	<u>(4,262,864)</u>
EXPENDITURES				
Instruction	109,331,684	106,916,744	113,294,588	(6,377,844)
Support Services	54,962,225	51,044,193	50,251,678	792,515
Noninstructional Services	2,544,335	2,575,230	2,226,964	348,266
Facilities Acquisition, Construction and Improvement Services	644,834	666,142	970,531	(304,389)
Debt Service	10,496,035	10,671,035	9,714,329	956,706
Total Expenditures	<u>177,979,113</u>	<u>171,873,344</u>	<u>176,458,090</u>	<u>(4,584,746)</u>
Excess of Revenues Over (Under) Expenditures	<u>1,700,299</u>	<u>981,900</u>	<u>(7,865,710)</u>	<u>(8,847,610)</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expense	-	-	59,719	59,719
Transfers - In/(Out)	(1,387,868)	(1,189,173)	-	1,189,173
Change in Inventory	-	-	(215,156)	(215,156)
Budget Reserve	(312,420)	(137,593)	-	137,593
Total Other Financing Sources (Uses)	<u>(1,700,288)</u>	<u>(1,326,766)</u>	<u>(155,437)</u>	<u>1,171,329</u>
Net Change in Fund Balance	11	(344,866)	(8,021,147)	(7,676,281)
Fund Balance - July 1, 2010	<u>(6,658,875)</u>	<u>(6,658,875)</u>	<u>(6,658,875)</u>	<u>-</u>
Fund Balance - June 30, 2011	<u>\$ (6,658,864)</u>	<u>\$ (7,003,741)</u>	<u>\$ (14,680,022)</u>	<u>\$ (7,676,281)</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, 2011

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ -	\$ 89,359	\$ 89,359	\$ 1,542,953
Investments	-	221,601	221,601	2,077,149
Receivables				
Interfund	2,100,000	-	2,100,000	-
Intergovernmental	178,982	-	178,982	-
Accrued Interest	-	1,532	1,532	-
Other	44,598	-	44,598	45,243
Inventories	117,749	-	117,749	-
Prepaid Expenses	-	-	-	491,765
Total Current Assets	<u>2,441,329</u>	<u>312,492</u>	<u>2,753,821</u>	<u>4,157,110</u>
Non-Current Assets				
Deferred Charges	142,714	-	142,714	-
Buildings and Building Improvements	6,305,878	397,621	6,703,499	-
Machinery and Equipment	1,129,122	200,916	1,330,038	-
Accumulated Depreciation	(1,520,159)	(294,795)	(1,814,954)	-
Total Non-Current Assets	<u>6,057,555</u>	<u>303,742</u>	<u>6,361,297</u>	<u>-</u>
Total Assets	<u>\$ 8,498,884</u>	<u>\$ 616,234</u>	<u>\$ 9,115,118</u>	<u>\$ 4,157,110</u>
Liabilities				
Current Liabilities				
Cash Overdraft	\$ 1,085,198	\$ -	\$ 1,085,198	\$ -
Accounts Payable	226,397	-	226,397	1,398,163
Current Portion of Bonds Payable	85,000	-	85,000	-
Total Current Liabilities	<u>1,396,595</u>	<u>-</u>	<u>1,396,595</u>	<u>1,398,163</u>
Long-Term Liabilities				
Bonds Payable	4,260,000	-	4,260,000	-
Total Long-Term Liabilities	<u>4,260,000</u>	<u>-</u>	<u>4,260,000</u>	<u>-</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,569,841	303,742	1,873,583	-
Unrestricted	1,272,448	312,492	1,584,940	2,758,947
Total Net Assets	<u>2,842,289</u>	<u>616,234</u>	<u>3,458,523</u>	<u>2,758,947</u>
Total Liabilities and Net Assets	<u>\$ 8,498,884</u>	<u>\$ 616,234</u>	<u>\$ 9,115,118</u>	<u>\$ 4,157,110</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenses and Changes
in Net Assets - Proprietary Funds
For the Year Ended June 30, 2011

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating Revenues				
Food Service Revenue	\$ 774,170	\$ -	\$ 774,170	\$ -
Charges for Services	-	47,023	47,023	19,765,149
Other Income	27,724	49,383	77,107	-
	<u>801,894</u>	<u>96,406</u>	<u>898,300</u>	<u>19,765,149</u>
Total Operating Revenues				
Operating Expenses				
Salaries	246,492	8,522	255,014	-
Employee Benefits	76,123	-	76,123	-
Purchased Professional and Technical Service	5,886,659	-	5,886,659	-
Supplies and Food	797,615	12,168	809,783	-
Depreciation	260,221	49,318	309,539	-
Other Operating Expenses	8,012	58,021	66,033	1,018,708
Insurance Expense	-	-	-	1,002,232
Claim Payments	-	-	-	17,568,805
	<u>7,275,122</u>	<u>128,029</u>	<u>7,403,151</u>	<u>19,589,745</u>
Total Operating Expenses				
Operating Income (Loss)	<u>(6,473,228)</u>	<u>(31,623)</u>	<u>(6,504,851)</u>	<u>175,404</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	597	2,066	2,663	10,691
State Sources	337,711	-	337,711	-
Federal Sources	5,719,838	-	5,719,838	-
	<u>6,058,146</u>	<u>2,066</u>	<u>6,060,212</u>	<u>10,691</u>
Total Nonoperating Revenues				
Change in Net Assets	(415,082)	(29,557)	(444,639)	186,095
Net Assets, July 1, 2010	<u>3,257,371</u>	<u>645,791</u>	<u>3,903,162</u>	<u>2,572,852</u>
Net Assets, June 30, 2011	<u>\$ 2,842,289</u>	<u>\$ 616,234</u>	<u>\$ 3,458,523</u>	<u>\$ 2,758,947</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, 2011

