

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

SINGLE AUDIT REPORT

JUNE 30, 2013

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
SINGLE AUDIT REPORT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Page
Table of Contents	2-3
Independent Auditors' Report	4-6
Management's Discussion and Analysis	7-13
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	16-17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	22-23
Statement of Net Position-Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds	26
Statement of Fiduciary Net Position - Fiduciary Funds	27
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	28
Notes to Financial Statements	29-54
Combining Financial Statements and Schedules	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	55-56
Combining Statement of Net Position - Nonmajor Proprietary Funds	57
Combining Statement of Revenues, Expenses and Changes in Net Position - Nonmajor Proprietary Funds	58
Combining Statement of Cash Flows - Nonmajor Proprietary Funds	59
Combining Statement of Net Position - Internal Service Funds	60
Combining Statement of Revenues, Expenditures and Changes in Net Position - Internal Service Funds	61

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
SINGLE AUDIT REPORT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Page
Combining Statement of Cash Flows - Internal Service Funds	62
Combining Statement of Fiduciary Net Position	64-65
Combining Statement of Changes in Fiduciary Net Position	66-67
Single Audit/Grants Compliance Schedules	
Schedule of Expenditures of Federal Awards	68-75
Schedule of Expenditures of Federal Awards Footnotes and Other Information	76
Independent Auditors' Reports	77-81
Schedule of Findings and Questioned Costs	82-83
Summary Schedule of Prior Audit Findings	84
Corrective Action Plan	85
List of Report Distribution	86
Independent Accountant's Report on Applying Agreed-Upon Procedures	87-88
Schedule of Revenues and Expenditures – Family Center Program	89



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, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Independent Auditors' Report
(Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Erie, Pennsylvania basic financial statements. The combining and individual non-major financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of revenue, expenditures, and changes in fund balance – budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Independent Auditors' Report
(Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014 on our consideration of the School District of the City of Erie Pennsylvania internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District of the City of Erie, Pennsylvania internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

January 16, 2014
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Management's Discussion and Analysis
For the Year Ended June 30, 2013

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, 2013. 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 2013 are as follows:

- In total, net position decreased \$447,703. Net position of governmental activities decreased by \$455,699, whereas net position of business – type activities increased by \$7,996.
- Total revenues were \$169,854,223. General revenues accounted for \$49,896,615 or 29.3% of all revenues. Program specific revenue in the form of charges for services and grants accounted for \$119,957,608 of total revenues.
- The Erie School District had \$163,435,198 in expenses related to governmental activities: \$113,082,277 of these expenses was offset by program-specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$49,897,222 offset expenses with \$455,699 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 (\$2,830,465).

Using the Annual Report

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

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

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

Reporting the School District as a Whole

Government-Wide Financial Statements

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2012-2013?” *The Statement of Net Position* and the *Statement of Activities* answer the question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year’s revenue and expenses regardless of when cash is received or paid.

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

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

- Governmental Activities – Most of the School District’s programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover the expenses of the goods or services provided. The School District food service program is reported as a business type activity.
- The governmental-wide financial statements can be found on pages 14 and 16 of this report.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 18. The fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for the multitude of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the general fund and the capital project fund.

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

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

The School District as a Whole

The *Statement of Net Position* provides the perspective of the School District as a whole. The School District’s total net position (deficit) were (\$26,991,661) as of June 30, 2013, as compared to (\$26,543,958) as of June 30, 2012.

Statement of Net Position

	Governmental Activities 2013	Business- Type Activities 2013	Total 2013	Total 2012
Current and other assets	\$ 32,161,852	\$ 1,630,507	\$ 33,792,359	\$ 35,885,599
Capital assets	119,105,606	5,483,166	124,588,772	126,386,619
Noncurrent assets	-	-	-	1,054,561
Total Assets	\$ 151,267,458	\$ 7,113,673	\$ 158,381,131	\$ 163,326,779
Deferred Outflows of Resources	-	305,578	305,578	320,855
Current and other liabilities	\$ 33,814,164	\$ 244,383	\$ 34,058,547	\$ 33,357,658
Long-term liabilities	138,254,823	4,085,000	142,339,823	143,560,934
Total Liabilities	172,068,987	4,329,383	176,398,370	176,918,592
Deferred Inflows of Resources	9,280,000	-	9,280,000	13,273,000
Net position				
Invested in capital assets, net of related debt	(6,307,531)	1,613,744	(4,693,787)	(7,618,752)
Restricted for capital projects	859,390	-	859,390	6,572,946
Unrestricted (deficit)	(24,633,388)	1,476,124	(23,157,264)	(25,498,152)
Total Net Position	(30,081,529)	3,089,868	(26,991,661)	(26,543,958)

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 2013.

Statement of Activities

	Governmental Activities 2013	Business- Type Activities 2013	Total 2013	Total 2012
Revenues				
Operating grants and contributions	\$ 111,316,249	\$ 6,289,009	\$ 117,605,258	\$113,073,130
Charges for services	1,766,028	586,322	2,352,350	2,154,799
General revenues:				
Property taxes	41,920,058	-	41,920,058	41,780,286
Earned income and LST	7,065,158	-	7,065,158	6,470,549
Transfer tax	620,734	-	620,734	639,618
Public utility realty	68,110	-	68,110	63,184
Investment earnings (loss)	19,034	(607)	18,427	23,939
Miscellaneous	179,754	-	179,754	336,503
Gain (loss) sale of buildings	276,012	-	276,012	(368,203)
Loss on Sale Delinquent Taxes	(251,638)	-	(251,638)	(720,260)
	<u>\$ 162,979,49</u>	<u>\$ 6,874,724</u>	<u>\$ 169,854,223</u>	<u>\$ 163,453,545</u>
Expenses				
Instruction	\$ 113,036,201	-	\$ 113,036,021	\$ 108,190,327
Pupil personnel	5,606,569	-	5,606,569	5,972,432
Instructional student support	5,809,395	-	5,809,395	5,723,038
Administrative and financial	9,985,392	-	9,985,392	10,776,906
Pupil health	1,375,742	-	1,375,742	1,357,819
Business	2,790,694	-	2,790,694	3,299,978
Operation of plant	12,996,233	-	12,996,233	12,979,546
Student transportation	4,594,895	-	4,594,895	4,416,872
Other support services	221,039	-	221,039	174,726
Staff services	1,582,218	-	1,582,218	1,442,734
Student activities	1,887,076	-	1,887,076	1,781,211
Community services	1,058,319	-	1,058,319	879,112
Other	-	116,370	116,370	114,190
Interest on debt	2,491,425	-	2,491,425	12,063,878
Food service	-	6,750,358	6,750,358	6,935,832
	<u>163,435,198</u>	<u>6,866,728</u>	<u>170,301,926</u>	<u>176,108,601</u>
Increase (decrease) in net position	<u>\$ (455,699)</u>	<u>\$ 7,996</u>	<u>\$ (447,703)</u>	<u>\$ (12,655,056)</u>

