

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

SINGLE AUDIT REPORT

JUNE 30, 2012

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, 2012, 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, 2012, 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 February 22, 2013 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 and budgetary comparison information on pages 6 through 12 and 50-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

February 22, 2013
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012. 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 2012 are as follows:

- In total, net assets decreased \$ 13,057,506. Net assets of governmental activities decreased by \$ 12,680,855, whereas net assets of business – type activities decreased by \$ 376,651.
- Total revenues were \$ 163,453,545. General revenues accounted for \$ 48,225,616 or 29.5 % of all revenues. Program specific revenue in the form of charges for services and grants accounted for \$ 115,227,929 of total revenues.
- The Erie School District had \$ 169,461,029 in expenses related to governmental activities: \$ 108,553,882 of these expenses was offset by program-specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$ 48,226,292 offset expenses with \$ 12,680,855 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 (\$ 5,673,495).

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 2011-2012?” *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 and of this report.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

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

Governmental Funds – Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the School District’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements on pages and, 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 (\$ 26,946,408) as of June 30, 2012, as compared to (\$13,888,902) as of June 30, 2011.

	Governmental Activities 2012	Business- Type Activities 2012	Total 2012	Total 2011
Current and other assets	\$ 34,570,185	\$ 1,315,414	\$ 35,885,599	\$ 32,023,731
Capital assets	120,509,938	5,876,681	126,386,619	125,029,269
Noncurrent assets	1,054,561	320,855	1,375,416	1,314,588
Total Assets	\$ 156,134,684	\$ 7,512,950	\$ 163,647,634	\$ 158,367,588
Current and other liabilities	\$ 33,504,030	\$ 256,078	\$ 33,760,108	\$ 50,134,640
Long-term liabilities	152,658,934	4,175,000	156,833,934	122,121,850
Total Liabilities	186,162,964	4,431,078	190,594,042	172,256,490
Net assets				
Invested in capital assets, net of related debt	(9,235,433)	1,616,681	(7,618,752)	17,594,054
Restricted for capital projects	6,572,946	-	6,572,946	126,426
Unrestricted (deficit)	(27,365,793)	1,465,191	(25,900,602)	(31,609,382)
Total Net Assets	(30,028,280)	3,081,872	(26,946,408)	(13,888,902)
Total Liabilities and Net Assets	\$ 156,134,684	\$ 7,512,950	\$ 163,647,634	\$ 158,367,588

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 2012.

	Governmental Activities 2012	Business- Type Activities 2012	Total 2012	Total 2011
Revenues				
Operating grants and contributions	\$ 107,007,847	\$ 6,065,283	\$ 113,073,130	\$ 124,312,548
Charges for services	1,546,035	608,764	2,154,799	3,367,669
General revenues:				
Property taxes	41,780,286	-	41,780,286	39,928,226
Earned income and LST	6,470,549	-	6,470,549	6,285,590
Transfer tax	639,618	-	639,618	556,203
Public utility realty	63,184	-	63,184	63,277
Investment earnings (loss)	24,615	(676)	23,939	1,115,874
Miscellaneous	336,503	-	336,503	265,211
Lesson sale of buildings	(368,203)	-	(368,203)	-
Loss on Sale Delinquent Taxes	(720,260)	-	(720,260)	(968,149)
	<u>\$ 156,780,174</u>	<u>\$ 6,673,371</u>	<u>\$ 163,453,545</u>	<u>\$ 174,926,449</u>
Expenses				
Instruction	\$ 108,592,777	-	\$ 108,592,777	\$ 124,426,658
Pupil personnel	5,972,432	-	5,972,432	8,693,810
Instructional student support	5,723,038	-	5,723,038	7,367,738
Administrative and financial	10,776,906	-	10,776,906	11,261,357
Pupil health	1,357,819	-	1,357,819	1,448,990
Business	3,299,978	-	3,299,978	2,040,445
Operation of plant	12,979,546	-	12,979,546	13,656,183
Student transportation	4,416,872	-	4,416,872	4,121,349
Other support services	174,726	-	174,726	153,088
Staff services	1,442,734	-	1,442,734	1,781,300
Student activities	1,781,211	-	1,781,211	1,753,274
Community services	879,112	-	879,112	473,690
Other	-	114,190	114,190	128,029
Interest on debt	12,063,878	-	12,063,878	7,173,799
Food service	-	6,935,832	6,935,832	7,275,122
	<u>169,461,029</u>	<u>7,050,022</u>	<u>176,511,051</u>	<u>191,754,832</u>
Increase (decrease) in net assets	<u>\$ (12,680,855)</u>	<u>\$ (376,651)</u>	<u>\$ (13,057,506)</u>	<u>\$ (16,828,383)</u>

Governmental Activities

Governmental activities for 2012 resulted in a decrease in net assets of \$12,680,855, as compared to a decrease of \$16,383,744 in governmental activities for 2011. The reduction in the loss is primarily the result of a reduction in salaries and benefits.

The School District's revenue consists of local (taxes and other):31.8 percent, and state and federal revenues (subsidies and grants):68.2 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 \$6,673,371 and expenses and other uses of \$ 7,050,022. While these activities receive no support from local tax revenues, the food service program received federal and state grants of \$6,065,283. 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 . These funds are accounted for by using modified accrual basis of accounting. All government funds had total revenues of \$156,737,599, other financing uses of \$ 29,410,182, and expenditures of \$166,991,216. The net increase in fund balance was \$19,156,565, mainly resulting from a debt issued during the year. The general fund accounted for \$ 172,729,522 in revenues and other financing uses and \$ 160,019,477 in expenditures, or an increase in revenues over expenditures of \$12,710,045 as compared to a shortfall of \$5,673,273 in 2011. The capital project fund increased by \$ 6,446,520 for 2012, as compared to \$88,482 for 2011.

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 \$157,313,029. We experienced a shortfall in actual revenues of \$586,689. This was the result of a shortfall in state and local revenues.

The expenditure budget was \$156,618,368, compared to the actual expenditures of \$160,019,477. A review of budget to actual expenditures indicates that in total, actual expenditures were over budget by \$3,401,109 for the fiscal year 2012. Most of this was due to rising salaries and benefits, increase in capital outlay and additional debt service over the amount anticipated in the final budget.

At June 30, 2012, the District's governmental funds reported a combined fund balance (deficit) of (\$30,028,280), which is an increase in the deficit of \$ (12,680,855) from June 30, 2011.

The School District's fund balance has significantly decreased over the 2012 year due to a long-term debt used to supplement cash flow for operations and increase in capital renovations.

Capital Assets and Debt Administration

As of the end of fiscal year 2012, the School District had \$126,386,619 invested in land, buildings and equipment.

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

Debt Administration

At June 30, 2012, the School District had a principal balance of \$ 119,196,514 in bonds and notes outstanding, \$6,859,202 is due and payable in the 2013 fiscal year.

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

Factors Bearing on the Districts Future

As the Erie School District approached the 2012-2013 fiscal year budget, it would once again entail a number of difficult decisions that needed to be made to improve the overall financial state of the Erie School District.

The most significant step that was taken was the closure of three elementary schools within the Erie School District. Irving Elementary, Glenwood Elementary, and Burton Elementary were the schools that were closed. This action allowed the District to reduce the number of 'empty student seats' in the District, thereby consolidating staff and services for the students of the District.

A significant challenge that the District will continue to face is the increased pressure that is being felt across the state from brick and mortar charter schools and cyber charter schools. As those schools continue to increase enrollment, the Erie School District is facing issues around declining student enrollment and more significantly per pupil funding of the charter schools being paid for by the students' home district, i.e. Erie School District.

At this point in time, the Erie School District has a limited number of options available for continued expense reduction, as many actions such as staff reductions; contract reviews, etc. have already taken place over the last couple of years. The District will look at available unused properties and how they fit into the District's future and whether those properties can be sold or should be retained for future use. We continue to trim the administrative staff, to a level of 67 individuals, down from 117 just a couple of years ago. The District also made the difficult decision to eliminate programs that were being offered to our students and schools, thus allowing us to focus our resources on the core learning experience for the students. The Erie Education Association has agreed to assist in helping to improve the District's

financial position for the 2012-2013 year by having each employee that has medical insurance give back an additional monetary amount to the District which will total an estimated \$1 million.

The Erie School District has nearly completed a comprehensive plan to “right size” the District not only today but for years to come. However, a major challenge will be the significant capital funds that will be needed to realize that plan. So, it is with the collective efforts of the superintendent, school board, staff, and community that the Erie School District will continue to make the changes that are necessary to make the Erie School District sustainable for 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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 15,364,764	\$ 900,616	\$ 16,265,380
Investments	2,669,422	177,068	2,846,490
Taxes Receivable, Net	5,715,053	-	5,715,053
Intergovernmental Receivables	3,485,220	131,797	3,617,017
Other Receivables	824,346	27,966	852,312
Inventories	6,051,392	77,967	6,129,359
Prepaid Items	459,988	-	459,988
Total Current Assets	34,570,185	1,315,414	35,885,599
Non-Current Assets			
Deferred Charges	-	320,855	320,855
Other Assets	1,054,561	-	1,054,561
Land and Other Nondepreciable Assets	15,336,994	-	15,336,994
Capital Assets, Net	105,172,944	5,876,681	111,049,625
Total Non-Current Assets	121,564,499	6,197,536	127,762,035
Total Assets	\$ 156,134,684	\$ 7,512,950	\$ 163,647,634
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 10,124,055	\$ 171,078	\$ 10,295,133
Accrued Salaries and Benefits	9,401,761	-	9,401,761
Unearned Revenue	2,155,964	-	2,155,964
Accrued Interest Payable	2,767,418	-	2,767,418
Bond and Notes Payable	6,859,202	85,000	6,944,202
Compensated Absences	1,000,000	-	1,000,000
Lease Payable	625,501	-	625,501
Retirement Incentive	570,129	-	570,129
Total Current Liabilities	33,504,030	256,078	33,760,108
Non-Current Liabilities			
Other Liabilities - Swaption	13,273,000	-	13,273,000
Other Post-Employment Benefits	12,325,288	-	12,325,288
Bonds and Notes Payable	112,337,312	4,175,000	116,512,312
Compensated Absences	3,953,041	-	3,953,041
Lease Payable	9,923,356	-	9,923,356
Retirement Incentive	846,937	-	846,937
Total Non-Current Liabilities	152,658,934	4,175,000	156,833,934
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	(9,235,433)	1,616,681	(7,618,752)
Restricted for Capital Projects	6,572,946	-	6,572,946
Unrestricted (Deficit)	(27,365,793)	1,465,191	(25,900,602)
Total Net Assets	(30,028,280)	3,081,872	(26,946,408)
Total Liabilities and Net Assets	\$ 156,134,684	\$ 7,512,950	\$ 163,647,634