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:				
Cash Received from Users	\$ 793,311	\$ 96,406	\$ 889,717	\$ 22,881,562
Cash Payments to Employees for Services	(322,615)	(8,522)	(331,137)	-
Cash Payments to Suppliers for Goods and Services	(6,317,862)	(12,168)	(6,330,030)	(20,916,684)
Cash Payments for Operating Expenses	(8,012)	(58,021)	(66,033)	-
Net Cash Provided by (Used for) Operating Activities	(5,855,178)	17,695	(5,837,483)	1,964,878
Cash Flows from Noncapital Financing Activities:				
State Sources	340,194	-	340,194	-
Federal Sources	5,294,064	-	5,294,064	-
Net Cash Provided by Noncapital Financing Activities	5,634,258	-	5,634,258	-
Cash Flows from Capital and Related Financing Activities:				
Purchase of Capital Assets	(130,841)	(2,892)	(133,733)	-
Repayment of Advance to Other Funds	(700,000)	-	(700,000)	-
Bond Payments	(85,000)	-	(85,000)	-
Net Cash (Used by) Capital and Related Financing Activities	(915,841)	(2,892)	(918,733)	-
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	597	2,066	2,663	10,691
Purchase of Investments	-	-	-	(861,890)
Sale of Investments	-	30,318	30,318	-
Net Cash Provided by Investing Activities	597	32,384	32,981	(851,199)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,136,164)	47,187	(1,088,977)	1,113,679
Cash and Cash Equivalents at Beginning of Year	50,966	42,172	93,138	429,274
Cash and Cash Equivalents at End of Year	\$ (1,085,198)	\$ 89,359	\$ (995,839)	\$ 1,542,953
Reconciliation of Operating Income to Net Cash (Used for)				
Operating Activities:				
Operating Income (Loss)	\$ (6,473,228)	\$ (31,623)	\$ (6,504,851)	\$ 175,404
Adjustment to Reconcile Operating Income (Loss) to Net Cash				
(Used for) Operating Activities				
Depreciation	260,221	49,318	309,539	-
Donated Commodities	455,587	-	455,587	-
(Increase) Decrease in Accounts Receivables	(8,583)	-	(8,583)	3,116,412
(Increase) Decrease in Inventories	(50,298)	-	(50,298)	-
(Increase) Decrease in Prepaid Expenses	-	-	-	(1,934)
(Increase) Decrease Deferred Charges	5,097	-	5,097	-
Increase (Decrease) in Accounts Payable	(43,974)	-	(43,974)	(1,325,004)
	\$ (5,855,178)	\$ 17,695	\$ (5,837,483)	\$ 1,964,878

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, 2011

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 229,284	\$ 158,437
Total Assets	<u>\$ 229,284</u>	<u>\$ 158,437</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable Due to Student Groups	\$ -	\$ 158,437
NET ASSETS		
Held in Trust for Scholarships	<u>229,284</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 229,284</u>	<u>\$ 158,437</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, 2011

	Private Purpose Trust
Additions:	
Earnings on Investments	\$ 602
Contributions	47,266
Total Additions	47,868
Deductions:	
Scholarships	41,616
Other Expense	16,389
Total Deductions	58,005
Change in Net Assets	(10,137)
Net Assets, July 1, 2010	239,421
Net Assets, June 30, 2011	\$ 229,284

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, 2011

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.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011.

A physical inventory of the proprietary fund's food and supplies was taken as of June 30, 2011. 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 \$11,919,590 as of June 30, 2011.

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 Balance

The District's fund balance is classified under the following components under GASB Statements No. 54:

- **Nonspendable.** The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of inventories.
- **Committed.** Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The School Board of Directors has committed a portion of fund balance to cover capital assets.
- **Unassigned.** Unassigned fund balance is the residual classification for the general fund. The School District does not currently have a minimum fund balance policy. The School District policy is that committed funds will be reduced first and then unassigned amounts.

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. These variances are primarily related to salaries exceeding appropriations.

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, 2011, \$2,097,735 of the District's bank balance of \$ 2,654,629 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Insured Amount	\$ 556,894
Uninsured and Collateralized Held by the Pledging Bank's Trust Department not in the District's Name	2,097,735
Less: Outstanding Checks	<u>(897,741)</u>
Carrying Amount of Bank Balance	1,756,888
Plus: Petty Cash	<u>1,850</u>
Total Cash and Cash Equivalents per Financial Statements	<u>\$ 1,758,738</u>

Investments

As of June 30, 2011, the District had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasury Notes	Less than 3 years	<u>\$ 2,298,750</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 RECEIVABLE

Based upon assessments provided by the County, the School District levies property taxes at a rate of 17.0687 mills.

NOTE 4 - TAXES RECEIVABLE (CONTINUED)

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.

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, 2011 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate	\$ 5,810,247	\$ 690,000	\$ 5,120,247	\$ 411,141	\$ 4,709,106
Transfer Tax	91,940	-	91,940	91,940	-
	<u>\$ 5,902,187</u>	<u>\$ 690,000</u>	<u>\$ 5,212,187</u>	<u>\$ 503,081</u>	<u>\$ 4,709,106</u>

Deferred revenue also includes unexpended grant funding of \$ 12,682,947.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2011, the following amounts are due from other governmental units:

	General Fund	Food Service Fund	Total
Federal	\$ 13,354,319	\$ 168,064	\$ 13,522,383
State	1,644,731	10,918	1,655,649
	<u>\$ 14,999,050</u>	<u>\$ 178,982</u>	<u>\$ 15,178,032</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year is as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011
Governmental Activities				
Capital Assets Not Depreciated:				
Land	\$ 8,408,326	\$ -	\$ -	\$ 8,408,326
Construction in Progress	-	217,549	-	217,549
Total Assets Not Depreciated	<u>8,408,326</u>	<u>217,549</u>	<u>-</u>	<u>8,625,875</u>
Capital Assets Depreciated:				
Buildings and Improvements	197,514,938	112,251	-	197,627,189
Furniture and Equipment	35,401,178	1,605,047	-	37,006,225
Vehicles	3,078,717	58,000	(177,150)	2,959,567
Total Assets Depreciated	<u>235,994,833</u>	<u>1,775,298</u>	<u>(177,150)</u>	<u>237,592,981</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(91,086,159)	(4,053,620)	-	(95,139,779)
Furniture and Equipment	(27,827,575)	(2,064,243)	-	(29,891,818)
Vehicles	(2,335,091)	(218,632)	177,150	(2,376,573)
Total Accumulated Depreciation	<u>(121,248,825)</u>	<u>(6,336,495)</u>	<u>177,150</u>	<u>(127,408,170)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 114,746,008</u>	<u>\$ (4,561,197)</u>	<u>\$ -</u>	<u>\$ 110,184,811</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Building	\$ 6,703,499	\$ -	\$ -	\$ 6,703,499
Equipment	1,093,431	133,733	(3,443)	1,223,721
Vehicles	106,317	-	-	106,317
Total Assets Depreciated	<u>7,903,247</u>	<u>133,733</u>	<u>(3,443)</u>	<u>8,033,537</u>
Less Accumulated Depreciation:				
Building	(648,458)	(190,415)	-	(838,873)
Equipment	(761,734)	(111,473)	3,443	(869,764)
Vehicles	(98,666)	(7,651)	-	(106,317)
Total Accumulated Depreciation	<u>(1,508,858)</u>	<u>(309,539)</u>	<u>3,443</u>	<u>(1,814,954)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 6,394,389</u>	<u>\$ (175,806)</u>	<u>\$ -</u>	<u>\$ 6,218,583</u>

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:	
Instruction	\$ 6,063,913
Support Services:	
Student Transportation	97,713
Administration	113,139
Operation and Maintenance	<u>61,730</u>
Total Depreciation Expense- Governmental Activities	<u>\$ 6,336,495</u>
Business-Type Activities:	
Food Service	260,221
Stadium Commission	<u>49,318</u>
Total Depreciation Expense- Business-Type Activities	<u>\$ 309,539</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Food Service Fund	General Fund	<u>2,100,000</u>
		<u>\$ 2,100,000</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 2011 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>(2,602,005)</u>
Carrying Value of Equipment	<u>\$ 716,399</u>

NOTE 8 - CAPITAL LEASES (CONTINUED)

The following is a schedule of future minimum lease payments under capital leases together with the net present value of the minimum lease payments as of June 30, 2011:

2012	\$ 237,669
2013	162,580
2014	<u>111,661</u>
Total Minimum Lease Payments	511,910
Less Amount Representing Interest	<u>(25,041)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 486,869</u>

NOTE 9 - LONG -TERM DEBT

Governmental Activities

The notes payable at June 30, 2011 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.