Governmental Activities

Governmental activities for 2013 resulted in a decrease in net assets of \$455,699, as compared to a decrease of \$12,655,056 in governmental activities for 2012. 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):31.7 percent, and state and federal revenues (subsidies and grants):68.3 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 \$6,874,724 and expenses and other uses of \$6,866,728. While these activities receive no support from local tax revenues, the food service program received federal and state grants of \$6,289,009. Without support from the federal and state government, these operations would require support from local sources.

School District's Funds

Financial information related to the School District's major funds start on page 18. These funds are accounted for by using modified accrual basis of accounting. All government funds had total revenues of \$162,429,652, other financing uses of \$3,224,341, and expenditures of \$169,148,544. The net decrease in fund balance was \$(3,494,551), mainly resulting from capital projects expenditures of \$5,713,885. The general fund accounted for \$165,653,664 in revenues and other financing uses and \$163,434,659 in expenditures, or an increase in revenues over expenditures of \$2,219,005 as compared to an increase of \$12,710,045 in 2012. The capital project fund decreased by \$5,713,556 for 2013, as compared to \$6,446,520 increase for 2012.

General Fund Budget Highlights

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

The revenue budget was \$165,960,313. We experienced a shortfall in actual revenues of \$3,530,990. This was the result of a shortfall in local revenues.

The expenditure budget was \$167,314,237, compared to the actual expenditures of \$163,434,659 . A review of budget to actual expenditures indicates that in total, actual expenditures were under budget by \$3,879,578 for the fiscal year 2013. Most of this was due to reduction in expenditures in support services, operation and maintenance of buildings, student activities and community services. This was partially offset by higher than anticipated expenditure in instruction of \$528,682.

At June 30, 2013, the District's governmental funds reported a combined fund balance of \$3,456,292, which is a decrease of \$ (3,494,551) from June 30, 2012. The decrease is a result of completion of various capital projects in the amount of \$5,713,885.

Capital Assets and Debt Administration

As of the end of fiscal year 2013, the School District had \$124,588,772 invested in land, buildings and equipment.

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

Debt Administration

At June 30, 2013, the School District had a principal balance of \$119,624,781 in bonds and notes outstanding, \$6,976,209 is due and payable in the 2014 fiscal year.

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

Factors Bearing on the Districts Future

The School District's budget for 2013-2014 entailed significant consolidation to programs and staffing, in addition to an increase in real estate taxes of 1.1564 mills. This tax increase is projected to grow real estate collections by \$2.1 million annually. Additionally, the Erie County Assessment Office provided the district with data that indicates that we can expect to receive an additional \$2.5 million annually over the next five years, due to the expiration of the LERTA exemption for property owners in the City of Erie. This will go a long way in helping to stabilize the District's ongoing financial recovery.

We continue to look at all properties and examine how they would fit into the Optimization Plan approved by the School Board. Since the closure of three elementary schools in 2012, (Burton, Irving and Glenwood) the District sold the former Glenwood Elementary property in 2013 to a taxable entity. Another vacant school building, Hamilton School, was sold in 2012, to a tax exempt entity in the City of Erie.

We have taken significant steps towards reducing personnel costs by negotiating contracts with the administrative and non-instructional employees through minimal increases in salaries in addition to increases to employees' health care contributions. The teachers and secretaries contracts expire June 30, 2014. We are in the initial phases of negotiations with these unions.

We have completed a five year financial plan with the assistance of Public Resources Advisory Group, (PRAG), which will aid in making future financial decisions affecting the District.

Although the District's financial future remains tenuous, and is based on state funding issues, we have taken significant steps to decrease costs over the past three years. We have been able to shift from a deficit fund balance of over \$12 million just three years ago, to a positive fund balance of \$2.5 million.

The District's Optimization Plan is critical to achieving long term financial and systemic stability. This plan will reduce the current number of total facilities district-wide while renovating the existing ones. The administration is aggressively working on securing the necessary support not only from the State but from the community to begin the next phase of the district's 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.