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, 2012

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities</u>				
Instruction	\$ 108,592,777	\$ 1,469,014	\$ 102,877,115	\$ -
Pupil Personnel	5,972,432	-	113,385	-
Instructional Student Support	5,723,038	-	37,795	-
Administrative and Financial	10,776,906	-	453,540	-
Pupil Health	1,357,819	-	295,271	-
Business	3,299,978	-	105,826	-
Operation and Maintenance of				
Plant Services	12,979,546	-	982,927	-
Student Transportation	4,416,872	-	2,005,926	-
Other Support Services	174,726	-	75,590	-
Staff Services	1,442,734	-	-	-
Student Activities	1,781,211	77,021	60,472	-
Community Services	879,112	-	-	-
Interest on Debt	12,063,878	-	-	-
	169,461,029	1,546,035	107,007,847	-
<u>Business-Type Activities</u>				
Food Service	6,935,832	502,094	6,065,283	-
Stadium Commission	114,190	106,670	-	-
	7,050,022	608,764	6,065,283	-
Total Primary Government	\$ 176,511,051	\$ 2,154,799	\$ 113,073,130	\$ -
<u>General Revenues</u>				
Taxes				
Property Taxes				
Earned Income and Local Services				
Taxes				
Transfer Tax				
Public Utility Realty				
Investment Earnings/(Loss)				
Loss on Sale of Buildings				
Loss on Sale of Taxes				
Miscellaneous Income				
Total Revenues				
Change in Net Assets				
Net Assets, July 1, 2011, as restated				
Net Assets, June 30, 2012				

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

Net (Expense)/Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (4,246,648)	\$ -	\$ (4,246,648)
(5,859,047)	-	(5,859,047)
(5,685,243)	-	(5,685,243)
(10,323,366)	-	(10,323,366)
(1,062,548)	-	(1,062,548)
(3,194,152)	-	(3,194,152)
(11,996,619)	-	(11,996,619)
(2,410,946)	-	(2,410,946)
(99,136)	-	(99,136)
(1,442,734)	-	(1,442,734)
(1,643,718)	-	(1,643,718)
(879,112)	-	(879,112)
(12,063,878)	-	(12,063,878)
<u>(60,907,147)</u>	<u>-</u>	<u>(60,907,147)</u>
-	(368,455)	(368,455)
<u>-</u>	<u>(7,520)</u>	<u>(7,520)</u>
-	(375,975)	(375,975)
<u>(60,907,147)</u>	<u>(375,975)</u>	<u>(61,283,122)</u>
41,780,286	-	41,780,286
6,470,549	-	6,470,549
639,618	-	639,618
63,184	-	63,184
24,615	(676)	23,939
(368,203)	-	(368,203)
(720,260)	-	(720,260)
336,503	-	336,503
<u>48,226,292</u>	<u>(676)</u>	<u>48,225,616</u>
(12,680,855)	(376,651)	(13,057,506)
<u>(17,347,425)</u>	<u>3,458,523</u>	<u>(13,888,902)</u>
<u>\$ (30,028,280)</u>	<u>\$ 3,081,872</u>	<u>\$ (26,946,408)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Balance Sheet - Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 3,710,342	\$ 8,692,128	\$ 12,402,470
Taxes Receivable, Net	5,715,053	-	5,715,053
Intergovernmental Receivables	3,485,220	-	3,485,220
Other Receivables	790,724	-	790,724
Inventories	6,051,392	-	6,051,392
Other Assets	1,054,561	-	1,054,561
	<u>20,807,292</u>	<u>8,692,128</u>	<u>29,499,420</u>
Total Assets and Other Debits	<u>\$ 20,807,292</u>	<u>\$ 8,692,128</u>	<u>\$ 29,499,420</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 3,751,786	\$ 2,119,182	\$ 5,870,968
Accrued Salaries and Benefits	9,401,761	-	9,401,761
Unearned Revenues	7,275,848	-	7,275,848
	<u>20,429,395</u>	<u>2,119,182</u>	<u>22,548,577</u>
Total Liabilities	<u>20,429,395</u>	<u>2,119,182</u>	<u>22,548,577</u>
FUND BALANCES			
Committed for Capital Projects	-	6,572,946	6,572,946
Nonspendable - Inventories	6,051,392	-	6,051,392
Unassigned (Deficit)	(5,673,495)	-	(5,673,495)
	<u>377,897</u>	<u>6,572,946</u>	<u>6,950,843</u>
Total Fund Balances	<u>377,897</u>	<u>6,572,946</u>	<u>6,950,843</u>
Total Liabilities and Fund Balances	<u>\$ 20,807,292</u>	<u>\$ 8,692,128</u>	<u>\$ 29,499,420</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, 2012

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

Fund balances - governmental funds	\$	6,950,843
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		120,509,938
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		5,119,884
Deferred taxes		
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		1,872,239
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Other liabilities - swaption	\$	(13,273,000)
Other post-employment benefits		(12,325,288)
Bonds and notes payable		(119,196,514)
Compensated absences		(4,953,041)
Lease payable		(10,548,857)
Retirement incentive		(1,417,066)
Accrued interest payable		(2,767,418)
		(164,481,184)
Net assets (deficit) of governmental activities	\$	(30,028,280)

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, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources	\$ 53,316,309	\$ 11,259	\$ 53,327,568
State Sources	84,794,585	-	84,794,585
Federal Sources	18,615,446	-	18,615,446
	<u>156,726,340</u>	<u>11,259</u>	<u>156,737,599</u>
EXPENDITURES			
Instruction	101,854,185	-	101,854,185
Support Services	45,883,150	-	45,883,150
Noninstructional Services	2,660,323	-	2,660,323
Facilities Acquisition, Construction, and Improvements	641,519	6,805,117	7,446,636
Debt Service	8,980,300	166,622	9,146,922
	<u>160,019,477</u>	<u>6,971,739</u>	<u>166,991,216</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,293,137)</u>	<u>(6,960,480)</u>	<u>(10,253,617)</u>
Other Financing Sources (Uses)			
Transfers - In	300,000	-	300,000
Change in Inventory	(22,199)	-	(22,199)
Debt Issuance Proceeds	48,954,202	13,407,000	62,361,202
Lease Proceeds	10,285,000	-	10,285,000
Refunding Payments	(43,129,202)	-	(43,129,202)
Bond Premium	69,291	-	69,291
Refund of Prior Year	(453,910)	-	(453,910)
	<u>16,003,182</u>	<u>13,407,000</u>	<u>29,410,182</u>
Net Change in Fund Balance	12,710,045	6,446,520	19,156,565
Fund Balance - July 1, 2011, as restated	<u>(12,332,148)</u>	<u>126,426</u>	<u>(12,205,722)</u>
Fund Balance - June 30, 2012	<u>\$ 377,897</u>	<u>\$ 6,572,946</u>	<u>\$ 6,950,843</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, 2012

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

Net change in fund balances - total governmental funds	\$	19,156,565
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Assets		8,562,279
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(6,494,824)
The net effect of the sales-lease back of various school district buildings is to decrease net assets		(368,203)
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	\$	410,778
Change in accrued interest		407,924
		818,702
Certain activities reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		
Change in accreted value of bonds		(572,609)
Change in other liabilities-swaption		(6,033,003)
Other post-employment benefits		(2,703,600)
		(9,309,212)
Internal service funds are used by management to charge the costs of workers' compensation and dental and health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities		1,834,720
Debt proceeds are reported in governmental funds as revenues. However, in the Statement of Activities, the proceeds are recorded as a liability		
Bond proceeds		(56,542,000)
Lease proceeds		(10,285,000)
		(66,827,000)
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:		
Payment to escrow agent for refunding		37,310,000
Bonds and note payments		3,211,441
Capital lease payments		223,012
Changes in retirement incentive		469,862
Change in compensated absences		(1,268,197)
		39,946,118
Change in net assets of governmental activities	\$	(12,680,855)

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Local Sources	\$ 53,914,834	\$ 54,117,905	\$ 53,316,309	\$ (801,596)
State Sources	84,011,176	84,943,037	84,794,585	(148,452)
Federal Sources	15,448,071	18,252,087	18,615,446	363,359
Total Revenues	<u>153,374,081</u>	<u>157,313,029</u>	<u>156,726,340</u>	<u>(586,689)</u>
EXPENDITURES				
Instruction	94,520,449	97,927,301	101,854,185	(3,926,884)
Support Services	49,066,942	49,278,803	45,883,150	3,395,653
Noninstructional Services	2,321,108	3,046,810	2,660,323	386,487
Facilities Acquisition, Construction and Improvement Services	139,500	111,807	641,519	(529,712)
Debt Service	6,388,859	6,253,647	8,980,300	(2,726,653)
Total Expenditures	<u>152,436,858</u>	<u>156,618,368</u>	<u>160,019,477</u>	<u>(3,401,109)</u>
Excess of Revenues Over (Under) Expenditures	<u>937,223</u>	<u>694,661</u>	<u>(3,293,137)</u>	<u>(3,987,798)</u>
Other Financing Sources (Uses)				
Transfers - In	703,664	670,407	300,000	(370,407)
Transfers - (Out)	(702,312)	(585,073)	-	585,073
Change in Inventory	-	-	(22,199)	(22,199)
Debt Issuance Proceeds	-	-	48,954,202	48,954,202
Lease Proceeds	-	-	10,285,000	10,285,000
Refunding Payments	-	-	(43,129,202)	(43,129,202)
Bond Premium	-	-	69,291	69,291
Refund of Prior Year	-	-	(453,910)	(453,910)
Budgetary Reserve	(305,000)	(205,000)	-	205,000
Total Other Financing Sources (Uses)	<u>(303,648)</u>	<u>(119,666)</u>	<u>16,003,182</u>	<u>16,122,848</u>
Net Change in Fund Balance	<u>633,575</u>	<u>574,995</u>	<u>12,710,045</u>	<u>12,135,050</u>
Fund Balance - July 1, 2011, restated	<u>(12,332,148)</u>	<u>(12,332,148)</u>	<u>(12,332,148)</u>	<u>-</u>
Fund Balance - June 30, 2012	<u><u>\$ (11,698,573)</u></u>	<u><u>\$ (11,757,153)</u></u>	<u><u>\$ 377,897</u></u>	<u><u>\$ 12,135,050</u></u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Net Assets - Proprietary Funds
June 30, 2012