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.

NOTE 9 - LONG - TERM DEBT (CONTINUED)

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, 2011.

Business-Type Activities

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

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,868,681	\$ 2,017,957	\$ 7,886,638
2013	5,594,843	2,289,643	7,884,486
2014	5,336,520	2,555,313	7,891,833
2015	5,038,823	2,797,599	7,836,422
2016	4,762,691	3,051,090	7,813,781
2017-2021	20,631,507	18,386,643	39,018,150
2022-2026	16,366,877	16,890,498	33,257,375
2027-2031	<u>39,003,404</u>	<u>14,627,838</u>	<u>53,631,242</u>
	<u>\$102,603,346</u>	<u>\$ 62,616,581</u>	<u>\$165,219,927</u>

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 85,000	\$ 147,283	\$ 232,283
2013	85,000	144,054	229,054
2014	90,000	140,714	230,714
2015	90,000	137,262	227,262
2016	95,000	133,691	228,691
2017-2021	525,000	610,504	1,135,504
2022-2026	660,000	502,162	1,162,162
2027-2031	840,000	371,913	1,211,913
2032-2036	1,080,000	219,131	1,299,131
2037-2040	<u>795,000</u>	<u>46,772</u>	<u>841,772</u>
	<u>\$ 4,345,000</u>	<u>\$ 2,453,486</u>	<u>\$ 6,798,486</u>

NOTE 9 - LONG - TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30, 2011 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$105,143,876	\$ 919,922	\$ 3,460,452	\$102,603,346	\$ 5,868,681
Compensated Absences	4,567,970	1,606,853	2,489,979	3,684,844	1,000,000
Capital Lease Payable	801,877	-	315,008	486,869	223,012
Retirement Incentive	540,129	1,346,799	-	1,886,928	570,129
	<u>\$111,053,852</u>	<u>\$ 3,873,574</u>	<u>\$ 6,265,439</u>	<u>\$108,661,987</u>	<u>\$ 7,661,822</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	\$ 4,430,000	\$ -	\$ 85,000	\$ 4,345,000	\$ 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, 2011, the rate of employer contributions was 5.64% 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, 2011, 2010, and 2009 were \$4,329,424, \$4,169,572, and \$5,429,058, 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, 2011, the workers' compensation fund had a liability of \$190,798, which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers' compensation claim payments totaled \$364,199 for the year ended June 30, 2011.

Health insurance claim payments totaled \$16,352,004 for the year ended June 30, 2011 and a liability of \$1,162,122 at June 30, 2011.

The dental plan has a liability of \$45,243, which represents current year claims paid by the administrator but not reimbursed by the District as of June 30, 2011. Claim payments totaled \$852,602 for the year ended June 30, 2011.

At June 30, 2011, the workers' compensation, health insurance and dental plan had a net assets balance of \$924,787, \$51,765 and \$1,782,395, respectively.

NOTE 11 - SELF-INSURANCE (CONTINUED)

Changes in the balances of claims liabilities during the years ended June 30, 2009 through 2011 are as follows:

	<u>Workers' Comp.</u>	<u>Dental Plan</u>	<u>Health Insurance</u>	<u>Total</u>
Unpaid Claims, June 30, 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, July 1, 2010	118,053	38,232	2,566,882	2,723,167
Incurred Claims	436,944	859,613	14,947,244	16,243,801
Claim Payments	<u>(364,199)</u>	<u>(852,602)</u>	<u>(16,352,004)</u>	<u>(17,568,805)</u>
Unpaid Claims, June 30, 2011	<u>\$ 190,798</u>	<u>\$ 45,243</u>	<u>\$ 1,162,122</u>	<u>\$ 1,398,163</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 \$51,765 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, 2011

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, 2011, 272 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$2,999,944, net of retiree contributions of \$189,328 in 2010/11.

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	291,829
Adjustment to Annual Required Contributions	<u>(398,130)</u>
Annual OPEB Cost	5,947,209
Contribution Made	<u>(2,810,616)</u>
Increase in Net OPEB Obligation	3,136,593
Net OPEB Obligation - Beginning of Year	<u>6,485,095</u>
Net OPEB Obligation - End of Year	<u>\$ 9,621,688</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, 2011	\$ 5,947,209	47.26%	\$ 9,621,688
June 30, 2010	5,986,711	59.7%	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, 2011 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, 2011 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, 2011 was \$1,171,874.

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, 2011, the value of the swaps increased \$1,049,893, 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, 2011. Both swaps are scheduled to terminate as of September 1, 2029.

Fair Value

Because interest rates have declined from rates that were in effect on dates the swaps were entered into, all swaps have a negative fair value as of June 30, 2011. 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, 2011, the swaps had a fair value of negative \$7,239,997.

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 10 Year 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, 2011, 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, 2011, 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 – DELINQUENT REAL ESTATE TAX SALE

In March 2011, the District entered into an agreement with Northwest Pennsylvania Incubator Association (NPIA) to sell delinquent real estate tax claims outstanding as of May 18, 2011. The purchase price for the tax claims was \$4,738,168, less fees of \$286,660 and reserve account of \$236,908, for a net of \$4,214,600. Tax claims outstanding at date of sale was \$5,706,317. The net loss realized in Statement of Activities was \$968,149.

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

The District has agreed to negotiate with NPIA concerning NPIA's acquiring future tax claims from the District for the fiscal year ending June 30, 2011 and thereafter pursuant to the terms and conditions of the agreement.