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 11,490,554	\$ 1,183,404	\$ 12,673,958
Investments	1,502,995	201,682	1,704,677
Taxes Receivable, Net	6,005,664	-	6,005,664
Intergovernmental Receivables	5,159,105	160,168	5,319,273
Other Receivables	2,112,241	24,652	2,136,893
Inventories	5,427,367	60,601	5,487,968
Prepaid Items	463,926	-	463,926
Total Current Assets	<u>32,161,852</u>	<u>1,630,507</u>	<u>33,792,359</u>
Non-Current Assets			
Land and Other Nondepreciable Assets	12,165,981	-	12,165,981
Capital Assets, Net	106,939,625	5,483,166	112,422,791
Total Non-Current Assets	<u>119,105,606</u>	<u>5,483,166</u>	<u>124,588,772</u>
Total Assets	<u>151,267,458</u>	<u>7,113,673</u>	<u>158,381,131</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Debt Issuance	-	305,578	305,578
Total Deferred Outflows of Resources	<u>-</u>	<u>305,578</u>	<u>305,578</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	7,982,722	158,182	8,140,904
Accrued Salaries and Benefits	11,629,391	-	11,629,391
Internal Balances	3,799	(3,799)	-
Unearned Revenue	2,370,615	-	2,370,615
Accrued Interest Payable	2,648,551	-	2,648,551
Bond and Notes Payable	6,886,209	90,000	6,976,209
Compensated Absences	1,000,000	-	1,000,000
Lease Payable	573,356	-	573,356
Retirement Incentive	669,521	-	669,521
Other Liabilities	50,000	-	50,000
Total Current Liabilities	<u>33,814,164</u>	<u>244,383</u>	<u>34,058,547</u>
Non-Current Liabilities			
Other Post-Employment Benefits	14,771,463	-	14,771,463
Bonds and Notes Payable	108,563,572	4,085,000	112,648,572
Compensated Absences	3,889,715	-	3,889,715
Lease Payable	9,390,000	-	9,390,000
Retirement Incentive	1,640,073	-	1,640,073
Total Non-Current Liabilities	<u>138,254,823</u>	<u>4,085,000</u>	<u>142,339,823</u>
Total Liabilities	<u>172,068,987</u>	<u>4,329,383</u>	<u>176,398,370</u>
DEFERRED INFLOWS OF RESOURCES			
Other Liabilities - Swaption	9,280,000	-	9,280,000
Total Deferred Inflows of Resources	<u>9,280,000</u>	<u>-</u>	<u>9,280,000</u>
NET POSITION			
Net Investment in Capital Assets	(5,410,610)	1,613,744	(3,796,866)
Restricted for Capital Projects	859,390	-	859,390
Unrestricted (Deficit)	(25,530,309)	1,476,124	(24,054,185)
Total Net Position	<u>\$ (30,081,529)</u>	<u>\$ 3,089,868</u>	<u>\$ (26,991,661)</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Activities
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities</u>				
Instruction	\$ 113,036,201	\$ 1,680,404	\$ 105,271,178	\$ -
Pupil Personnel	5,606,569	-	131,892	-
Instructional Student Support	5,809,395	-	43,964	-
Administrative and Financial	9,985,392	-	527,566	-
Pupil Health	1,375,742	-	290,730	-
Business	2,790,694	-	123,099	-
Operation and Maintenance of				
Plant Services	12,996,233	-	2,652,392	-
Student Transportation	4,594,895	-	2,117,158	-
Other Support Services	221,039	-	87,928	-
Staff Services	1,582,218	-	-	-
Student Activities	1,887,076	85,624	70,342	-
Community Services	1,058,319	-	-	-
Interest on Debt	2,491,425	-	-	-
Total Governmental Activities	<u>163,435,198</u>	<u>1,766,028</u>	<u>111,316,249</u>	<u>-</u>
<u>Business-Type Activities</u>				
Food Service	6,750,358	483,330	6,289,009	-
Stadium Commission	116,370	102,992	-	-
Total Business-Type Activities	<u>6,866,728</u>	<u>586,322</u>	<u>6,289,009</u>	<u>-</u>
Total Primary Government	<u>\$ 170,301,926</u>	<u>\$ 2,352,350</u>	<u>\$ 117,605,258</u>	<u>\$ -</u>
<u>General Revenues</u>				
Taxes				
Property Taxes				
Earned Income and Local Services				
Taxes				
Transfer Tax				
Public Utility Realty				
Investment Earnings/(Loss)				
Gain on Sale of Buildings				
Loss on Sale of Taxes				
Miscellaneous Income				
Total Revenues				
Change in Net Position				
Net Position, July 1, 2012, as restated				
Net Position, June 30, 2013				

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

Net (Expense)/Revenue and Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$ (6,084,619)	\$ -	\$ (6,084,619)
(5,474,677)	-	(5,474,677)
(5,765,431)	-	(5,765,431)
(9,457,826)	-	(9,457,826)
(1,085,012)	-	(1,085,012)
(2,667,595)	-	(2,667,595)
(10,343,841)	-	(10,343,841)
(2,477,737)	-	(2,477,737)
(133,111)	-	(133,111)
(1,582,218)	-	(1,582,218)
(1,731,110)	-	(1,731,110)
(1,058,319)	-	(1,058,319)
(2,491,425)	-	(2,491,425)
<u>(50,352,921)</u>	<u>-</u>	<u>(50,352,921)</u>
-	21,981	21,981
<u>-</u>	<u>(13,378)</u>	<u>(13,378)</u>
-	8,603	8,603
<u>(50,352,921)</u>	<u>8,603</u>	<u>(50,344,318)</u>
41,920,058	-	41,920,058
7,065,158	-	7,065,158
620,734	-	620,734
68,110	-	68,110
19,034	(607)	18,427
276,012	-	276,012
(251,638)	-	(251,638)
179,754	-	179,754
<u>49,897,222</u>	<u>(607)</u>	<u>49,896,615</u>
(455,699)	7,996	(447,703)
<u>(29,625,830)</u>	<u>3,081,872</u>	<u>(26,543,958)</u>
<u>\$ (30,081,529)</u>	<u>\$ 3,089,868</u>	<u>\$ (26,991,661)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Balance Sheet - Governmental Funds

June 30, 2013

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 5,818,043	\$ 896,921	\$ 6,714,964
Taxes Receivable, Net	6,005,664	-	6,005,664
Intergovernmental Receivables	5,159,105	-	5,159,105
Other Receivables	2,075,979	-	2,075,979
Inventories	5,427,367	-	5,427,367
	\$ 24,486,158	\$ 896,921	\$ 25,383,079
LIABILITIES			
Accounts Payable	\$ 2,441,732	\$ 37,531	\$ 2,479,263
Due to Other Funds	3,799	-	3,799
Accrued Salaries and Benefits	11,629,391	-	11,629,391
Unearned Revenues	2,370,615	-	2,370,615
Other Liabilities	50,000	-	50,000
	16,495,537	37,531	16,533,068
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	5,393,719	-	5,393,719
	5,393,719	-	5,393,719
FUND BALANCES			
Nonspendable - Inventories	5,427,367	-	5,427,367
Committed for Capital Projects	-	859,390	859,390
Unassigned (Deficit)	(2,830,465)	-	(2,830,465)
	2,596,902	859,390	3,456,292
	\$ 24,486,158	\$ 896,921	\$ 25,383,079