	<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	\$ 840,936	\$ 59,680	\$ 900,616	\$ 2,962,294
Investments	-	177,068	177,068	2,669,422
Receivables				
Interfund	-	-	-	-
Intergovernmental	131,797	-	131,797	-
Accrued Interest	-	-	-	-
Other	27,966	-	27,966	33,622
Inventories	77,967	-	77,967	-
Prepaid Expenses	-	-	-	459,988
Total Current Assets	<u>1,078,666</u>	<u>236,748</u>	<u>1,315,414</u>	<u>6,125,326</u>
Non-Current Assets				
Deferred Charges	320,855	-	320,855	-
Buildings and Building Improvements	6,122,642	522,622	6,645,264	-
Machinery and Equipment	1,155,535	200,916	1,356,451	-
Accumulated Depreciation	(1,772,786)	(352,248)	(2,125,034)	-
Total Non-Current Assets	<u>5,826,246</u>	<u>371,290</u>	<u>6,197,536</u>	<u>-</u>
Total Assets	<u>\$ 6,904,912</u>	<u>\$ 608,038</u>	<u>\$ 7,512,950</u>	<u>\$ 6,125,326</u>
Liabilities				
Current Liabilities				
Accounts Payable	\$ 171,078	\$ -	\$ 171,078	\$ 3,850,637
Current Portion of Bonds Payable	85,000	-	85,000	-
Total Current Liabilities	<u>256,078</u>	<u>-</u>	<u>256,078</u>	<u>3,850,637</u>
Long-Term Liabilities				
Bonds Payable	4,175,000	-	4,175,000	-
Total Long-Term Liabilities	<u>4,175,000</u>	<u>-</u>	<u>4,175,000</u>	<u>-</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,245,391	371,290	1,616,681	-
Unrestricted	1,228,443	236,748	1,465,191	2,274,689
Total Net Assets	<u>2,473,834</u>	<u>608,038</u>	<u>3,081,872</u>	<u>2,274,689</u>
Total Liabilities and Net Assets	<u>\$ 6,904,912</u>	<u>\$ 608,038</u>	<u>\$ 7,512,950</u>	<u>\$ 6,125,326</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, 2012

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Operating Revenues				
Food Service Revenue	\$ 502,094	\$ -	\$ 502,094	\$ -
Charges for Services	-	43,959	43,959	23,753,570
Other Income	-	62,711	62,711	-
Total Operating Revenues	502,094	106,670	608,764	23,753,570
Operating Expenses				
Salaries	189,943	10,021	199,964	-
Employee Benefits	42,336	-	42,336	-
Purchased Professional and Technical Service	5,718,757	-	5,718,757	-
Supplies and Food	516,374	19,442	535,816	-
Depreciation	252,627	57,453	310,080	-
Other Operating Expenses	1,621	27,274	28,895	896,624
Insurance Expense	-	-	-	1,162,916
Interest	214,174	-	214,174	-
Claim Payments	-	-	-	19,162,046
Total Operating Expenses	6,935,832	114,190	7,050,022	21,221,586
Operating Income (Loss)	(6,433,738)	(7,520)	(6,441,258)	2,531,984
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	-	(676)	(676)	5,186
State Sources	359,720	-	359,720	-
Federal Sources	5,705,563	-	5,705,563	-
Total Nonoperating Revenues	6,065,283	(676)	6,064,607	5,186
Income (Loss) Before Operating Transfers	(368,455)	(8,196)	(376,651)	2,537,170
Operating Transfers (Out)	-	-	-	(300,000)
Change in Net Assets	(368,455)	(8,196)	(376,651)	2,237,170
Net Assets, July 1, 2011, as restated	2,842,289	616,234	3,458,523	37,519
Net Assets, June 30, 2012	\$ 2,473,834	\$ 608,038	\$ 3,081,872	\$ 2,274,689

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, 2012

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:				
Cash Received from Users	\$ 518,726	\$ 108,202	\$ 626,928	\$ 23,765,191
Cash Payments to Employees for Services	(232,279)	(10,021)	(242,300)	-
Cash Payments to Suppliers for Goods and Services	(6,008,475)	(19,442)	(6,027,917)	(21,458,763)
Cash Payments for Operating Expenses	(1,621)	(27,274)	(28,895)	-
Net Cash Provided by (Used for) Operating Activities	<u>(5,723,649)</u>	<u>51,465</u>	<u>(5,672,184)</u>	<u>2,306,428</u>
Cash Flows from Noncapital Financing Activities:				
State Sources	362,525	-	362,525	-
Federal Sources	5,298,672	-	5,298,672	-
Transfers	-	-	-	(300,000)
Net Cash Provided by Noncapital Financing Activities	<u>5,661,197</u>	<u>-</u>	<u>5,661,197</u>	<u>(300,000)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of Capital Assets	(26,414)	(125,000)	(151,414)	-
Repayment of Advance from Other Funds	2,100,000	-	2,100,000	-
Bond Payments	(85,000)	-	(85,000)	-
Net Cash (Used by) Capital and Related Financing Activities	<u>1,988,586</u>	<u>(125,000)</u>	<u>1,863,586</u>	<u>-</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	-	(676)	(676)	5,186
Purchase of Investments	-	(77,468)	(77,468)	(600,336)
Sale of Investments	-	122,000	122,000	8,063
Net Cash Provided by Investing Activities	<u>-</u>	<u>43,856</u>	<u>43,856</u>	<u>(587,087)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,926,134	(29,679)	1,896,455	1,419,341
Cash and Cash Equivalents at Beginning of Year	<u>(1,085,198)</u>	<u>89,359</u>	<u>(995,839)</u>	<u>1,542,953</u>
Cash and Cash Equivalents at End of Year	<u>\$ 840,936</u>	<u>\$ 59,680</u>	<u>\$ 900,616</u>	<u>\$ 2,962,294</u>
Reconciliation of Operating Income to Net Cash (Used for)				
Operating Activities:				
Operating Income (Loss)	\$ (6,433,738)	\$ (7,520)	\$ (6,441,258)	\$ 2,531,984
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used for) Operating Activities				
Depreciation	252,627	57,453	310,080	-
Donated Commodities	451,271	-	451,271	-
(Increase) Decrease in Accounts Receivables	16,632	-	16,632	11,621
(Increase) Decrease in Accrued Interest Receivable	-	1,532	1,532	-
(Increase) Decrease in Inventories	39,782	-	39,782	-
(Increase) Decrease in Prepaid Expenses	-	-	-	31,777
(Increase) Decrease in Deferred Charges	5,096	-	5,096	-
Increase (Decrease) in Accounts Payable	(55,319)	-	(55,319)	(268,954)
	<u>\$ (5,723,649)</u>	<u>\$ 51,465</u>	<u>\$ (5,672,184)</u>	<u>\$ 2,306,428</u>
Schedule of non-cash capital and related financing activities:				
Unamortized loss on sale-lease back	<u>\$ 183,237</u>	<u>\$ -</u>	<u>\$ 183,237</u>	<u>\$ -</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 207,020	\$ 175,918
Total Assets	<u>\$ 207,020</u>	<u>\$ 175,918</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable Due to Student Groups	\$ -	\$ 175,918
NET ASSETS		
Held in Trust for Scholarships	<u>207,020</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 207,020</u>	<u>\$ 175,918</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, 2012

	Private Purpose Trust
Additions:	
Earnings on Investments	\$ 440
Contributions	23,155
Total Additions	23,595
Deductions:	
Scholarships	42,519
Other Expense	3,340
Total Deductions	45,859
Change in Net Assets	(22,264)
Net Assets, July 1, 2011	229,284
Net Assets, June 30, 2012	\$ 207,020

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, 2012

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, 2012.

A physical inventory of the proprietary fund's food and supplies was taken as of June 30, 2012. 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 \$769,293 as of June 30, 2012.

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. Net Assets/Fund Balances

GASB Statement No. 54 establishes accounting and financial standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions as follows:

- *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 for capital projects.
- *Unassigned.* This classification consists of amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance.

The School's GASB 54 Fund Balance Policy is to apply expenditures against any nonspendable funds, restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The School District has net assets restricted for future capital projects.
- *Unrestricted Net Assets* – This category represents net assets of the District not restricted for any project or other purpose.

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 a resolution.
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 and debt service expenditures that were not budgeted.

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, 2012, \$24,164,745 of the District’s bank balance of \$ 24,917,981 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Insured Amount	\$ 753,236
Uninsured and Collateralized Held by the Pledging Bank’s Trust Department not in the District’s Name	24,164,745
Less: Outstanding Checks	<u>(8,653,401)</u>
Carrying Amount of Bank Balance	16,264,580
Plus: Petty Cash	<u>800</u>
Total Cash and Cash Equivalents per Financial Statements	<u>\$ 16,265,380</u>

Investments

As of June 30, 2012, the District had the following investments:

Investment Type	Maturities	Fair Value
Cash and Cash Equivalents		\$ 491,508
Fixed Income Treasury Bonds	Less than 1 year	1,367,853
Fixed Income Exchange Traded Funds	1-3 years	<u>987,129</u>
		<u>\$ 2,846,490</u>

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

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 18.7626 mills.

The School District also collects earned income tax and local services tax from its residents. The tax rate for the current fiscal year is 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, 2012 are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net</u>	<u>Tax Revenue Recognized</u>	<u>Deferred Taxes</u>
Real Estate	\$ 6,323,053	\$ 690,000	\$ 5,633,053	\$ 513,169	\$ 5,119,884
Transfer Tax	<u>82,000</u>	<u>-</u>	<u>82,000</u>	<u>82,000</u>	<u>-</u>
	<u>\$ 6,405,053</u>	<u>\$ 690,000</u>	<u>\$ 5,715,053</u>	<u>\$ 595,169</u>	<u>\$ 5,119,884</u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2012, the following amounts are due from other governmental units:

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE (CONTINUED)

	General Fund	Food Service Fund	Total
Federal	\$ 1,356,313	\$ 123,684	\$ 1,479,997
State	2,128,907	8,113	2,137,020
	<u>\$ 3,485,220</u>	<u>\$ 131,797</u>	<u>\$ 3,617,017</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year is as follows:

	June 30, 2011	Additions	Deletions	June 30, 2012
Governmental Activities				
Capital Assets Not Depreciated:				
Land	\$ 8,408,326	\$ -	\$ -	\$ 8,408,326
Construction in Progress	217,549	6,711,119	-	6,928,668
Total Assets Not Depreciated	<u>\$ 8,625,875</u>	<u>\$ 6,711,119</u>	<u>\$ -</u>	<u>\$ 15,336,994</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 197,627,189	\$ 6,895,504	\$(9,139,143)	\$ 195,383,550
Furniture and Equipment	37,006,225	1,538,056	(67,282)	38,476,999
Vehicles	2,959,567	-	-	2,959,567
Total Assets Depreciated	<u>237,592,981</u>	<u>8,433,560</u>	<u>(9,206,425)</u>	<u>236,820,116</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(95,139,779)	(4,059,999)	2,188,540	(97,011,238)
Furniture and Equipment	(29,891,818)	(2,246,818)	67,282	(32,071,354)
Vehicles	(2,376,573)	(188,007)	-	(2,564,580)
Total Accumulated Depreciation	<u>(127,408,170)</u>	<u>(6,494,824)</u>	<u>2,255,822</u>	<u>(131,647,172)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 110,184,811</u>	<u>\$ 1,938,736</u>	<u>\$(6,950,603)</u>	<u>\$ 105,172,944</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Building	\$ 6,703,500	\$ 125,000	\$ (183,236)	\$ 6,645,264
Equipment	1,223,720	26,414	-	1,250,134
Vehicles	106,317	-	-	106,317
Total Assets Depreciated	<u>8,033,537</u>	<u>151,414</u>	<u>(183,236)</u>	<u>8,001,715</u>
Less Accumulated Depreciation:				
Building	(838,873)	(173,705)	-	(1,012,578)
Equipment	(869,764)	(136,375)	-	(1,006,139)
Vehicles	(106,317)	-	-	(106,317)
Total Accumulated Depreciation	<u>(1,814,954)</u>	<u>(310,080)</u>	<u>-</u>	<u>(2,125,034)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 6,218,583</u>	<u>\$ (158,666)</u>	<u>\$ (183,236)</u>	<u>\$ 5,876,681</u>

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:	
Instruction	\$ 6,233,923
Support Services:	
Student Transportation	81,344
Administration	129,170
Operation and Maintenance	<u>50,387</u>
 Total Depreciation Expense- Governmental Activities	 <u>\$ 6,494,824</u>
 Business-Type Activities:	
Food Service	252,627
Stadium Commission	<u>57,453</u>
 Total Depreciation Expense- Business-Type Activities	 <u>\$ 310,080</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The composition of transfer balances as of June 30, 2012 is as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Governmental Activities-Internal Service Funds	<u>\$ 300,000</u>

Transfers are used to move unrestricted funds between the General Fund and other funds.