THE 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Local Sources	\$ 56,306,776	\$ 54,318,633	\$ 56,594,965	\$ 2,276,332
State Sources	96,191,675	95,155,987	82,156,822	(12,999,165)
Federal Sources	27,180,961	23,380,624	29,840,593	6,459,969
Total Revenues	<u>179,679,412</u>	<u>172,855,244</u>	<u>168,592,380</u>	<u>(4,262,864)</u>
Expenditures				
Instruction				
Regular Programs	75,024,892	72,825,448	81,464,068	(8,638,620)
Special Education Program	23,270,514	22,626,203	20,912,809	1,713,394
Vocational Education Programs	4,695,674	4,784,553	4,440,518	344,035
Other Instructional Programs	4,608,556	4,978,444	4,818,592	159,852
Adult Education Programs	400,655	409,751	406,071	3,680
Pre Kindergarten	1,220,700	1,177,525	1,170,621	6,904
Community/Junior College	110,693	114,820	81,909	32,911
Total Instruction	<u>109,331,684</u>	<u>106,916,744</u>	<u>113,294,588</u>	<u>(6,377,844)</u>
Support Services				
Pupil Personnel	10,842,409	8,285,375	8,693,810	(408,435)
Instructional Staff	9,047,801	7,951,882	7,367,738	584,144
Administrative	11,292,682	11,319,321	11,148,218	171,103
Pupil Health	1,167,392	1,231,268	1,448,990	(217,722)
Business	2,209,858	1,974,892	2,040,445	(65,553)
Operation and Maintenance of				-
Plant Services	14,090,720	14,140,044	13,594,453	545,591
Student Transportation Services	4,002,816	4,010,180	4,023,636	(13,456)
Staff Services	2,128,848	1,951,532	1,781,300	170,232
Other Support Services	179,699	179,699	153,088	26,611
Total Support Services	<u>54,962,225</u>	<u>51,044,193</u>	<u>50,251,678</u>	<u>792,515</u>
Operation of Noninstructional Services				
Student Activities	2,025,235	2,021,311	1,753,274	268,037
Community Services	519,100	553,919	473,690	80,229
Total Noninstructional Services	<u>2,544,335</u>	<u>2,575,230</u>	<u>2,226,964</u>	<u>348,266</u>
Facilities Acquisition, Construction and Improvement Services	<u>644,834</u>	<u>666,142</u>	<u>970,531</u>	<u>(304,389)</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, 2011
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 10,496,035	\$ 10,671,035	\$ 9,714,329	\$ 956,706
Total Expenditures	<u>177,979,113</u>	<u>171,873,344</u>	<u>176,458,090</u>	<u>(4,584,746)</u>
Excess of Revenues Over/(Under) Expenditures	<u>1,700,299</u>	<u>981,900</u>	<u>(7,865,710)</u>	<u>(8,847,610)</u>
Other Financing Sources (Uses)				
Transfers - In/(Out)	(1,387,868)	(1,189,173)	-	1,189,173
Change in Inventory	-	-	(215,156)	(215,156)
Refund of Prior Year	-	-	59,719	59,719
Budget Reserve	(312,420)	(137,593)	-	137,593
Total Other Financing Uses	<u>(1,700,288)</u>	<u>(1,326,766)</u>	<u>(155,437)</u>	<u>1,171,329</u>
Net Change in Fund Balance	11	(344,866)	(8,021,147)	(7,676,281)
Fund Balance - July 1, 2010	<u>(6,658,875)</u>	<u>(6,658,875)</u>	<u>(6,658,875)</u>	<u>-</u>
Fund Balance - June 30, 2011	<u><u>\$ (6,658,864)</u></u>	<u><u>\$ (7,003,741)</u></u>	<u><u>\$ (14,680,022)</u></u>	<u><u>\$ (7,676,281)</u></u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Assets - Nonmajor Proprietary Funds
June 30, 2011

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 87,262	\$ 2,097	\$ 89,359
Investments	221,601	-	221,601
Accrued Interest Receivable	1,532	-	1,532
Total Current Assets	<u>310,395</u>	<u>2,097</u>	<u>312,492</u>
Non-Current Assets			
Buildings and Building Improvements	397,621	-	397,621
Machinery and Equipment	200,916	-	200,916
Accumulated Depreciation	(294,795)	-	(294,795)
Total Non-Current Assets	<u>303,742</u>	<u>-</u>	<u>303,742</u>
Total Assets	<u>\$ 614,137</u>	<u>\$ 2,097</u>	<u>\$ 616,234</u>
Net Assets			
Invested in Capital Assets	\$ 303,742	\$ -	\$ 303,742
Unrestricted	<u>310,395</u>	<u>2,097</u>	<u>312,492</u>
Total Net Assets	<u>614,137</u>	<u>2,097</u>	<u>616,234</u>
Total Liabilities and Net Assets	<u>\$ 614,137</u>	<u>\$ 2,097</u>	<u>\$ 616,234</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, 2011

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues			
Charges for Services	\$ 47,023	\$ -	\$ 47,023
Other Income	49,383	-	49,383
Total Operating Revenues	<u>96,406</u>	<u>-</u>	<u>96,406</u>
Operating Expenses			
Salaries	8,522	-	8,522
Supplies and Food	12,168	-	12,168
Depreciation	49,318	-	49,318
Other Operating Expenses	58,021	-	58,021
Total Operating Expenses	<u>128,029</u>	<u>-</u>	<u>128,029</u>
Operating Income	<u>(31,623)</u>	<u>-</u>	<u>(31,623)</u>
Nonoperating Revenues			
Earnings on Investments	2,064	2	2,066
Total Nonoperating Revenues	<u>2,064</u>	<u>2</u>	<u>2,066</u>
Change in Net Assets	(29,559)	2	(29,557)
Net Assets, July 1, 2010	<u>643,696</u>	<u>2,095</u>	<u>645,791</u>
Net Assets, June 30, 2011	<u>\$ 614,137</u>	<u>\$ 2,097</u>	<u>\$ 616,234</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, 2011

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash Received from Users	\$ 96,406	\$ -	\$ 96,406
Cash Payments to Employees for Services	(8,522)	-	(8,522)
Cash Payments to Suppliers for Goods and Services	(12,168)	-	(12,168)
Cash Payments for Operating Expenses	(58,021)	-	(58,021)
Net Cash (Used for) Operating Activities	<u>17,695</u>	<u>-</u>	<u>17,695</u>
Cash Flows from Investing Activities:			
Earnings (Loss) from Investments	2,064	2	2,066
Sale of Investments	30,318	-	30,318
Net Cash Provided by Investing Activities	<u>32,382</u>	<u>2</u>	<u>32,384</u>
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(2,892)	-	(2,892)
Net Cash (Used by) Capital and Related Financing Activities	<u>(2,892)</u>	<u>-</u>	<u>(2,892)</u>
Net Increase in Cash and Cash Equivalents	47,185	2	47,187
Cash and Cash Equivalents at Beginning of Year	<u>40,077</u>	<u>2,095</u>	<u>42,172</u>
Cash and Cash Equivalents at End of Year	<u>\$ 87,262</u>	<u>\$ 2,097</u>	<u>\$ 89,359</u>
Reconciliation of Operating Income to Net Cash (Used for)			
Operating Activities:			
Operating Income (Loss)	\$ (31,623)	\$ -	\$ (31,623)
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities			
Depreciation	<u>49,318</u>	<u>-</u>	<u>49,318</u>
	<u>\$ 17,695</u>	<u>\$ -</u>	<u>\$ 17,695</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, 2011