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

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

Fund balances - governmental funds	\$	3,456,292
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		119,105,606
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Unavailable Revenue - Property Taxes		5,393,719
Internal service funds are used by management to charge the costs of workers' compensation and dental and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position		1,275,314
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Other liabilities - swaption	\$	(9,280,000)
Other post-employment benefits		(14,771,463)
Bonds and notes payable		(115,449,781)
Compensated absences		(4,889,715)
Lease payable		(9,963,356)
Retirement incentive		(2,309,594)
Accrued interest payable		(2,648,551)
		<u>(159,312,460)</u>
Net position (deficit) of governmental activities	\$	<u><u>(30,081,529)</u></u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds
For the Year Ended June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources	\$ 53,926,391	\$ 329	\$ 53,926,720
State Sources	89,029,203	-	89,029,203
Federal Sources	19,473,729	-	19,473,729
	<u>162,429,323</u>	<u>329</u>	<u>162,429,652</u>
EXPENDITURES			
Instruction	105,103,057	-	105,103,057
Support Services	44,844,273	-	44,844,273
Noninstructional Services	2,945,395	-	2,945,395
Facilities Acquisition, Construction, and Improvements	191,909	5,713,885	5,905,794
Debt Service	10,350,025	-	10,350,025
	<u>163,434,659</u>	<u>5,713,885</u>	<u>169,148,544</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,005,336)</u>	<u>(5,713,556)</u>	<u>(6,718,892)</u>
Other Financing Sources (Uses)			
Transfers - In	1,300,000	-	1,300,000
Change in Inventory	(624,025)	-	(624,025)
Proceeds from Sale of Buildings	2,025,213	-	2,025,213
Refund of Prior Year Expense	1,418,954	-	1,418,954
Refund of Prior Year Revenue	(895,801)	-	(895,801)
	<u>3,224,341</u>	<u>-</u>	<u>3,224,341</u>
Net Change in Fund Balance	2,219,005	(5,713,556)	(3,494,551)
Fund Balance - July 1, 2012	<u>377,897</u>	<u>6,572,946</u>	<u>6,950,843</u>
Fund Balance - June 30, 2013	<u>\$ 2,596,902</u>	<u>\$ 859,390</u>	<u>\$ 3,456,292</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, 2013

Net change in fund balances - total governmental funds		\$ (3,494,551)
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Position		7,164,450
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(6,819,581)
The net effect of the sale of various school district buildings is to decrease net position		(1,749,201)
Revenues and other adjustments in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Change in unearned revenue	\$ 273,835	
Change in accrued interest	<u>118,867</u>	392,702
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	(273,759)	
Change in other liabilities-swaption	3,993,000	
Other post-employment benefits	<u>(2,446,175)</u>	1,273,066
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		(999,375)
Repayment of long -term debt is reported as expenditures in governmental funds but as a reduction of long-term liabilities in the Statement of Net Position. In current year, these amounts are:		
Bonds and note payments	4,020,492	
Capital lease payments	585,501	
Changes in retirement incentive	(892,528)	
Change in compensated absences	<u>63,326</u>	<u>3,776,791</u>
Change in net position of governmental activities		<u><u>\$ (455,699)</u></u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Statement of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual - General Fund

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 59,380,199	\$ 59,722,626	\$ 53,926,391	\$ (5,796,235)
State Sources	86,903,775	87,551,594	89,029,203	1,477,609
Federal Sources	18,309,837	18,686,093	19,473,729	787,636
Total Revenues	164,593,811	165,960,313	162,429,323	(3,530,990)
Expenditures and Other Financing Uses				
Instruction				
Regular Programs	73,650,567	74,055,807	78,257,890	(4,202,083)
Special Education Program	22,463,979	22,708,063	19,826,418	2,881,645
Vocational Education Programs	4,479,436	4,571,138	4,286,250	284,888
Other Instructional Programs	1,412,213	1,447,053	976,512	470,541
Nonpublic School Programs	532,379	596,236	537,044	59,192
Adult Education Programs	15,601	15,608	1,290	14,318
Higher Education Programs	4,500	-	7,924	(7,924)
Pre Kindergarten	1,200,000	1,180,470	1,209,729	(29,259)
Total Instruction	103,758,675	104,574,375	105,103,057	(528,682)
Support Services				
Pupil Personnel	4,442,869	6,285,004	5,606,569	678,435
Instructional Staff	7,365,563	6,435,819	5,809,395	626,424
Administrative	11,077,601	10,864,198	9,941,476	922,722
Pupil Health	1,618,489	1,391,920	1,375,742	16,178
Business	3,010,332	2,974,239	2,790,694	183,545
Operation and Maintenance of				-
Plant Services	14,023,409	14,138,163	12,965,606	1,172,557
Student Transportation Services	4,635,091	4,609,362	4,551,534	57,828
Support Services-Central	1,799,733	1,814,469	1,582,218	232,251
Other Support Services	186,800	389,472	221,039	168,433
Total Support Services	48,159,887	48,902,646	44,844,273	4,058,373
Operation of Noninstructional Services				
Student Activities	2,163,134	2,127,414	1,887,076	240,338
Community Services	1,210,499	1,174,713	1,058,319	116,394
Total Noninstructional Services	3,373,633	3,302,127	2,945,395	356,732
Facilities Acquisition, Construction and Improvement Services				
	139,500	139,500	191,909	(52,409)

This schedule continued on next page.