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 in the Governmental Activities and Food Service Fund. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Food Service Fund</u>	<u>Total</u>
Building	\$ 6,582,400	\$ 4,869,489	\$ 11,451,889
Equipment	3,318,404	-	3,318,404
Less Accumulated Depreciation	<u>(2,922,780)</u>	<u>(447,002)</u>	<u>(3,369,782)</u>
Carrying Value of Building And Equipment	<u>\$ 6,978,024</u>	<u>\$ 4,422,487</u>	<u>\$ 11,400,511</u>

NOTE 8 - CAPITAL LEASES (CONTINUED)

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

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, 2012:

2013	\$ 1,055,161
2014	1,012,906
2015	897,992
2016	902,722
2017	895,558
2018-2022	4,500,235
2023-2027	4,504,527
2028-2032	<u>1,916,732</u>
Total Minimum Lease Payments	15,685,833
Less Amount Representing Interest	<u>(5,136,976)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 10,548,857</u>

NOTE 9 - LONG -TERM DEBT

Governmental Activities

The notes payable at June 30, 2012 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:

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.

NOTE 9 - LONG - TERM DEBT (CONTINUED)

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

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

On March 1, 2012, the School District issued \$5,825,000 aggregate principal amount General Obligation Bonds Series of 2011. The purpose of the bonds was the refunding of the Bond Anticipation Note Series of 2011. The 2012 bonds mature on September 1 of each year beginning in 2013. The bonds require semi-annual interest payments on March 1 and September 1 of each year, beginning September 1, 2013, with interest on the bonds ranging from 2.0% to 4.0%.

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

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

Compensated absences include accrued sick and personal days.

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

Bond Anticipation Note

During the year, the District obtained a \$5,825,000 Bond Anticipation Note. The proceeds were used for general cash flow needs. The Note has been paid off as of June 30, 2012.

NOTE 9 - LONG - TERM DEBT (CONTINUED)

Business-Type Activities

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

The following summarizes the maturities and interest payments for general obligation bonds/notes and notes payable as of June 30, 2012.

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,859,202	\$ 341,821	\$ 7,201,023
2014	6,604,307	606,672	7,210,979
2015	6,365,480	850,051	7,215,531
2016	6,137,994	1,104,796	7,242,790
2017	5,931,643	1,311,882	7,243,525
2018-2022	25,896,706	9,699,148	35,595,854
2023-2027	27,918,328	5,373,111	33,291,439
2028-2032	33,482,854	10,959,132	44,441,986
	<u>\$119,196,514</u>	<u>\$ 30,246,613</u>	<u>\$149,443,127</u>

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	95,000	130,000	225,000
2018-2022	205,000	590,074	795,074
2023-2027	-	477,012	477,012
2028-2032	1,365,000	343,366	1,708,366
2033-2037	-	185,387	185,387
2038-2042	2,235,000	23,644	2,258,644
	<u>\$ 4,260,000</u>	<u>\$ 2,305,204</u>	<u>\$ 6,565,204</u>

NOTE 9 - LONG - TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30, 2012 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$102,603,346	\$ 62,933,811	\$(46,340,643)	\$119,196,514	\$ 6,859,202
Compensated Absences	3,684,844	1,630,283	(362,086)	4,953,041	1,000,000
Capital Lease Payable	486,869	10,285,000	(223,012)	10,548,857	625,501
Retirement Incentive	1,886,928	-	(469,862)	1,417,066	570,129
	<u>\$108,661,987</u>	<u>\$ 74,849,094</u>	<u>\$(47,395,603)</u>	<u>\$136,115,478</u>	<u>\$ 9,054,832</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	<u>\$ 4,345,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 4,260,000</u>	<u>\$ 85,000</u>

NOTE 10 - RETIREMENT PLAN

A. Plan Description

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

B. Funding Policy

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

NOTE 10 - RETIREMENT PLAN (CONTINUED)

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

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

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

For the fiscal year ended June 30, 2012, the rate of employee contribution was 8.65 percent of covered payroll.

The School District's contributions to the System for the years ending June 30, 2012, 2011, and 2010 were \$6,047,996, \$4,329,424, and \$4,169,572, respectively, equal to the required contributions for each year.

Shared Risk

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

NOTE 11 - SELF-INSURANCE

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

NOTE 11 - SELF-INSURANCE (CONTINUED)

At June 30, 2012, the workers' compensation fund had a liability of \$163,238, which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers' compensation claim payments totaled \$150,121 for the year ended June 30, 2012.

Health insurance claim payments totaled \$18,106,313 for the year ended June 30, 2012 and a liability of \$3,653,777 at June 30, 2012.

The dental plan has a liability of \$33,622, which represents current year claims paid by the administrator but not reimbursed by the District as of June 30, 2012. Claim payments totaled \$905,612 for the year ended June 30, 2012.

At June 30, 2012, the workers' compensation, health insurance and dental plan had a net assets balance of \$827,706, \$1,426,995 and \$19,988, respectively.

Changes in the balances of claims liabilities during the years ended June 30, 2010 through 2012 are as follows:

	<u>Workers'</u> <u>Comp.</u>	<u>Dental</u> <u>Plan</u>	<u>Health</u> <u>Insurance</u>	<u>Total</u>
Unpaid Claims, June 30, 2010	\$ 118,053	\$ 38,232	\$ 5,288,310	\$ 5,444,595
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, July 1, 2011	190,798	45,243	3,883,550	4,119,591
Incurred Claims	122,561	893,991	17,876,540	18,893,092
Claim Payments	<u>(150,121)</u>	<u>(905,612)</u>	<u>(18,106,313)</u>	<u>(19,162,046)</u>
Unpaid Claims, June 30, 2012	<u>\$ 163,238</u>	<u>\$ 33,622</u>	<u>\$ 3,653,777</u>	<u>\$ 3,850,637</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 \$19,988 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, 2012

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, 2012, 304 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$3,499,662 (\$3,729,270 net of retiree contributions of \$229,608 in 2011/12).

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.

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

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

Annual Required Contribution	\$ 6,360,976
Interest on Net OPEB Obligation	432,976
Adjustment to Annual Required Contributions	<u>(590,690)</u>
Annual OPEB Cost	6,203,262
Contribution Made	<u>(3,499,662)</u>
Increase in Net OPEB Obligation	2,703,600
Net OPEB Obligation - Beginning of Year	<u>9,621,688</u>
 Net OPEB Obligation - End of Year	 <u>\$ 12,325,288</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2012	\$ 6,203,262	50.33%	\$ 12,325,288
June 30, 2011	5,947,209	47.26%	9,621,688
June 30, 2010	5,986,711	59.7%	6,485,095
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.

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

The ARC for the current year was computed as of June 30, 2012 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.

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, 2011	-	\$ 60,743,894	\$ 60,743,894	0%	\$ 67,093,945	90.5%
July 1, 2009	-	53,085,669	53,085,669	0%	73,926,514	71.8%
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, 2012 and the two previous fiscal years, no settlement exceeded insurance coverage.

NOTE 15 - OTHER ASSETS

In November 2000 the School District purchased 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, 2012 was \$1,054,561.

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).

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 exercised on November 1, 2011 the “SIFMA SWAP” and Basis Interest Rate Swap. The District has issued variable rate bonds for the purpose of currently refunding the 2001 Bond issue.

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

Fair Value

Because interest rates have declined from rates that were in effect on dates the swaps were entered into, both swaps have a negative fair value as of June 30, 2012. 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, 2012, the swaps had a fair value of negative \$ 13,273,000.

Risks

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

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

Credit Risk As of June 30, 2012, 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.

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

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

NOTE 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 District has agreed to negotiate with NPIA concerning NPIA's acquiring future tax claims from the District for the fiscal year ending June 30, 2011 and thereafter pursuant to the terms and conditions of the agreement. The District sold the 2011 delinquent real estate tax claims during the year ended June 30, 2012. The purchase price for the tax claims was \$2,593,060, less fees of \$156,070 and reserve account of \$249,800, for a net of \$2,424,099. Tax claims outstanding at date of sale was \$3,313,321. The net loss realized in Statement of Activities was \$720,266.

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

NOTE 18 – RESTATEMENT OF NET ASSETS/FUND BALANCE

Beginning net assets/fund balance were restated to reflect the following:

- An understatement of the School District's accounts payable for health insurance for \$2,721,428.
- An overstatement of the School District's unearned revenues of \$ 2,347,874.

	General Fund - Fund Balance	Governmental Activities – Net Assets	Governmental Activities – Internal Service Funds – Net Assets
Beginning Balance	\$ (14,680,022)	\$ (16,973,871)	\$ 2,758,947
Restatement:			
Health Insurance Accounts Payable	-	(2,721,428)	(2,721,428)
Unearned Revenue	2,347,874	2,347,874	-
Beginning Balance, as restated	<u>\$ (12,332,148)</u>	<u>\$ (17,347,425)</u>	<u>\$ 37,519</u>

NOTE 19 – SUBSEQUENT EVENTS

The School District closed three elementary schools in July 2012. The School District is evaluating the future use of the schools. The schools that were closed were:

- Burton
- Glenwood
- Irving

The School District sold the former Hamilton Elementary building in July 2012 and the Glenwood Elementary building in January 2013.