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 537,157	\$ -	\$ 1,005,796	\$ 1,542,953
Investments	578,428	-	1,498,721	2,077,149
Receivables - Other	-	45,243	-	45,243
Prepaid Expenses	-	51,765	440,000	491,765
Total Current Assets	<u>1,115,585</u>	<u>97,008</u>	<u>2,944,517</u>	<u>4,157,110</u>
Total Assets	<u>\$ 1,115,585</u>	<u>\$ 97,008</u>	<u>\$ 2,944,517</u>	<u>\$ 4,157,110</u>
Liabilities				
Current Liabilities				
Accounts Payable	\$ 190,798	\$ 45,243	\$ 1,162,122	\$ 1,398,163
Total Current Liabilities	<u>190,798</u>	<u>45,243</u>	<u>1,162,122</u>	<u>1,398,163</u>
Net Assets				
Unrestricted	<u>924,787</u>	<u>51,765</u>	<u>1,782,395</u>	<u>2,758,947</u>
Total Net Assets	<u>924,787</u>	<u>51,765</u>	<u>1,782,395</u>	<u>2,758,947</u>
Total Liabilities and Net Assets	<u>\$ 1,115,585</u>	<u>\$ 97,008</u>	<u>\$ 2,944,517</u>	<u>\$ 4,157,110</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, 2011

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 398,728	\$ 909,558	\$ 18,456,863	\$ 19,765,149
Total Operating Revenues	<u>398,728</u>	<u>909,558</u>	<u>18,456,863</u>	<u>19,765,149</u>
Operating Expenses				
Other Operating Expenses	2,601	55,022	961,085	1,018,708
Insurance Expense	-	-	1,002,232	1,002,232
Claim Payments	<u>364,199</u>	<u>852,602</u>	<u>16,352,004</u>	<u>17,568,805</u>
Total Operating Expenses	<u>366,800</u>	<u>907,624</u>	<u>18,315,321</u>	<u>19,589,745</u>
Operating Income (Loss)	<u>31,928</u>	<u>1,934</u>	<u>141,542</u>	<u>175,404</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	<u>5,394</u>	<u>-</u>	<u>5,297</u>	<u>10,691</u>
Total Nonoperating Revenue (Expense)	<u>5,394</u>	<u>-</u>	<u>5,297</u>	<u>10,691</u>
Change in Net Assets	37,322	1,934	146,839	186,095
Net Assets, July 1, 2010	<u>887,465</u>	<u>49,831</u>	<u>1,635,556</u>	<u>2,572,852</u>
Net Assets , June 30, 2011	<u>\$ 924,787</u>	<u>\$ 51,765</u>	<u>\$ 1,782,395</u>	<u>\$ 2,758,947</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, 2011

	<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	\$ 398,728	\$ 902,547	\$ 21,580,287	\$ 22,881,562
Cash Payments to Suppliers for Goods and Services	<u>(294,055)</u>	<u>(902,547)</u>	<u>(19,720,082)</u>	<u>(20,916,684)</u>
Net Cash Provided by Operating Activities	<u>104,673</u>	<u>-</u>	<u>1,860,205</u>	<u>1,964,878</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	5,394	-	5,297	10,691
Purchase of Investments	<u>(2,119)</u>	<u>-</u>	<u>(859,771)</u>	<u>(861,890)</u>
Net Cash Provided by Investing Activities	<u>3,275</u>	<u>-</u>	<u>(854,474)</u>	<u>(851,199)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	107,948	-	1,005,731	1,113,679
Cash and Cash Equivalents at Beginning of Year	<u>429,209</u>	<u>-</u>	<u>65</u>	<u>429,274</u>
Cash and Cash Equivalents at End of Year	<u>\$ 537,157</u>	<u>\$ -</u>	<u>\$ 1,005,796</u>	<u>\$ 1,542,953</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 31,928	\$ 1,934	\$ 141,542	\$ 175,404
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities				
(Increase) Decrease in Receivables	-	(7,011)	3,123,423	3,116,412
(Increase) Decrease in Prepaid Expenses	-	(1,934)	-	(1,934)
Increase (Decrease) in Accounts Payable	<u>72,745</u>	<u>7,011</u>	<u>(1,404,760)</u>	<u>(1,325,004)</u>
	<u>\$ 104,673</u>	<u>\$ -</u>	<u>\$ 1,860,205</u>	<u>\$ 1,964,878</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, 2011

	Phelps	Project Dare	Drug Free	Mentoring Community Service
ASSETS				
Cash and Cash Equivalents	\$ 12,608	\$ 712	\$ 1,569	\$ 173
Total Assets	\$ 12,608	\$ 712	\$ 1,569	\$ 173
NET ASSETS				
Held in Trust for Scholarships	\$ 12,608	\$ 712	\$ 1,569	\$ 173
Total Liabilities and Net Assets	\$ 12,608	\$ 712	\$ 1,569	\$ 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>
\$ 1,675	\$ 120,380	\$ 11,760	\$ 3,790
<u>\$ 1,675</u>	<u>\$ 120,380</u>	<u>\$ 11,760</u>	<u>\$ 3,790</u>
\$ 1,675	\$ 120,380	\$ 11,760	\$ 3,790
<u>\$ 1,675</u>	<u>\$ 120,380</u>	<u>\$ 11,760</u>	<u>\$ 3,790</u>

Schedule continued on next page.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Fiduciary Net Assets
June 30, 2011
(Continued)

	<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>
ASSETS				
Cash and Cash Equivalents	\$ 3,111	\$ 2,259	\$ 3,342	\$ 312
Total Assets	<u>\$ 3,111</u>	<u>\$ 2,259</u>	<u>\$ 3,342</u>	<u>\$ 312</u>
NET ASSETS				
Held in Trust for Scholarships	\$ 3,111	\$ 2,259	\$ 3,342	\$ 312
Total Liabilities and Net Assets	<u>\$ 3,111</u>	<u>\$ 2,259</u>	<u>\$ 3,342</u>	<u>\$ 312</u>

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

CHAMPS Fundraising	United We Stand Hometown Charities	Foundation	Total Private Purpose Trust
\$ 55	\$ -	\$ 67,538	\$ 229,284
<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 67,538</u>	<u>\$ 229,284</u>
\$ 55	\$ -	\$ 67,538	\$ 229,284
<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 67,538</u>	<u>\$ 229,284</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2011