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, 2013
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 10,354,915	\$ 10,395,589	\$ 10,350,025	\$ 45,564
Total Expenditures	<u>165,786,610</u>	<u>167,314,237</u>	<u>163,434,659</u>	<u>3,879,578</u>
Excess of Revenues Over/(Under) Expenditures	<u>(1,192,799)</u>	<u>(1,353,924)</u>	<u>(1,005,336)</u>	<u>348,588</u>
Other Financing Sources (Uses)				
Transfers - in	1,300,000	1,600,000	1,300,000	(300,000)
Transfers - (out)	(224,608)	(14,918)	-	14,918
Change in Inventory	-	-	(624,025)	(624,025)
Proceeds from Sale of Buildings	-	-	2,025,213	2,025,213
Refund of Prior Year Revenues	-	-	(895,801)	(895,801)
Refund of Prior Year Expenditures	422,407	-	1,418,954	1,418,954
Budgetary Reserve	(305,000)	(231,158)	-	231,158
Total Other Financing Uses	<u>1,192,799</u>	<u>1,353,924</u>	<u>3,224,341</u>	<u>1,870,417</u>
Net Change in Fund Balance	-	-	2,219,005	2,219,005
Fund Balance - July 1, 2012	<u>377,897</u>	<u>377,897</u>	<u>377,897</u>	<u>-</u>
Fund Balance - June 30, 2013	<u>\$ 377,897</u>	<u>\$ 377,897</u>	<u>\$ 2,596,902</u>	<u>\$ 2,219,005</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Net Position - Proprietary Funds
June 30, 2013

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 1,104,318	\$ 79,086	\$ 1,183,404	\$ 4,775,590
Investments	-	201,682	201,682	1,502,995
Receivables				
Interfund	3,799	-	3,799	-
Intergovernmental	160,168	-	160,168	-
Other	24,652	-	24,652	36,262
Inventories	60,601	-	60,601	-
Prepaid Expenses	-	-	-	463,926
Total Current Assets	<u>1,353,538</u>	<u>280,768</u>	<u>1,634,306</u>	<u>6,778,773</u>
Non-Current Assets				
Buildings and Building Improvements	6,122,641	522,622	6,645,263	-
Machinery and Equipment	1,155,537	200,916	1,356,453	-
Accumulated Depreciation	<u>(2,108,297)</u>	<u>(410,253)</u>	<u>(2,518,550)</u>	-
Total Non-Current Assets	<u>5,169,881</u>	<u>313,285</u>	<u>5,483,166</u>	-
Total Assets	<u>6,523,419</u>	<u>594,053</u>	<u>7,117,472</u>	<u>6,778,773</u>
Deferred Outflows of Resources				
Deferred Charges	<u>305,578</u>	-	<u>305,578</u>	-
Total Deferred Outflows of Resources	<u>305,578</u>	-	<u>305,578</u>	-
Liabilities				
Current Liabilities				
Accounts Payable	158,182	-	158,182	5,503,459
Current Portion of Bonds Payable	90,000	-	90,000	-
Total Current Liabilities	<u>248,182</u>	-	<u>248,182</u>	<u>5,503,459</u>
Long-Term Liabilities				
Bonds Payable	<u>4,085,000</u>	-	<u>4,085,000</u>	-
Total Long-Term Liabilities	<u>4,085,000</u>	-	<u>4,085,000</u>	-
Net Position				
Net Investment in Capital Assets	1,300,459	313,285	1,613,744	-
Unrestricted	<u>1,195,356</u>	<u>280,768</u>	<u>1,476,124</u>	<u>1,275,314</u>
Total Net Position	<u>2,495,815</u>	<u>594,053</u>	<u>3,089,868</u>	<u>1,275,314</u>
Total Liabilities and Net Position	<u>\$ 6,828,997</u>	<u>\$ 594,053</u>	<u>\$ 7,423,050</u>	<u>\$ 6,778,773</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Revenues, Expenses and Changes
in Net Position - Proprietary Funds
For the Year Ended June 30, 2013

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Operating Revenues				
Food Service Revenue	\$ 483,330	\$ -	\$ 483,330	\$ -
Charges for Services	-	45,322	45,322	23,514,588
Other Income	-	57,670	57,670	-
Total Operating Revenues	<u>483,330</u>	<u>102,992</u>	<u>586,322</u>	<u>23,514,588</u>
Operating Expenses				
Salaries	143,563	7,600	151,163	-
Employee Benefits	57,198	-	57,198	-
Purchased Professional and Technical Service	5,470,761	-	5,470,761	-
Supplies and Food	530,137	18,226	548,363	-
Depreciation	335,510	58,005	393,515	-
Other Operating Expenses	970	32,539	33,509	1,045,881
Insurance Expense	-	-	-	1,587,688
Claim Payments	-	-	-	20,584,790
Total Operating Expenses	<u>6,538,139</u>	<u>116,370</u>	<u>6,654,509</u>	<u>23,218,359</u>
Operating Income (Loss)	<u>(6,054,809)</u>	<u>(13,378)</u>	<u>(6,068,187)</u>	<u>296,229</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	-	(607)	(607)	4,396
State Sources	316,860	-	316,860	-
Federal Sources	5,972,149	-	5,972,149	-
Interest Expense	(212,219)	-	(212,219)	-
Total Nonoperating Revenues (Expenses)	<u>6,076,790</u>	<u>(607)</u>	<u>6,076,183</u>	<u>4,396</u>
Income (Loss) Before Operating Transfers	21,981	(13,985)	7,996	300,625
Operating Transfers (Out)	-	-	-	(1,300,000)
Change in Net Position	21,981	(13,985)	7,996	(999,375)
Net Position, July 1, 2012	<u>2,473,834</u>	<u>608,038</u>	<u>3,081,872</u>	<u>2,274,689</u>
Net Position, June 30, 2013	<u>\$ 2,495,815</u>	<u>\$ 594,053</u>	<u>\$ 3,089,868</u>	<u>\$ 1,275,314</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2013