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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 53,914,834	\$ 54,117,905	\$ 53,316,309	\$ (801,596)
State Sources	84,011,176	84,943,037	84,794,585	(148,452)
Federal Sources	15,448,071	18,252,087	18,615,446	363,359
Total Revenues	<u>153,374,081</u>	<u>157,313,029</u>	<u>156,726,340</u>	<u>(586,689)</u>
Expenditures and Other Financing Uses				
Instruction				
Regular Programs	65,255,279	67,698,288	73,071,859	(5,373,571)
Special Education Program	22,198,517	22,057,603	21,034,615	1,022,988
Vocational Education Programs	4,296,614	4,414,134	4,227,149	186,985
Other Instructional Programs	1,577,386	2,563,798	1,864,233	699,565
Adult Education Programs	15,128	15,128	497,568	(482,440)
Pre Kindergarten	1,177,525	1,178,350	1,158,761	19,589
Total Instruction	<u>94,520,449</u>	<u>97,927,301</u>	<u>101,854,185</u>	<u>(3,926,884)</u>
Support Services				
Pupil Personnel	8,003,894	7,351,051	5,972,432	1,378,619
Instructional Staff	5,572,935	5,341,269	5,723,038	(381,769)
Administrative	10,904,008	11,329,577	10,647,736	681,841
Pupil Health	1,469,955	1,411,604	1,357,819	53,785
Business	3,006,007	3,192,296	3,299,978	(107,682)
Operation and Maintenance of				
Plant Services	14,235,937	14,678,268	12,929,159	1,749,109
Student Transportation Services	4,044,575	4,039,703	4,335,528	(295,825)
Staff Services	1,647,831	1,753,235	1,442,734	310,501
Other Support Services	181,800	181,800	174,726	7,074
Total Support Services	<u>49,066,942</u>	<u>49,278,803</u>	<u>45,883,150</u>	<u>3,395,653</u>
Operation of Noninstructional Services				
Student Activities	1,885,860	1,914,469	1,781,211	133,258
Community Services	435,248	1,132,341	879,112	253,229
Total Noninstructional Services	<u>2,321,108</u>	<u>3,046,810</u>	<u>2,660,323</u>	<u>386,487</u>
Facilities Acquisition, Construction and Improvement Services				
	<u>139,500</u>	<u>111,807</u>	<u>641,519</u>	<u>(529,712)</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, 2012
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 6,388,859	\$ 6,253,647	\$ 8,980,300	\$ (2,726,653)
Total Expenditures	<u>152,436,858</u>	<u>156,618,368</u>	<u>160,019,477</u>	<u>(3,401,109)</u>
Excess of Revenues Over/(Under) Expenditures	<u>937,223</u>	<u>694,661</u>	<u>(3,293,137)</u>	<u>(3,987,798)</u>
Other Financing Sources (Uses)				
Transfers - in	703,664	670,407	300,000	(370,407)
Transfers - (out)	(702,312)	(585,073)	-	585,073
Change in Inventory	-	-	(22,199)	(22,199)
Debt Issuance Proceeds	-	-	48,954,202	48,954,202
Lease Proceeds	-	-	10,285,000	10,285,000
Refunding Payments	-	-	(43,129,202)	(43,129,202)
Bond Premium	-	-	69,291	69,291
Refund of Prior Year	-	-	(453,910)	(453,910)
Budgetary Reserve	(305,000)	(205,000)	-	205,000
Total Other Financing Uses	<u>(303,648)</u>	<u>(119,666)</u>	<u>16,003,182</u>	<u>16,122,848</u>
Net Change in Fund Balance	633,575	574,995	12,710,045	12,135,050
Fund Balance - July 1, 2011, restated	<u>(12,332,148)</u>	<u>(12,332,148)</u>	<u>(12,332,148)</u>	<u>-</u>
Fund Balance - June 30, 2012	<u>\$ (11,698,573)</u>	<u>\$ (11,757,153)</u>	<u>\$ 377,897</u>	<u>\$ 12,135,050</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Assets - Nonmajor Proprietary Funds
June 30, 2012

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 57,581	\$ 2,099	\$ 59,680
Investments	177,068	-	177,068
Total Current Assets	<u>234,649</u>	<u>2,099</u>	<u>236,748</u>
Non-Current Assets			
Buildings and Building Improvements	522,622	-	522,622
Machinery and Equipment	200,916	-	200,916
Accumulated Depreciation	(352,248)	-	(352,248)
Total Non-Current Assets	<u>371,290</u>	<u>-</u>	<u>371,290</u>
Total Assets	<u>\$ 605,939</u>	<u>\$ 2,099</u>	<u>\$ 608,038</u>
Net Assets			
Invested in Capital Assets	\$ 371,290	\$ -	\$ 371,290
Unrestricted	<u>234,649</u>	<u>2,099</u>	<u>236,748</u>
Total Net Assets	<u>605,939</u>	<u>2,099</u>	<u>608,038</u>
Total Liabilities and Net Assets	<u>\$ 605,939</u>	<u>\$ 2,099</u>	<u>\$ 608,038</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, 2012

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues			
Charges for Services	\$ 43,959	\$ -	\$ 43,959
Other Income	62,711	-	62,711
Total Operating Revenues	<u>106,670</u>	<u>-</u>	<u>106,670</u>
Operating Expenses			
Salaries	10,021	-	10,021
Supplies and Food	19,442	-	19,442
Depreciation	57,453	-	57,453
Other Operating Expenses	<u>27,274</u>	<u>-</u>	<u>27,274</u>
Total Operating Expenses	<u>114,190</u>	<u>-</u>	<u>114,190</u>
Operating Income/(Loss)	<u>(7,520)</u>	<u>-</u>	<u>(7,520)</u>
Nonoperating Revenues/(Expenses)			
Earnings/(Loss) on Investments	<u>(678)</u>	<u>2</u>	<u>(676)</u>
Total Nonoperating Revenues/(Expenses)	<u>(678)</u>	<u>2</u>	<u>(676)</u>
Change in Net Assets	(8,198)	2	(8,196)
Net Assets, July 1, 2011	<u>614,137</u>	<u>2,097</u>	<u>616,234</u>
Net Assets, June 30, 2012	<u>\$ 605,939</u>	<u>\$ 2,099</u>	<u>\$ 608,038</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, 2012

	Stadium Commission	Play Erie	Total
Cash Flows From Operating Activities:			
Cash Received from Users	\$ 108,202	\$ -	\$ 108,202
Cash Payments to Employees for Services	(10,021)	-	(10,021)
Cash Payments to Suppliers for Goods and Services	(19,442)	-	(19,442)
Cash Payments for Operating Expenses	(27,274)	-	(27,274)
Net Cash (Used for) Operating Activities	<u>51,465</u>	<u>-</u>	<u>51,465</u>
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(125,000)	-	(125,000)
Net Cash Used by Capital and Related Financing Activities	<u>(125,000)</u>	<u>-</u>	<u>(125,000)</u>
Cash Flows from Investing Activities:			
Earnings (Loss) from Investments	(678)	2	(676)
Purchase of Investments	(77,468)	-	(77,468)
Sale of Investments	122,000	-	122,000
Net Cash Provided by Investing Activities	<u>43,854</u>	<u>2</u>	<u>43,856</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(29,681)	2	(29,679)
Cash and Cash Equivalents at Beginning of Year	<u>87,262</u>	<u>2,097</u>	<u>89,359</u>
Cash and Cash Equivalents at End of Year	<u>\$ 57,581</u>	<u>\$ 2,099</u>	<u>\$ 59,680</u>
Reconciliation of Operating Income to Net Cash (Used for)			
Operating Activities:			
Operating Income (Loss)	\$ (7,520)	\$ -	\$ (7,520)
Adjustment to Reconcile Operating Income (Loss) to Net Cash			
(Used) for Operating Activities			
Depreciation	57,453	-	57,453
Decrease in Accrued Interest Receivable	1,532	-	1,532
	<u>\$ 51,465</u>	<u>\$ -</u>	<u>\$ 51,465</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Combining Statement of Net Assets - Internal Service Funds

June 30, 2012

	Workers' Comp.	Dental Plan	Health Plan	Total
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 412,858	\$ -	\$ 2,549,436	\$ 2,962,294
Investments	578,086	-	2,091,336	2,669,422
Receivables - Other	-	33,622	-	33,622
Prepaid Expenses	-	19,988	440,000	459,988
Total Current Assets	990,944	53,610	5,080,772	6,125,326
Total Assets	\$ 990,944	\$ 53,610	\$ 5,080,772	\$ 6,125,326
Liabilities				
Current Liabilities				
Accounts Payable	\$ 163,238	\$ 33,622	\$ 3,653,777	\$ 3,850,637
Total Current Liabilities	163,238	33,622	3,653,777	3,850,637
Net Assets				
Unrestricted	827,706	19,988	1,426,995	2,274,689
Total Net Assets	827,706	19,988	1,426,995	2,274,689
Total Liabilities and Net Assets	\$ 990,944	\$ 53,610	\$ 5,080,772	\$ 6,125,326

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, 2012

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 352,587	\$ 923,055	\$ 22,477,928	\$ 23,753,570
Total Operating Revenues	<u>352,587</u>	<u>923,055</u>	<u>22,477,928</u>	<u>23,753,570</u>
Operating Expenses				
Other Operating Expenses	2,608	49,220	844,796	896,624
Insurance Expense	-	-	1,162,916	1,162,916
Claim Payments	<u>150,121</u>	<u>905,612</u>	<u>18,106,313</u>	<u>19,162,046</u>
Total Operating Expenses	<u>152,729</u>	<u>954,832</u>	<u>20,114,025</u>	<u>21,221,586</u>
Operating Income (Loss)	<u>199,858</u>	<u>(31,777)</u>	<u>2,363,903</u>	<u>2,531,984</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	<u>3,061</u>	<u>-</u>	<u>2,125</u>	<u>5,186</u>
Total Nonoperating Revenue (Expense)	<u>3,061</u>	<u>-</u>	<u>2,125</u>	<u>5,186</u>
Income (Loss) before Operating Transfers	202,919	(31,777)	2,366,028	2,537,170
Operating Transfers (Out)	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Change in Net Assets	(97,081)	(31,777)	2,366,028	2,237,170
Net Assets, July 1, 2011, as restated	<u>924,787</u>	<u>51,765</u>	<u>(939,033)</u>	<u>37,519</u>
Net Assets , June 30, 2012	<u>\$ 827,706</u>	<u>\$ 19,988</u>	<u>\$ 1,426,995</u>	<u>\$ 2,274,689</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, 2012