	<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	\$ 11	\$ -	\$ 2	\$ -	\$ 42	\$ 358	\$ 36	\$ 43
Contributions	-	-	-	-	-	12,000	-	-
Total Additions	11	-	2	-	42	12,358	36	43
Deductions:								
Scholarships	-	-	-	-	-	41,500	-	116
Other Expense	-	373	-	-	-	-	-	-
Total Deductions	-	373	-	-	-	41,500	-	116
Change in Net Assets	11	(373)	2	-	42	(29,142)	36	(73)
Net Assets, July 1, 2010	12,597	1,085	1,567	173	1,633	149,522	11,724	3,863
Net Assets, June 30, 2011	\$ 12,608	\$ 712	\$ 1,569	\$ 173	\$ 1,675	\$ 120,380	\$ 11,760	\$ 3,790

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

<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>CHAMPS Fundraising</u>	<u>United We Stand Hometown Charities</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ 7,858	\$ 2	\$ 9	\$ -	\$ -	\$ 2	\$ 97	\$ 602
-	-	-	-	-	-	27,408	47,266
<u>7,858</u>	<u>2</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>27,505</u>	<u>47,868</u>
-	-	-	-	-	-	-	41,616
<u>4,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>	<u>6,714</u>	<u>4,495</u>	<u>16,389</u>
<u>4,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>	<u>6,714</u>	<u>4,495</u>	<u>58,005</u>
3,111	2	9	-	(60)	(6,712)	23,010	(10,137)
-	2,257	3,333	312	115	6,712	44,528	239,421
<u>\$ 3,111</u>	<u>\$ 2,259</u>	<u>\$ 3,342</u>	<u>\$ 312</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 67,538</u>	<u>\$ 229,284</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

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	7/1/10-6/30/11
National School Lunch Program	I	10.555	362	7/1/09-6/30/10
National School Lunch Program	I	10.555	362	7/1/10-6/30/11
After School Snacks	I	10.555	359	7/1/09-6/30/10
After School Snacks	I	10.555	359	7/1/10 -6/30/11
Subtotal				
Severe Needy Breakfast Program	I	10.553	367	7/1/09 - 6/30/10
Severe Needy Breakfast Program	I	10.553	367	7/1/10-6/30/11
Regular Needy Breakfast Program	I	10.553	365	7/1/09-6/30/10
Regular Needy Breakfast Program	I	10.553	365	7/1/10-6/30/11
Subtotal				
Total Child Nutrition Cluster				
Elect & Fatherhood Initiative	I	10.561	110-090009	7/1/09- 6/30/10
Elect & Fatherhood Initiative	I	10.561	110-100009	7/1/10-6/30/11
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	S364A100073	7/1/10-6/30/11
Passed Through PA Department of Education				
Adult Basic Education	I	84.002	041-110034	7/1/10-6/30/11
Sec 223 Adult Education	I	84.002	061-110004	7/1/10-6/30/11
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2011
\$ (33,319) (b)	\$ 516,801 (a)	\$ 455,587 (c)	\$ (94,533) (d)
157,332	157,332	-	-
-	4,012,794	4,148,698	135,904
75	75	-	-
-	118,347	118,554	207
<u>124,088</u>	<u>4,805,349</u>	<u>4,722,839</u>	<u>41,578</u>
39,942	39,942	-	-
-	892,314	923,880	31,566
529	529	-	-
-	11,517	11,905	388
<u>40,471</u>	<u>944,302</u>	<u>935,785</u>	<u>31,954</u>
<u>164,559</u>	<u>5,749,651</u>	<u>5,658,624</u>	<u>73,532</u>
650,908	286,776	(51,840)	312,292
-	241,279	507,748	266,469
<u>650,908</u>	<u>528,055</u>	<u>455,908</u>	<u>578,761</u>
<u>815,467</u>	<u>6,277,706</u>	<u>6,114,532</u>	<u>652,293</u>
-	63,071	240,932	177,861
-	243,302	320,114	76,812
-	25,875	25,661	(214)
<u>-</u>	<u>269,177</u>	<u>345,775</u>	<u>76,598</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, 2011

(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	013-090139	8/12/08-9/30/10
Title I Improving Basics Program	I	84.010	013-100139	7/1/09-9/30/10
Title I Improving Basics Program	I	84.010	013-110139	7/1/10-9/30/11
Prog. Imp-Set Aside	I	84.010	042-100139	11/20/08-9/30/10
Title I Academic Achievement	I	84.010	077-090139	8/12/08-9/30/10
Title I Academic Achievement	I	84.010	077-100139	8/1/10-9/30/11
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	7/1/09-09/30/10
Subtotal				
Passed Through PA Department of Education				
Title I Improving Basics Program/Prog. Imp-Set Aside	I	84.377	042-090139	11/20/08-9/30/10
ARRA-Title I	I	84.389	127-100139	5/18/09-9/30/10
ARRA - Title I	I	84.389	134-100139	7/1/10-9/30/11
Subtotal				
Total Title I Cluster				
ARRA-State Fiscal Stabilization Funds	I	84.394	126-100139	5/18/09-9/30/10
ARRA-State Fiscal Stabilization Funds	I	84.394	126-100139	7/1/09-6/30/10
ARRA-State Fiscal Stabilization Funds	I	84.394	126-110139	7/1/10-9/30/11
ARRA-State Fiscal Stabilization Funds	I	84.394	126-110139	7/1/10-6/30/11
Subtotal				
ARRA - Education Jobs Fund	I	84.410	140-159055	7/1/10-6/30/11
Secondary Education/Perkins	I	84.048	380-088109	7/1/07-9/30/09
Secondary Education/Perkins	I	84.048	380-099091	9/5/08-6/30/09
Secondary Education/ Perkins	I	84.048	380-110115	12/10/09-9/30/10
Secondary Education/Perkins	I	84.048	380-111098	9/1/10-6/30/11
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2011
\$ -	\$ -	\$ 6,388	\$ 6,388
752,026	3,436,972	2,526,087	(158,859)
-	6,191,368	4,775,722	(1,415,646)
-	27,573	13,547	(14,026)
-	-	121	121
-	37,520	32,309	(5,211)
(3,113)	-	3,113	-
<u>(1,411)</u>	<u>2,619</u>	<u>4,211</u>	<u>181</u>
<u>747,502</u>	<u>9,696,052</u>	<u>7,361,498</u>	<u>(1,587,052)</u>
<u>(2,534)</u>	<u>-</u>	<u>2,534</u>	<u>-</u>
(1,108,578)	364,062	3,478,039	2,005,399
<u>-</u>	<u>13,915</u>	<u>3,366</u>	<u>(10,549)</u>
<u>(1,108,578)</u>	<u>377,977</u>	<u>3,481,405</u>	<u>1,994,850</u>
<u>(363,610)</u>	<u>10,074,029</u>	<u>10,845,437</u>	<u>407,798</u>
838,162	1,085,612	229,523	(17,927)
495,294	476,587	(29,426)	(10,719)
-	2,512,793	5,361,024	2,848,231
<u>-</u>	<u>77,715</u>	<u>151,882</u>	<u>74,167</u>
<u>1,333,456</u>	<u>4,152,707</u>	<u>5,713,003</u>	<u>2,893,752</u>
<u>-</u>	<u>3,683,284</u>	<u>3,683,284</u>	<u>-</u>
-	-	2,683	2,683
-	-	43,027	43,027
8,386	120,823	112,437	-
<u>-</u>	<u>404,949</u>	<u>410,652</u>	<u>5,703</u>
<u>8,386</u>	<u>525,772</u>	<u>568,799</u>	<u>51,413</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, 2011