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Cash Flows From Operating Activities:				
Cash Received from Customers	\$ 482,845	\$ 102,992	\$ 585,837	\$ 23,511,948
Cash Payments to Employees for Services	(200,761)	(7,600)	(208,361)	-
Cash Payments to Suppliers for Goods and Services	(5,491,709)	(18,226)	(5,509,935)	(21,569,475)
Cash Payments for Operating Expenses	(970)	(32,539)	(33,509)	-
Net Cash Provided by (Used for) Operating Activities	<u>(5,210,595)</u>	<u>44,627</u>	<u>(5,165,968)</u>	<u>1,942,473</u>
Cash Flows from Noncapital Financing Activities:				
State Sources	316,367	-	316,367	-
Federal Sources	5,454,829	-	5,454,829	-
Transfers	-	-	-	(1,300,000)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>5,771,196</u>	<u>-</u>	<u>5,771,196</u>	<u>(1,300,000)</u>
Cash Flows from Capital and Related Financing Activities:				
Interest Paid on Capital Debt	(212,219)	-	(212,219)	-
Bond Payments	(85,000)	-	(85,000)	-
Net Cash (Used by) Capital and Related Financing Activities	<u>(297,219)</u>	<u>-</u>	<u>(297,219)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	-	(607)	(607)	4,396
Purchase of Investments	-	(77,034)	(77,034)	(993,672)
Sale of Investments	-	52,420	52,420	2,160,099
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>(25,221)</u>	<u>(25,221)</u>	<u>1,170,823</u>
Net Increase (Decrease) in Cash and Cash Equivalents	263,382	19,406	282,788	1,813,296
Cash and Cash Equivalents at Beginning of Year	<u>840,936</u>	<u>59,680</u>	<u>900,616</u>	<u>2,962,294</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,104,318</u>	<u>\$ 79,086</u>	<u>\$ 1,183,404</u>	<u>\$ 4,775,590</u>
Reconciliation of Operating Income to Net Cash (Used for)				
Operating Activities:				
Operating Income (Loss)	\$ (6,054,809)	\$ (13,378)	\$ (6,068,187)	\$ 296,229
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used for) Operating Activities				
Depreciation	335,510	58,005	393,515	-
Donated Commodities	489,442	-	489,442	-
(Increase) Decrease in Accounts Receivables	(485)	-	(485)	(2,640)
(Increase) Decrease in Inventories	17,366	-	17,366	-
(Increase) Decrease in Prepaid Expenses	-	-	-	(3,938)
(Increase) Decrease in Deferred Charges	15,277	-	15,277	-
Increase (Decrease) in Accounts Payable	(12,896)	-	(12,896)	1,652,822
	<u>\$ (5,210,595)</u>	<u>\$ 44,627</u>	<u>\$ (5,165,968)</u>	<u>\$ 1,942,473</u>
Schedule of Non-Cash Capital and Related Financing Activities:				
Unamortized loss on sale-lease back	<u>\$ 173,058</u>	<u>\$ -</u>	<u>\$ 173,058</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 Position

Fiduciary Funds

June 30, 2013

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 178,454	\$ 171,400
Total Assets	<u>\$ 178,454</u>	<u>\$ 171,400</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts Payable Due to Student Groups	\$ -	\$ 171,400
NET POSITION		
Held in Trust for Scholarships	<u>178,454</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ 178,454</u>	<u>\$ 171,400</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

	Private Purpose Trust
Additions:	
Earnings on Investments	\$ 1,150
Contributions	6,885
Total Additions	8,035
Deductions:	
Scholarships	36,530
Other Expense	71
Total Deductions	36,601
Change in Net Position	(28,566)
Net Position, July 1, 2012	207,020
Net Position, June 30, 2013	\$ 178,454

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of Government-Wide Financial Statements

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

B. Government-wide and Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The government reports the following major governmental funds:

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

The Capital Projects Fund accounts for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Cash and Cash Equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

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

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

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

Receivables and Payables

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Items and Inventories

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

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

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has an inventory balance as of June 30, 2013.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2013. The inventory consisted of government donated commodities, which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method.

Capital Assets

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred Outflows/Inflows of Resources

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The School Board has by resolution authorized the business manager or superintendent to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, an additional action is essential to either remove or revise a commitment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Revenues and Expenditures/Expense

Program Revenues

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

Encumbrances

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

Compensated Absences

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds operating and nonoperating revenues and expenses

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

Property Tax Calendar

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

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

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.

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

1. Prior to June 30, a proposed operating budget is submitted to the School Board for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to June 30, the budget is legally adopted through passage of a resolution.
3. The Business Manager is authorized to transfer budgeted amounts within a specific budget object; any other transfers or revisions that alter the total expenditures of any fund must be approved by the School Board.

NOTE 2 - BUDGETARY INFORMATION (CONTINUED)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed by other funds because effective budgetary control is alternatively achieved through direct authorization by the School Board or the expenditures are all fixed in nature.

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, 2013, \$18,022,980 of the District's bank balance of \$18,825,031 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Insured Amount	\$ 802,051
Uninsured and Collateralized Held by the Pledging Bank's Trust Department not in the District's Name	18,022,980
Less: Outstanding Checks	(10,526,444)
Add: Deposits in Transit	<u>4,146,709</u>
Carrying Amount of Bank Balance	12,445,296
Plus: Cash on Hand and Petty Cash	<u>228,662</u>
Total Cash and Cash Equivalents per Financial Statements	<u>\$ 12,673,958</u>

Investments

As of June 30, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Fixed Income Treasury Bonds	Less than 1 year	\$ 702,155
Fixed Income Treasury Bonds	1-5 years	669,616
Fixed Income Exchange Traded Funds	1-3 years	<u>332,906</u>
		<u>\$ 1,704,677</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.