	<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	\$ 352,587	\$ 934,676	\$ 22,477,928	\$ 23,765,191
Cash Payments to Suppliers for Goods and Services	(180,289)	(934,676)	(20,343,798)	(21,458,763)
Net Cash Provided by Operating Activities	<u>172,298</u>	<u>-</u>	<u>2,134,130</u>	<u>2,306,428</u>
Cash Flows from Noncapital Financing Activities:				
Transfers Out	(300,000)	-	-	(300,000)
Net Cash Used by Noncapital Financing Activities	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	3,061	-	2,125	5,186
Purchase of Investments	-	-	(600,336)	(600,336)
Sale of Investments	342	-	7,721	8,063
Net Cash Provided by Investing Activities	<u>3,403</u>	<u>-</u>	<u>(590,490)</u>	<u>(587,087)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(124,299)	-	1,543,640	1,419,341
Cash and Cash Equivalents at Beginning of Year	<u>537,157</u>	<u>-</u>	<u>1,005,796</u>	<u>1,542,953</u>
Cash and Cash Equivalents at End of Year	<u>\$ 412,858</u>	<u>\$ -</u>	<u>\$ 2,549,436</u>	<u>\$ 2,962,294</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 199,858	\$ (31,777)	\$ 2,363,903	\$ 2,531,984
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities				
(Increase) Decrease in Receivables	-	11,621	-	11,621
(Increase) Decrease in Prepaid Expenses	-	31,777	-	31,777
Increase (Decrease) in Accounts Payable	(27,560)	(11,621)	(229,773)	(268,954)
	<u>\$ 172,298</u>	<u>\$ -</u>	<u>\$ 2,134,130</u>	<u>\$ 2,306,428</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, 2012

	<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>
ASSETS								
Cash and Cash Equivalents	\$ 12,620	\$ -	\$ 1,571	\$ 173	\$ 1,717	\$ 98,055	\$ 11,795	\$ 3,716
Total Assets	<u>\$ 12,620</u>	<u>\$ -</u>	<u>\$ 1,571</u>	<u>\$ 173</u>	<u>\$ 1,717</u>	<u>\$ 98,055</u>	<u>\$ 11,795</u>	<u>\$ 3,716</u>
NET ASSETS								
Held in Trust for Scholarships	\$ 12,620	\$ -	\$ 1,571	\$ 173	\$ 1,717	\$ 98,055	\$ 11,795	\$ 3,716
Total Liabilities and Net Assets	<u>\$ 12,620</u>	<u>\$ -</u>	<u>\$ 1,571</u>	<u>\$ 173</u>	<u>\$ 1,717</u>	<u>\$ 98,055</u>	<u>\$ 11,795</u>	<u>\$ 3,716</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, 2012
(Continued)

	<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>CHAMPS Fundraising</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
ASSETS							
Cash and Cash Equivalents	\$ 799	\$ 2,261	\$ 3,351	\$ 313	\$ 55	\$ 70,594	\$ 207,020
Total Assets	<u>\$ 799</u>	<u>\$ 2,261</u>	<u>\$ 3,351</u>	<u>\$ 313</u>	<u>\$ 55</u>	<u>\$ 70,594</u>	<u>\$ 207,020</u>
NET ASSETS							
Held in Trust for Scholarships	\$ 799	\$ 2,261	\$ 3,351	\$ 313	\$ 55	\$ 70,594	\$ 207,020
Total Liabilities and Net Assets	<u>\$ 799</u>	<u>\$ 2,261</u>	<u>\$ 3,351</u>	<u>\$ 313</u>	<u>\$ 55</u>	<u>\$ 70,594</u>	<u>\$ 207,020</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2012

	<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	\$ 12	\$ -	\$ 2	\$ -	\$ 42	\$ 194	\$ 35	\$ 42
Contributions	-	-	-	-	-	19,000	-	-
Total Additions	<u>12</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>42</u>	<u>19,194</u>	<u>35</u>	<u>42</u>
Deductions:								
Scholarships	-	-	-	-	-	41,519	-	-
Other Expense	-	712	-	-	-	-	-	116
Total Deductions	<u>-</u>	<u>712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,519</u>	<u>-</u>	<u>116</u>
Change in Net Assets	12	(712)	2	-	42	(22,325)	35	(74)
Net Assets, July 1, 2011	<u>12,608</u>	<u>712</u>	<u>1,569</u>	<u>173</u>	<u>1,675</u>	<u>120,380</u>	<u>11,760</u>	<u>3,790</u>
Net Assets, June 30, 2012	<u><u>\$ 12,620</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,571</u></u>	<u><u>\$ 173</u></u>	<u><u>\$ 1,717</u></u>	<u><u>\$ 98,055</u></u>	<u><u>\$ 11,795</u></u>	<u><u>\$ 3,716</u></u>

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

<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>CHAMPS Fundraising</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ -	\$ 2	\$ 9	\$ 1	\$ -	\$ 101	\$ 440
200	-	-	-	-	3,955	23,155
200	2	9	1	-	4,056	23,595
-	-	-	-	-	1,000	42,519
2,512	-	-	-	-	-	3,340
2,512	-	-	-	-	1,000	45,859
(2,312)	2	9	1	-	3,056	(22,264)
3,111	2,259	3,342	312	55	67,538	229,284
<u>\$ 799</u>	<u>\$ 2,261</u>	<u>\$ 3,351</u>	<u>\$ 313</u>	<u>\$ 55</u>	<u>\$ 70,594</u>	<u>\$ 207,020</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
<u>U.S. Department of Agriculture</u>				
Passed Through the PA Department of Agriculture				
National School Lunch Program - Donated Commodities	I	10.555	2-01-25-100	7/1/11-6/30/12
Passed Through the PA Department of Education				
National School Lunch Program	I	10.555	362	7/1/10-6/30/11
National School Lunch Program	I	10.555	362	7/1/11-6/30/12
After School Snacks	I	10.555	359	7/1/10-6/30/11
After School Snacks	I	10.555	359	7/1/11-6/30/12
Subtotal				
Severe Needy Breakfast Program	I	10.553	367	7/1/10-6/30/11
Severe Needy Breakfast Program	I	10.553	367	7/1/11-6/30/12
Regular Needy Breakfast Program	I	10.553	365	7/1/10-6/30/11
Regular Needy Breakfast Program	I	10.553	365	7/1/11-6/30/12
Subtotal				
Total Child Nutrition Cluster				
Elect & Fatherhood Initiative	I	10.561	110-100009	7/1/10-6/30/11
Elect & Fatherhood Initiative	I	10.561	110-110009	7/1/11-6/30/12
Subtotal				
Total U.S. Department of Agriculture				
<u>U.S. Department of Education</u>				
Improving Literacy Through School Libraries Program	D	84.364A	NA	9/1/10-8/31/11
Passed Through PA Department of Education				
Adult Basic Education	I	84.002	041-110034	7/1/10-9/30/11
Sec 223 Adult Education	I	84.002	061-110004	7/1/10-9/30/11
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2012
\$ (94,533) (b)	\$ 451,271 (a)	\$ 504,974 (c)	\$ (40,830) (d)
135,904	135,904	-	-
-	4,073,398	4,170,174	96,776
207	207	-	-
-	59,392	61,404	2,012
41,578	4,720,172	4,736,552	57,958
31,566	31,566	-	-
-	978,262	1,002,619	24,357
388	388	-	-
-	19,555	20,094	539
31,954	1,029,771	1,022,713	24,896
73,532	5,749,943	5,759,265	82,854
27,291	27,291	-	-
-	47,047	70,911	23,864
27,291	74,338	70,911	23,864
100,823	5,824,281	5,830,176	106,718
177,861	246,429	68,568	-
76,833	76,979	146	-
(6,357)	(234)	6,123	-
70,476	76,745	6,269	-

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, 2012

(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	013-100139	7/1/10-9/30/11
Title I Improving Basics Program	I	84.010	013-110139	7/1/10-9/30/11
Title I Improving Basics Program	I	84.010	013-120139	7/1/11-9/30/12
Prog. Improvement-Set Aside	I	84.010	042-100139	11/20/08-9/30/11
Title I Academic Achievement	I	84.010	077-100139	8/1/10-9/30/11
Subtotal				
Passed Through PA Department of Education				
ARRA-Title I	I	84.389	127-100139	5/18/09-9/30/11
ARRA - Title I School Improvement	I	84.389	134-100139	7/1/10-9/30/11
Subtotal				
Total Title I Cluster				
School Improvement Grant	I	84.377	142-110139	7/1/11-9/30/12
ARRA-State Fiscal Stabilization Funds	I	84.394	126-100139	5/18/09-9/30/11
ARRA-State Fiscal Stabilization Funds	I	84.394	126-100139	7/1/09-9/30/11
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	7/1/10-9/30/11
Subtotal				
Passed Through Midwestern Intermediate Unit #IV				
Drug Free Schools	I	84.186	100-090139	10/14/08-3/31/11
Drug Free Schools	I	84.186	100-100139	11/2/09-9/30/11

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2012
\$ (158,859)	\$ -	\$ 158,859	\$ -
(1,415,646)	2,469,711	3,885,357	-
-	4,466,049	4,215,383	(250,666)
(12,658)	20,054	32,712	-
(5,211)	2,680	7,891	-
<u>(1,592,374)</u>	<u>6,958,494</u>	<u>8,300,202</u>	<u>(250,666)</u>
2,005,399	2,504,267	498,868	-
(10,549)	19,134	29,683	-
<u>1,994,850</u>	<u>2,523,401</u>	<u>528,551</u>	<u>-</u>
402,476	9,481,895	8,828,753	(250,666)
<u>-</u>	<u>1,730,769</u>	<u>2,049,689</u>	<u>318,920</u>
(17,927)	-	17,927	-
(10,719)	-	10,719	-
2,848,231	3,551,326	703,095	-
74,167	75,386	1,219	-
<u>2,893,752</u>	<u>3,626,712</u>	<u>732,960</u>	<u>-</u>
(269)	-	269	-
(6,967)	-	6,967	-

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, 2012

(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
Subtotal				
Title II Improving Teacher Quality	I	84.367	020-100139	7/1/10-9/30/11
Title II Improving Teacher Quality	I	84.367	020-110139	7/1/10-9/30/11
Title II Improving Teacher Quality	I	84.367	020-120139	7/1/11-9/30/12
Subtotal				
Title II Education Technology	I	84.318	055-110139	8/12/11-9/30/12
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 III Language Inst LEP Immigrant Students	I	84.365	010-100139	7/1/10-9/30/11
Title III Language Inst LEP Immigrant Students	I	84.365	010-110139	7/1/10-9/30/11
Title III Language Inst LEP Immigrant Students	I	84.365	010-120139	7/1/11-9/30/12
Subtotal				
Secondary Education/Perkins	I	84.048	380-122055	9/1/11-6/30/12
Subtotal				
Passed Through Midwestern Intermediate Unit #IV				
Homeless Children & Youth	I	84.196	081-100008	10/1/10-9/30/11
Homeless Children & Youth	I	84.196	081-110008	7/1/11-6/30/12
Subtotal				
Passed Through Northwest Tri-County Intermediate Unit				
EHA-B IDEA	I	84.027	062-02-0-005	7/1/11-6/30/12
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2012
\$ (7,236)	\$ -	\$ 7,236	\$ -
(5,744)	-	5,744	-
(240,791)	752,929	993,720	-
-	429,084	437,320	8,236
(246,535)	1,182,013	1,436,784	8,236
-	25,000	5,252	(19,748)
-	25,000	5,252	(19,748)
(134,953)	-	134,953	-
(134,953)	25,000	140,205	(19,748)
(3,010)	-	3,010	-
(40,736)	77,423	118,159	-
-	126,524	74,921	(51,603)
(43,746)	203,947	196,090	(51,603)
-	392,357	392,357	-
-	392,357	392,357	-
18,497	18,497	81,595	81,595
-	-	71,273	71,273
18,497	18,497	152,868	152,868
-	2,009,199	2,009,199	-
-	2,009,199	2,009,199	-