(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				
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	100-080139	11/1/07-3/31/09
Drug Free Schools-Bullying Prevention	I	84.186	DP-ST-15952	7/1/08-6/30/10
Subtotal				
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-ARRA-Part D Ed Technology	I	84.386	135-100139	7/1/10-9/30/11
Total Education Technology State Grants Cluster				
Title II Improving Teacher Quality	I	84.367	020-090139	8/12/08-9/30/10
Title II Improving Teacher Quality	I	84.367	020-110139	7/1/09-9/30/10
Title II Improving Teacher Quality	I	84.367	020-110139	7/1/10-9/30/11
Subtotal				
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	9/24/09-9/30/10
Title III Language Inst LEP Immigrant Students	I	84.365	010-110139	9/24/10-9/30/11
Subtotal				
Homeless Children & Youth	I	84.196	081-080008	10/1/08-9/30/10
Homeless Children & Youth	I	84.196	081-090008	10/1/09-9/30/10
Homeless Children & Youth	I	84.196	081-100008	10/1/10-9/30/11
Subtotal				
Passed Through Northwest Tri-County Intermediate Unit				
EHA-B IDEA	I	84.027	062-02-0-005	7/1/09-06/30/10
EHA-B IDEA	I	84.027	062-02-0-005	7/1/10-6/30/11
Subtotal				
EHA-B Early Intervention Flow Thru	I	84.173	N/A	7/1/09-6/30/10
EHA-B Early Intervention Flow Thru	I	84.173	N/A	7/1/10-6/30/11
The accompanying notes are an integral part of this schedule.				

Accrued/ (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2011
\$ (5,196)	\$ -	\$ 4,927	\$ (269)
51,027	68,959	10,965	(6,967)
-	-	879	879
-	-	513	513
<u>45,831</u>	<u>68,959</u>	<u>17,284</u>	<u>(5,844)</u>
(214)	-	-	(214)
<u>(23,565)</u>	<u>-</u>	<u>23,565</u>	<u>-</u>
<u>(23,779)</u>	<u>-</u>	<u>23,565</u>	<u>(214)</u>
-	1,017,200	882,247	(134,953)
<u>(23,779)</u>	<u>1,017,200</u>	<u>905,812</u>	<u>(135,167)</u>
53,925	53,976	-	(51)
(11,289)	919,049	924,594	(5,744)
-	759,170	518,379	(240,791)
<u>42,636</u>	<u>1,732,195</u>	<u>1,442,973</u>	<u>(246,586)</u>
(6,256)	13,269	19,525	-
(47,341)	43,152	87,483	(3,010)
-	154,846	114,110	(40,736)
<u>(53,597)</u>	<u>211,267</u>	<u>221,118</u>	<u>(43,746)</u>
320	-	(320)	-
116,631	78,750	(8,336)	29,545
-	86,503	138,753	52,250
<u>116,951</u>	<u>165,253</u>	<u>130,097</u>	<u>81,795</u>
(662,110)	-	357,489	(304,621)
<u>-</u>	<u>2,092,454</u>	<u>718,480</u>	<u>(1,373,974)</u>
<u>(662,110)</u>	<u>2,092,454</u>	<u>1,075,969</u>	<u>(1,678,595)</u>
19,296	-	-	19,296
-	459,178	242,554	(216,624)

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

(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				
State Access Direct	I	84.173	N/A	7/1/07-6/30/08
State Access Direct	I	84.173	044-007139	7/1/08-6/30/09
State Access Direct	I	84.173	044-010139	7/1/10-6/30/11
Subtotal				
EHA-B IDEA - ARRA	I	84.391	N/A	7/1/09-9/30/11
Component 1 611 - ARRA	I	84.391A	132-100139	7/1/10-9/30/11
Spec Ed/ Preschool Grants - ARRA	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	7/1/08-6/30/09
State Access Indirect	I	93.778	410-0009941	7/1/09-6/30/10
State Access Indirect	I	93.778	410-0009941	7/1/10-6/30/11
Early Intervention	I	93.778	092-007139	7/1/09-6/30/10
Subtotal				
Passed Through PA Department of Welfare				
Parent-Child Home Program	D	93.556	4100034249	7/1/09-6/30/10
Parent-Child Home Program	D	93.556	41000144765	7/1/10-6/30/11
Family Center	D	93.556	4100044222	7/1/09-6/30/10
Family Center	D	93.556	4100044222	7/1/10-6/30/11
Subtotal				
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/09-6/30/10
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/10-6/30/11
Subtotal				
Total U.S. Dept of Education				
<u>U.S. Department of Health and Human Services</u>				
Passed Through PA Department of Education				
Foreign Language Program	I	84.293C	16 4100032217	7/1/07-6/30/11

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2011
\$ 118,148	\$ 118,148	\$ -	\$ -
208,303	208,303	-	-
<u>328,736</u>	<u>328,736</u>	<u>-</u>	<u>-</u>
674,483	1,114,365	242,554	(197,328)
(734,390)	2,351,732	232,517	(2,853,605)
96,943	96,943	-	-
<u>197,049</u>	<u>209,866</u>	<u>-</u>	<u>(12,817)</u>
<u>(428,025)</u>	<u>5,865,360</u>	<u>1,551,040</u>	<u>(4,742,345)</u>
-	-	4,883	4,883
53,082	93,419	11,879	(28,458)
-	185,735	50,088	(135,647)
<u>(100,357)</u>	<u>1,416</u>	<u>-</u>	<u>(101,773)</u>
<u>(47,275)</u>	<u>280,570</u>	<u>66,850</u>	<u>(260,995)</u>
32,633	32,139	9,549	10,043
-	127,926	138,720	10,794
274,139	102,939	(3,039)	168,161
<u>-</u>	<u>158,792</u>	<u>158,792</u>	<u>-</u>
<u>306,772</u>	<u>421,796</u>	<u>304,022</u>	<u>188,998</u>
(18,688)	9,154	17,817	(10,025)
<u>-</u>	<u>26,189</u>	<u>2,554</u>	<u>(23,635)</u>
<u>(18,688)</u>	<u>35,343</u>	<u>20,371</u>	<u>(33,660)</u>
<u>919,058</u>	<u>28,565,983</u>	<u>26,056,797</u>	<u>(1,590,128)</u>
<u>-</u>	<u>-</u>	<u>1,470</u>	<u>1,470</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, 2011