NOTE 4 - TAXES RECEIVABLE

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

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

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

The balances at June 30, 2013 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate	\$ 6,613,664	\$ 690,000	\$ 5,923,664	\$ 529,945	\$ 5,393,719
Transfer Tax	82,000	-	82,000	82,000	-
	<u>\$ 6,695,664</u>	<u>\$ 690,000</u>	<u>\$ 6,005,664</u>	<u>\$ 611,945</u>	<u>\$ 5,393,719</u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2013, the following amounts are due from other governmental units:

	General Fund	Food Service Fund	Total
Federal	\$ 2,867,468	\$ 151,562	\$ 3,019,030
State	2,291,637	8,606	2,300,243
	<u>\$ 5,159,105</u>	<u>\$ 160,168</u>	<u>\$ 5,319,273</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year is as follows:

	June 30, 2012	Additions	Deletions/ Adjustments	June 30, 2013
Governmental Activities				
Capital Assets Not Depreciated:				
Land	\$ 8,408,326	\$ -	\$ (371,790)	\$ 8,036,536
Construction in Progress	6,928,668	26,995	(6,928,668)	26,995
Building/Land Held for Resale	-	-	4,102,450	4,102,450
Total Assets Not Depreciated	<u>15,336,994</u>	<u>26,995</u>	<u>(3,198,008)</u>	<u>12,165,981</u>
Capital Assets Depreciated:				
Buildings and Improvements	195,383,550	5,686,187	(3,176,781)	197,892,956
Furniture and Equipment	38,476,999	1,451,268	(2,836,412)	37,091,855
Vehicles	2,959,567	-	-	2,959,567
Total Assets Depreciated	<u>236,820,116</u>	<u>7,137,455</u>	<u>(6,013,193)</u>	<u>237,944,378</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(95,096,762)	(4,287,944)	4,625,588	(94,759,118)
Furniture and Equipment	(32,071,354)	(2,401,373)	2,836,412	(31,636,315)
Vehicles	(2,564,580)	(130,264)	-	(2,694,844)
Building/Land Held for Resale	(1,914,476)	-	-	(1,914,476)
Total Accumulated Depreciation	<u>(131,647,172)</u>	<u>(6,819,581)</u>	<u>7,462,000</u>	<u>(131,004,753)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 105,172,944</u>	<u>\$ 317,874</u>	<u>\$ 1,448,807</u>	<u>\$ 106,939,625</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Building	\$ 6,645,264	\$ -	\$ -	\$ 6,645,264
Equipment	1,250,134	-	-	1,250,134
Vehicles	106,317	-	-	106,317
Total Assets Depreciated	<u>8,001,715</u>	<u>-</u>	<u>-</u>	<u>8,001,715</u>
Less Accumulated Depreciation:				
Building	(1,012,578)	(319,185)	-	(1,331,763)
Equipment	(1,006,139)	(74,330)	-	(1,080,469)
Vehicles	(106,317)	-	-	(106,317)
Total Accumulated Depreciation	<u>(2,125,034)</u>	<u>(393,515)</u>	<u>-</u>	<u>(2,518,549)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 5,876,681</u>	<u>\$ (393,515)</u>	<u>\$ -</u>	<u>\$ 5,483,166</u>

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:	
Instruction	\$ 6,701,677
Support Services:	
Student Transportation	43,361
Administration	43,916
Operation and Maintenance	<u>30,627</u>
 Total Depreciation Expense- Governmental Activities	 <u><u>\$ 6,819,581</u></u>
 Business-Type Activities:	
Food Service	335,510
Stadium Commission	<u>58,005</u>
 Total Depreciation Expense- Business-Type Activities	 <u><u>\$ 393,515</u></u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The composition of transfer balances as of June 30, 2013 is as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Governmental Activities-Internal Service Funds	<u>\$ 1,300,000</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 are accounted for in the Governmental Activities and Food Service Fund. The leased obligations are accounted for in the governmental activities. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Food Service Fund</u>	<u>Total</u>
Building	\$ 6,582,400	\$ 4,686,252	\$ 11,268,652
Equipment	3,318,404	-	3,318,404
Less Accumulated Depreciation	<u>(3,609,243)</u>	<u>(503,855)</u>	<u>(4,113,098)</u>
Carrying Value of Building And Equipment	<u>\$ 6,291,561</u>	<u>\$ 4,182,397</u>	<u>\$ 10,473,958</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 principal payments beginning April 1, 2013 through 2031. The District realized a net loss of \$551,440 in 2011/2012 as a result of this transaction.

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, 2013:

2014	\$ 1,012,906
2015	897,992
2016	902,722
2017	895,558
2018	901,799
2019-2023	4,497,928
2024-2028	4,503,687
2029-2033	<u>1,058,080</u>
Total Minimum Lease Payments	14,670,672
Less Amount Representing Interest	<u>(4,707,316)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 9,963,356</u>

NOTE 9 - LONG -TERM DEBT

Governmental Activities

The notes payable at June 30, 2013 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, 1998 through 2025. The bonds bear interest ranging from 4.5% to 6.167%. The bonds maturing September 1, 2000 through 2003 have been determined to be taxable, the remaining bonds are tax-exempt.

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 2012. The bonds require semi-annual interest payments on March 1 and September 1 of each year, beginning September 1, 2012, with interest on the bonds ranging from 2.0% to 4.0%.

On March 1, 2012, the School District borrowed \$13,407,000 from the State Public School Building Authority of 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.

Business-Type Activities

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

The following summarizes the maturities and interest payments for general obligation bonds/notes and notes payable as of June 30, 2013.

NOTE 9 - LONG - TERM DEBT (CONTINUED)

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 6,886,209	\$ 287,857	\$ 7,174,066
2015	6,635,790	543,008	7,178,798
2016	6,396,464	809,793	7,206,257
2017	6,177,158	1,030,023	7,207,181
2018	5,871,643	1,240,477	7,112,120
2019-2023	25,871,836	9,533,321	35,405,157
2024-2028	34,610,608	2,248,931	36,859,539
2029-2033	23,000,073	10,924,925	33,924,998
	<u>\$115,449,781</u>	<u>\$ 26,618,335</u>	<u>\$142,068,116</u>

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	100,000	126,182	226,182
2019-2023	105,000	568,949	673,949
2024-2028	-	452,041	452,041
2029-2033	1,365,000	313,848	1,678,848
2034-2038	-	150,494	150,494
2039	2,235,000	7,969	2,242,969
	<u>\$ 4,175,000</u>	<u>\$ 2,161,150</u>	<u>\$ 6,336,150</u>

Long-term liability activity for the year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and Notes Payable	\$119,196,514	\$ 273,759	\$ (4,020,492)	\$115,449,781	\$ 6,886,209
Compensated Absences	4,953,041	1,328,333	(1,391,659)	4,889,715	1,000,000
Capital Lease Payable	10,548,857	-	(585,501)	9,963,356	573,356
Retirement Incentive	1,417,066	892,528	-	2,309,594	669,521
	<u>\$136,115,478</u>	<u>\$ 2,494,620</u>	<u>\$ (5,997,652)</u>	<u>\$132,612,446</u>	<u>\$ 9,129,086</u>

NOTE 9 - LONG - TERM DEBT (CONTINUED)

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

Business-Type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 4,260,000	\$ -	\$ (85,000)	\$ 4,175,000	\$ 90,000

NOTE 10 - RETIREMENT PLAN

A. Plan Description

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

B. Funding Policy

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

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

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

NOTE 10 - RETIREMENT PLAN (CONTINUED)

- 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, 2013, the rate of employee contribution was 12.36 percent of covered payroll.