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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, 2012

(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	7/1/11-6/30/12
Subtotal				
ARRA-EHA-B IDEA	I	84.391	N/A	7/1/09-9/30/11
ARRA-EHA-B IDEA	I	84.391	N/A	7/1/11-9/30/12
Subtotal				
Total Special Education Cluster				
Elect Parenting 21st Century Community Learning Center	D	84.287	4100043277	7/1/10-06/30/11
Elect Parenting 21st Century Community Learning Center	D	84.287	4100043277	7/1/10-6/30/11
Elect Parenting 21st Century Community Learning Center	D	84.287	4100043277A	7/1/11-6/30/12
Elect Parenting 21st Century Community Learning Center	D	84.287	4100043277	7/1/11-6/30/12
Subtotal				
Total U.S. Department of Education				
<u>U.S. Department of Health & Human Services</u>				
Passed Through PA Department of Welfare				
State Access Indirect	I	93.778	410-0009941	7/1/10-6/30/11
State Access Indirect	I	93.778	410-0009941	7/1/11-6/30/12
Early Intervention	I	93.778	092-007139	7/1/09-6/30/10
Subtotal				
Parent-Child Home Program	D	93.556	41000144765	7/1/11-6/30/12
Family Center	D	93.556	4100044222	7/1/10-6/30/11
Family Center	D	93.556	4100044222	7/1/11-6/30/12
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2012
\$ -	\$ 473,920	\$ 473,920	\$ -
-	473,920	473,920	-
(2,853,605)	-	2,853,605	-
-	43,597	43,597	-
(2,853,605)	43,597	2,897,202	-
(2,853,605)	2,526,716	5,380,321	-
28,703	28,813	110	-
145,750	145,750	-	-
138,573	164,906	26,333	-
-	372,506	492,000	119,494
313,026	711,975	518,443	119,494
590,013	20,223,055	19,910,543	277,501
171,005	171,005	-	-
-	212,062	301,187	89,125
1,204	1,204	-	-
172,209	384,271	301,187	89,125
8,075	18,275	10,200	-
22,746	22,746	-	-
-	122,197	235,313	113,116
30,821	163,218	245,513	113,116

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, 2012

(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
Passed Through PA Department of Welfare				
Family Center/ Fatherhood Initiative	D	93.590	4100044462	7/1/10-6/30/11
Family Center/ Fatherhood Initiative	D	93.590	4100044462	7/1/11-6/30/12
Subtotal				
Passed Through PA Department of Education				
Elect & Fatherhood Initiative	I	93.558	110-100009	7/1/10-6/30/11
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/11-6/30/12
Subtotal				
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/10-8/14/11
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/11-8/14/12
Subtotal				
Passed Through Regional Center for Workforce Excellence				
Workforce Investment Act TANF	I	93.558	N/A	7/1/11-6/30/12
Workforce Investment Act TANF	I	93.558	N/A	7/1/11-6/30/12
Subtotal				
Total U.S. Department of Health & Human Services				
<u>Corporation for National and Community Service</u>				
Passed Through PA Department of Education				
Learn & Serve	I	94.004	19-100019	7/1/11-6/30/12
Learn & Serve	I	94.004	19-102050	7/1/11-6/30/12
Total Corporation for National and Community Service				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2012
\$ 4,411	\$ 4,411	\$ -	\$ -
<u>-</u>	<u>18,365</u>	<u>30,600</u>	<u>12,235</u>
<u>4,411</u>	<u>22,776</u>	<u>30,600</u>	<u>12,235</u>
105,203	105,203	-	-
<u>-</u>	<u>251,750</u>	<u>377,716</u>	<u>125,966</u>
<u>105,203</u>	<u>356,953</u>	<u>377,716</u>	<u>125,966</u>
91,684	113,658	21,974	-
<u>-</u>	<u>-</u>	<u>57,340</u>	<u>57,340</u>
<u>91,684</u>	<u>113,658</u>	<u>79,314</u>	<u>57,340</u>
(70,199)	-	70,199	-
<u>-</u>	<u>284,144</u>	<u>405,948</u>	<u>121,804</u>
<u>(70,199)</u>	<u>284,144</u>	<u>476,147</u>	<u>121,804</u>
<u>334,129</u>	<u>1,325,020</u>	<u>1,510,477</u>	<u>519,586</u>
2,767	3,667	900	-
<u>4,285</u>	<u>3,667</u>	<u>(618)</u>	<u>-</u>
<u>7,052</u>	<u>7,334</u>	<u>282</u>	<u>-</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, 2012

(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</u>				
Passed Through Regional Center for Workforce Excellence				
Workforce Investment Act Non-TANF	I	17.259	N/A	7/1/11-6/30/12
Workforce Investment Act Non-TANF	I	17.259	N/A	7/1/11-6/30/12
Total U.S. Department of Labor				
Total Federal Awards				

The accompanying notes are an integral part of this schedule.

<u>Accrued/ (Deferred) Revenue at July 1, 2011</u>	<u>Total Received for the Year</u>	<u>Expenditures</u>	<u>Accrued/ (Deferred) Revenue at June 30, 2012</u>
\$ 55,193	\$ 143,028	\$ 87,835	\$ -
<u>-</u>	<u>138,914</u>	<u>352,259</u>	<u>213,345</u>
<u>55,193</u>	<u>281,942</u>	<u>440,094</u>	<u>213,345</u>
<u>1,087,210</u>	<u>27,661,632</u>	<u>27,691,572</u>	<u>1,117,150</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, 2012

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, 2012. 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, 2011 were adjusted to reflect proper balances.

NOTE 4 – RESTATEMENT OF ACCRUED/(UNEARNED) REVENUE AT JULY 1, 2011

Accrued/(Unearned) Revenue at July 1, 2011 as reported	\$ (174,054)
Restatement Accrued/(Unearned) Revenue	<u>1,261,264</u>
Balance as Restated	<u><u>\$ 1,087,210</u></u>



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, 2012, which collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements and have issued our report thereon dated February 22, 2013. 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

Management of the School District of the City of Erie, Pennsylvania is responsible for establishing and maintaining effective 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District of the City of Erie, Pennsylvania in a separate letter dated February 22, 2013.

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.

February 22, 2013
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, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures 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 over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of 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.

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.

February 22, 2013
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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. The audit disclosed no audit findings which are required to be reported.
- vii. Major programs:

	<u>CFDA #</u>
Child Nutrition Cluster	10.555/10.553
School Improvement Grants	84.377
Special Education Cluster	84.027/84.173/84.391
ARRA - State Fiscal Stabilization Funds	84.394
- viii. Dollar threshold used to distinguish between Type A and Type B programs:
\$830,747.
- ix. The School District of the City of Erie, Pennsylvania did qualify as a low-risk auditee.

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

None.

3. Findings and questioned costs for Federal awards

None.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

1. Prior significant deficiencies:

Finding 2011-1 relative to the advancement of grant funds used to assist a repayment of general fund debt was not an issue for the fiscal year end June 30, 2012.

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, 2012

Not applicable – no current year findings.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
List of Report Distribution
For the Year Ended June 30, 2012

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 #IV
4. Regional Center for Workforce Excellence
5. Midwestern Intermediate Unit #IV



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

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

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

The procedures and associated findings are as follows:

- (a) We have verified by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DPW for fiscal year ended June 30, 2012, have been accurately compiled and reflect the audited books and records of The School District of the City of Erie, Pennsylvania. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in format required by the DPW Single Audit Supplement pertaining to this period.

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

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

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

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

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

February 22, 2013
Erie, Pennsylvania

The School District of the City of Erie, Pennsylvania
Schedule of Revenues and Expenditures
Family Center Program
For the year ended June 30, 2012

Grant number 4100057297

	<u>Budget</u>	<u>Actual</u>	<u>Exhibit IIa</u>
Revenues			
DPW Grant Revenue	\$ 291,910	\$ 291,910	
Total Revenues	<u>\$ 291,910</u>	<u>\$ 291,910</u>	
Expenditures			
Personnel	\$ 255,794	\$ 255,794	
Operations			
Training and Conferences	400	400	
Transportation and Travel	2,951	2,951	
Service Contracts	4,405	4,405	
Communication	1,800	1,800	
Facility Expenses	20,000	20,000	
Supplies	1,200	1,200	
FC Trainings	1,500	1,500	
Parent-Child Events	400	400	
Indirect Costs	3,460	3,460	
Total Operations	<u>36,116</u>	<u>36,116</u>	
Total Expenditures	<u>\$ 291,910</u>	<u>\$ 291,910</u>	

The School District of the City of Erie, Pennsylvania
Schedule of Revenues and Expenditures
Family Center Program
For the year ended June 30, 2012

Grant number 4100044222

	<u>Budget</u>	<u>Actual</u>	<u>Exhibit IIa</u>
Revenues			
DPW Grant Revenue	\$ 86,513	\$ 86,513	
Total Revenues	<u>\$ 86,513</u>	<u>\$ 86,513</u>	
Expenditures			
Personnel	\$ 78,157	\$ 78,157	
Operations			
Professional/Technical	480	480	
Training and Conferences	100	100	
Transportation and Travel	660	660	
Service Contracts	401	401	
Communication	450	450	
Facility Expenses	5,000	5,000	
Supplies	300	300	
Other	100	100	
Parent-Child Events	-	-	
Indirect Costs	865	865	
Total Operations	<u>8,356</u>	<u>8,356</u>	
Total Expenditures	<u>\$ 86,513</u>	<u>\$ 86,513</u>	

FORM SF-SAC (5-18-2010)

U.S. DEPT. OF COMM. - Econ. and Stat. Admin. - U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2010, 2011, or 2012

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

PART I GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)

1. Fiscal period ending date for this submission: Month 06, Day 30, Year 2012. 2. Type of Circular A-133 audit: 1 [X] Single audit, 2 [] Program-specific audit. 3. Audit period covered: 1 [X] Annual, 2 [] Biennial, 3 [] Other - [] Months

4. Auditee Identification Numbers: a. Primary Employer Identification Number (EIN) 25-6001265. b. Are multiple EINs covered in this report? 1 [] Yes, 2 [X] No. c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4. d. Data Universal Numbering System (DUNS) Number 06-685-5016. e. Are multiple DUNS covered in this report? 1 [] Yes, 2 [X] No. f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION (To be completed by auditee)

a. Auditee name: SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA. b. Auditee address (Number and Street): 148 WEST 21ST STREET, ERIE, PA 16502. c. Auditee contact Name: RANDY PRUCHNICKI, Title: SUPERVISOR OF FINANCE. d. Auditee contact telephone: (814) 874-6137. e. Auditee contact FAX: -. f. Auditee contact E-mail: RPRUCHNICKI@ERIESD.ORG.