(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	7/1/08-6/30/09
Elect & Fatherhood Initiative	I	93.558	110-090009	7/1/09-6/30/10
Elect & Fatherhood Initiative	I	93.558	110-100009	7/1/10-6/30/11
Subtotal				
Passed Through PA Department of Education				
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100038461	10/1/08-9/30/10
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/08-6/30/09
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
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277A	7/1/10-6/30/11
Subtotal				
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/09-8/14/10
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/10-8/14/11
Subtotal				
Learn & Serve	I	94.004	09-080019	10/1/08-6/30/09
Learn & Serve	I	94.004	09-090019	10/13/09-09/30/10
Learn & Serve	I	94.004	19-092050	10/13/09-9/30/10
Learn & Serve	I	94.004	19-100019	7/1/10-6/30/11
Learn & Serve	I	94.004	19-102050	7/1/10-6/30/11
Subtotal				
Total U.S. Department of Health & Human Services				
<u>Department of Environmental Protection</u>				
Passed Through PA Dept of Environmental Protection				
State Energy Program	I	81.041	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, 2010	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2011
\$ 37,537	\$ 10,130	\$ 76,897	\$ 104,304
-	71,035	71,035	-
-	43,866	43,866	-
<u>37,537</u>	<u>125,031</u>	<u>191,798</u>	<u>104,304</u>
110,450	110,923	473	-
(4,177)	-	4,177	-
244,717	247,725	31,711	28,703
15,400	489,094	612,089	138,395
-	-	142,937	142,937
<u>366,390</u>	<u>847,742</u>	<u>791,387</u>	<u>310,035</u>
5,242	28,890	23,648	-
-	-	78,012	78,012
<u>5,242</u>	<u>28,890</u>	<u>101,660</u>	<u>78,012</u>
-	-	100	100
(845)	-	845	-
1,308	1,778	402	(68)
-	7,333	10,491	3,158
-	7,333	10,718	3,385
<u>463</u>	<u>16,444</u>	<u>22,556</u>	<u>6,575</u>
<u>409,632</u>	<u>1,018,107</u>	<u>1,108,871</u>	<u>500,396</u>
20,194	20,381	-	(187)
<u>20,194</u>	<u>20,381</u>	<u>-</u>	<u>(187)</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, 2011

(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	7/1/09-6/30/10
Workforce Investment Act Non-TANF	I	17.259	N/A	7/1/10-6/30/11
Subtotal				
Workforce Investment Act TANF	I	93.558	N/A	7/1/09-6/30/10
Workforce Investment Act TANF	I	93.558	N/A	7/1/10-6/30/11
Subtotal				
Total U.S. Department of Labor & Industry				
Total Federal Awards				

The accompanying notes are an integral part of this schedule.

<u>Accrued/ (Deferred) Revenue at July 1, 2010</u>	<u>Total Received for the Year</u>	<u>Expenditures</u>	<u>Accrued/ (Deferred) Revenue at June 30, 2011</u>
\$ 177,785	\$ 164,369	\$ 48,687	\$ 62,103
<u>-</u>	<u>150,532</u>	<u>276,674</u>	<u>126,142</u>
<u>177,785</u>	<u>314,901</u>	<u>325,361</u>	<u>188,245</u>
79,403	119,158	(18,941)	(58,696)
<u>-</u>	<u>358,292</u>	<u>492,315</u>	<u>134,023</u>
<u>79,403</u>	<u>477,450</u>	<u>473,374</u>	<u>75,327</u>
<u>257,188</u>	<u>792,351</u>	<u>798,735</u>	<u>263,572</u>
<u>\$ 2,421,539</u>	<u>\$ 36,674,528</u>	<u>\$ 34,078,935</u>	<u>\$ (174,054)</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, 2011

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, 2011. 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, 2010 were adjusted to reflect proper balances.

NOTE 4 - NON CASH ASSISTANCE

The School District received noncash federal assistance in the year ended June 30, 2011 through the donated commodities program of the Department of Agriculture. The District received \$516,801 and used \$455,587 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 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, 2011, which collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements and have issued our report thereon dated January 31, 2012. 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 over financial reporting 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 2011-1.

We noted certain matters that we reported to management of the School District of the City of Erie, Pennsylvania in a separate letter dated January 31, 2012.

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 31, 2012
Erie, Pennsylvania



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

**Independent Auditors' Report on Compliance With Requirements
That Could Have A Direct and Material Effect on Each Major Program and
on Internal Control Over Compliance in Accordance With OMB Circular A-133**

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

Compliance

We have audited the School District of the City of Erie, Pennsylvania's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement*, that could have a direct and material effect on each of the School District of the City of Erie, Pennsylvania's major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 2011-1.

**Independent Auditors' Report on Compliance With Requirements
That Could Have A Direct and Material Effect on Each Major Program and
on Internal Control Over Compliance in Accordance With OMB Circular A-133
(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 the 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 to determine the 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 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 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 was not designated to 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 agencies 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 31, 2012
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

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: 2011-1
- vii. Major programs:

	<u>CFDA #</u>
Title II	84.367
Education Jobs Fund	84.410
Title I Cluster	84.010/84.389
State Fiscal Stabilization Funds	84.394
- viii. Dollar threshold used to distinguish between Type A and Type B programs:
\$1,022,368
- ix. The School District of the City of Erie, Pennsylvania did not qualify as a low-risk auditee.

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

None.

2011-1

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.

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

Prospective Information: The net amount of advanced grant funds used to assist in the repayment of debt was: \$ 6,590,525

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued)

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

3. Findings and questioned costs for Federal awards

2011-1

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.

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

Prospective Information: The net amount of advanced grant funds used to assist in the repayment of debt was: \$ 6,590,525

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, 2011

1. Prior significant deficiencies:

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

Finding 2010-1 has been repeated as Finding 2011-1 relative to the advancement of grant funds used to assist in the repayment of debt.

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
Corrective Action Plan
For the Year Ended June 30, 2011

The School District of the City of Erie, Pennsylvania respectfully submits the following corrective action plan for the year ended June 30, 2011.

Finding 2011 – 1

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

Action Taken: We concur with the recommendation and will ensure advanced grant funds are maintained to be used for the specific purpose of the grant(s). The Business Administrator will be responsible to ensure the corrective actions take place.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
List of Report Distribution
June 30, 2011

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

1. United States Bureau of the Census
2. Commonwealth of Pennsylvania, Bureau of Audits
3. Northwest Tri-County Intermediate Unit
4. City of Erie, GECAC