6. PRIMARY AUDITOR INFORMATION (To be completed by auditor)

a. Primary auditor name: FELIX & GLOEKLER, P.C. b. Primary auditor address (Number and street): 2306 PENINSULA DRIVE, ERIE, PA 16505. c. Primary auditor contact Name: JIM GLOEKLER, Title: CPA. d. Primary auditor contact telephone: (814) 838-6095. e. Primary auditor contact FAX: -. f. Primary auditor contact E-mail: JMG@FG-CPA.COM.

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9g, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Auditee certification: NOT FOR SUBMISSION. Date: 3/1/2013. Name of certifying official: RANDY PRUCHNICKI. Title of certifying official: FINANCE SUPERVISOR.

7a. Add Secondary auditor information? (Optional) 1 [X] Yes, 2 [] No. b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.

Auditor certification: NOT FOR SUBMISSION. Date: 2/28/2013. Name of certifying official: JIM GLOEKLER. Title of certifying official: CPA.

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report
 Mark either: 1 Unqualified opinion **OR**
 any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a significant deficiency disclosed? 1 Yes 2 No

4. Is a material weakness disclosed? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 13) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § 520(b)) \$ 830,747

3. Did the auditee qualify as a low-risk auditee? (§ 530) 1 Yes 2 No

4. Is a significant deficiency disclosed for any major program? (§ 510(a)(1)) 1 Yes 2 No

5. Is a material weakness disclosed for any major program? (§ 510(a)(1)) 1 Yes 2 No

6. Are any known questioned costs reported? (§ 510(a)(3) or (4)) 1 Yes 2 No

7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ 315(b)) 1 Yes 2 No

8. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

98 <input type="checkbox"/> U.S. Agency for International Development	39 <input type="checkbox"/> General Services Administration	89 <input type="checkbox"/> National Archives and Records Administration	19 <input type="checkbox"/> U.S. Department of State
10 <input type="checkbox"/> Agriculture	93 <input type="checkbox"/> Health and Human Services	95 <input type="checkbox"/> National Endowment for the Arts	20 <input type="checkbox"/> Transportation
23 <input type="checkbox"/> Appalachian Regional Commission	97 <input type="checkbox"/> Homeland Security	06 <input type="checkbox"/> National Endowment for the Humanities	21 <input type="checkbox"/> Treasury
11 <input type="checkbox"/> Commerce	14 <input type="checkbox"/> Housing and Urban Development	47 <input type="checkbox"/> National Science Foundation	64 <input type="checkbox"/> Veterans Affairs
94 <input type="checkbox"/> Corporation for National and Community Service	03 <input type="checkbox"/> Institute of Museum and Library Services	07 <input type="checkbox"/> Office of National Drug Control Policy	00 <input checked="" type="checkbox"/> None
12 <input type="checkbox"/> Defense	15 <input type="checkbox"/> Interior	59 <input type="checkbox"/> Small Business Administration	<input type="checkbox"/> Other - Specify: []
84 <input type="checkbox"/> Education	16 <input type="checkbox"/> Justice	96 <input type="checkbox"/> Social Security Administration	
81 <input type="checkbox"/> Energy	17 <input type="checkbox"/> Labor		
66 <input type="checkbox"/> Environmental Protection Agency	09 <input type="checkbox"/> Legal Services Corporation		
	43 <input type="checkbox"/> National Aeronautics and Space Administration		

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR			10. AUDIT FINDINGS						
Federal Agency Prefix ¹	CFDA Number and Extension ²	Research and development (c)	Name of Federal program (e)	Amount expended (f)	Direct award (g)	Major program (h)	Major program If yes, type of audit report 4 (i)	Type(s) of compliance requirement(s) ⁵ (a)	Audit finding reference number(s) ⁶ (b)
1 0	.555	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	NATIONAL SCHOOL LUNCH PROGRAM	\$ 4,736,552 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A
1 0	.553	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	SEVERE NEEDY BREAKFAST PROGRAM	\$ 1,022,713 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	U	O	N/A
1 0	.561	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	SELECT & FATHERHOOD INITIATIVE	\$ 70,911 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A
8 4	.364A	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	IMPROVING LITERACY THROUGH SCHOOL LIBRARIES PROGRAM	\$ 68,568 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A
8 4	.002	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ADULT EDUCATION	\$ 6,269 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A
8 4	.010	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	TITLE I IMPROVING BASICS PROGRAM	\$ 8,305,202 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A
8 4	.389	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ARRA-TITLE I	\$ 528,551 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A
8 4	.377	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	SCHOOL IMPROVEMENT GRANT	\$ 2,049,689 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A
8 4	.394	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ARRA- STATE FISCAL STABILIZATION FUNDS	\$ 732,960 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A
8 4	.186	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	DRUG FREE SCHOOLS	\$ 7,236 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 27,691,572 .00					

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ American Recovery and Reinvestment Act of 2009 (ARRA).
⁴ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.
⁵ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.
 A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
 E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds
 I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance
 L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other
⁶ N/A for NONE

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR		10. AUDIT FINDINGS									
Federal Agency Prefix ¹	CFDA Number Extension ²	Research and development ³	A R A ³	Name of Federal program	Amount expended ⁴	Direct award	Major program	Major program If yes, type of audit report ⁴	Type(s) of compliance requirement(s) ⁵	Audit finding reference number(s) ⁶	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(a)	(b)	
8 4	.367	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	TITLE II - IMPROVING TEACHER QUALITY	\$ 1,436,784 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
8 4	.318	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	TITLE II EDUCATION TECHNOLOGY	\$ 5,252 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
8 4	.386	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ARRA - TITLE II PART D ED TECHNOLOGY	\$ 134,953 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
8 4	.365	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	TITLE III LANGUAGE INST IEP IMMIGRANT STUDENTS	\$ 196,090 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
8 4	.048	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	SECONDARY EDUCATION/ PERKINS	\$ 395,357 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
8 4	.196	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	HOMELESS CHILDREN & YOUTH	\$ 155,866 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
8 4	.027	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	EHA-B IDEA	\$ 2,009,199 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A	
8 4	.173	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	EHA-B EARLY INTERVENTION	\$ 473,920 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A	
8 4	.391	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	ARRA EHA-B IDEA	\$ 2,897,202 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A	
8 4	.287	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ELECT PARENTING 21ST CENTURY COMMUNITY LEARNING CENTER	\$ 518,443 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
TOTAL FEDERAL AWARDS EXPENDED					\$ 27,691,572 .00						

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⁵ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.
⁶ N/A for NONE

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
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 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds
 I. Procurement and suspension
 J. Program income
 K. Real property acquisition and relocation assistance
 L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR			10. AUDIT FINDINGS									
Federal Agency Prefix ¹	CFDA Number	Research and development ²	A R A ³	Name of Federal program	Amount expended ⁴	Direct award	Major program	Type(s) of compliance requirement(s) ⁵	Audit finding reference number(s) ⁶			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)			
9 3	.778	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	STATE ACCESS INDIRECT	\$ 301,187 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
9 3	.556	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	PARENT-CHILD HOME PROGRAM	\$ 245,513 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
9 3	.590	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	FAMILY CENTER/FATHERHOOD-INITIATIVE	\$ 30,600 .00	1 <input checked="" type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
9 3	.558	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	ELECT & FATHERHOOD INITIATIVE	\$ 377,716 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
9 3	.576	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	REFUGEE CHILD SCHOOL IMPROVEMENT ACT	\$ 79,314 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
9 3	.558	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	WORKFORCE INVESTMENT ACT-STATE	\$ 476,147 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
9 4	.004	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	LEARN & SERVE	\$ 282 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
1 7	.259	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	WORKFORCE INVESTMENT ACT NON-TANF	\$ 440,094 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	O	N/A			
					\$	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N					
					\$	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N					
					\$	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N					
					\$	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N					
TOTAL FEDERAL AWARDS EXPENDED					\$ 27,691,572 .00							

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I. Procurement and suspension
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K. Real property acquisition and relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None
P. Other
⁶ N/A for NONE

PART I		Item 5 Continuation Sheet	
c. List the multiple Employer Identification Numbers (EINs) covered in this report.		f. List the multiple DUNS covered in the report.	
1	N / A	21	41
2	-	22	42
3	-	23	43
4	-	24	44
5	-	25	45
6	-	26	46
7	-	27	47
8	-	28	48
9	-	29	49
10	-	30	50
11	-	31	51
12	-	32	52
13	-	33	53
14	-	34	54
15	-	35	55
16	-	36	56
17	-	37	57
18	-	38	58
19	-	39	59
20	-	40	60

PART I GENERAL INFORMATION - Continued	
8. Part I, Item 8, Secondary Auditor's Contact Information. (List the Secondary Auditor's Contact information)	
1. a. Secondary Auditor name GREG RUBAN 2306 PENINSULA DRIVE ERIE State ZIP + 4 Code PA 16506 c. Secondary Auditor contact Name GREG RUBAN Title CPA d. Secondary Auditor contact telephone (814) 838-6095 e. Secondary Auditor contact FAX () () () () () () f. Secondary Auditor contact E-mail GREG@FG-CPA.COM	2. a. Secondary Auditor name b. Secondary Auditor address (Number and street) City State ZIP + 4 Code c. Secondary Auditor contact Name Title d. Secondary Auditor contact telephone () () () () () () e. Secondary Auditor contact FAX () () () () () () f. Secondary Auditor contact E-mail Secondary Auditor contact E-mail
3. a. Secondary Auditor name b. Secondary Auditor address (Number and street) City State ZIP + 4 Code c. Secondary Auditor contact Name Title d. Secondary Auditor contact telephone () () () () () () e. Secondary Auditor contact FAX () () () () () () f. Secondary Auditor contact E-mail Secondary Auditor contact E-mail	4. a. Secondary Auditor name b. Secondary Auditor address (Number and street) City State ZIP + 4 Code c. Secondary Auditor contact Name Title d. Secondary Auditor contact telephone () () () () () () e. Secondary Auditor contact FAX () () () () () () f. Secondary Auditor contact E-mail Secondary Auditor contact E-mail
5. a. Secondary Auditor name b. Secondary Auditor address (Number and street) City State ZIP + 4 Code c. Secondary Auditor contact Name Title d. Secondary Auditor contact telephone () () () () () () e. Secondary Auditor contact FAX () () () () () () f. Secondary Auditor contact E-mail Secondary Auditor contact E-mail	6. a. Secondary Auditor name b. Secondary Auditor address (Number and street) City State ZIP + 4 Code c. Secondary Auditor contact Name Title d. Secondary Auditor contact telephone () () () () () () e. Secondary Auditor contact FAX () () () () () () f. Secondary Auditor contact E-mail Secondary Auditor contact E-mail