The School District's contributions to the System for the years ending June 30, 2013, 2012, and 2011 were \$7,873,043, \$6,047,996, and \$4,329,424, respectively, equal to the required contributions for each year.

Shared Risk

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

NOTE 11 - SELF-INSURANCE

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

At June 30, 2013, the workers' compensation fund had a liability of \$150,793 which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers' compensation claim payments totaled \$282,648 for the year ended June 30, 2013.

Health insurance claim payments totaled \$19,487,217 for the year ended June 30, 2013 and a liability of \$5,316,404 at June 30, 2013.

The dental plan has a liability of \$36,262, which represents current year claims paid by the administrator but not reimbursed by the District as of June 30, 2013. Claim payments totaled \$814,925 for the year ended June 30, 2013.

At June 30, 2013, the workers' compensation, health insurance and dental plan had a net assets balance of \$703,473, \$547,915 and \$23,926, respectively.

NOTE 11 - SELF-INSURANCE (CONTINUED)

Changes in the balances of claims liabilities during the years ended June 30, 2011 through 2013 are as follows:

	<u>Workers' Comp.</u>	<u>Dental Plan</u>	<u>Health Insurance</u>	<u>Total</u>
Unpaid Claims, June 30, 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, July 1, 2012	163,238	33,622	3,653,777	3,850,637
Incurred Claims	270,203	817,565	21,149,844	22,237,612
Claim Payments	<u>(282,648)</u>	<u>(814,925)</u>	<u>(19,487,217)</u>	<u>(20,584,790)</u>
Unpaid Claims, June 30, 2013	<u>\$ 150,793</u>	<u>\$ 36,262</u>	<u>\$ 5,316,404</u>	<u>\$ 5,503,459</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 \$23,926 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, 2015

NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

Hospitalization coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of June 30, 2013, 230 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$3,725,956 (\$3,986,956 net of retiree contributions of \$261,000 in 2012/13).

Funding Policy

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

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

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

Annual Required Contribution	\$ 6,360,976
Interest on Net OPEB Obligation	518,438
Adjustment to Annual Required Contributions	<u>(707,283)</u>
Annual OPEB Cost	6,172,131
Contribution Made	<u>(3,725,956)</u>
Increase in Net OPEB Obligation	2,446,175
Net OPEB Obligation - Beginning of Year	<u>12,325,288</u>
Net OPEB Obligation - End of Year	<u>\$ 14,771,463</u>

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

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2013	\$ 6,172,131	41.79%	\$ 14,771,463
June 30, 2012	6,203,262	50.33%	12,325,288
June 30, 2011	5,947,209	47.26%	9,621,688
June 30, 2010	5,986,711	59.7%	6,485,095
June 30, 2009	5,449,465	64.8%	4,075,230

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The ARC for the current year was computed as of June 30, 2013 using the following actuarial assumptions: (1) actuarial cost method projected unit credit; (2) amortization method level dollar; (3) amortization period 30 years; (4) discount rate of 5% compounded annually; (5) 1983 Group Annuity Mortality Tables for men and women, and (6) health care cost trend rates of 10%, grading to 5% per year.

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-PUC (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 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, 2013 and the two previous fiscal years, no settlement exceeded insurance coverage.

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

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

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

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

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

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

Swaption Restructuring

In 2006, the District restructured its 2003 Swaption.

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

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, 2013. The fair values of the swaps were developed by an independent pricing consultant to the District that does not have a financial interest in the swaps, using a market accepted method similar to the zero coupon method example described in GASB 53 of calculating fair value. The methodology used consists of calculating the future net settlement payments required by the swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement date of the swap.

As of June 30, 2013, the swaps had a fair value of negative \$9,280,000, which is an increase in value of \$3,993,000 recorded in the statement of net position and statement of activities, respectively.

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

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, 2013, the District was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the value of the swaps become positive, the District would be exposed to credit risk in the amount equal to the swaps' fair value. PNC Bank, N.A., the counterparty to the swaps, is rated AA- by Standard and Poor's and Aa3 by Moody's Investors Service. The Counterparty has entered into a Credit Support Annex that could enable it to avoid termination upon downgrade by posting certain specified collateral.

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

NOTE 16 – DELINQUENT REAL ESTATE TAX SALE

In March 2011, the District entered into an agreement with Northwest Pennsylvania Incubator Association (NPIA) to sell delinquent real estate tax claims outstanding as of May 18, 2011. The District has agreed to negotiate with NPIA concerning NPIA's acquiring future tax claims from the District for the fiscal year ending June 30, 2011 and thereafter pursuant to the terms and conditions of the agreement. The District sold the 2011 delinquent real estate tax claims during the year ended June 30, 2012. The District sold the 2012 delinquent real estate tax claims during the year ended June 30, 2013. The purchase price for the tax claims was \$3,395,325, less fees of \$205,375 and reserve account of \$18,653, for a net of \$3,171,297. Tax claims outstanding at date of sale was \$3,646,964. The net loss realized in Statement of Activities was \$251,638.

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

NOTE 17 – RESTATEMENT OF NET POSITION

Government – wide statement of net position was restated to reflect the following:

	<u>Net Position</u>
Beginning Balance (Deficit)	\$ (30,028,280)
Overstatement of Accounts Payable	<u>402,450</u>
Beginning Balance (Deficit), as restated	<u><u>\$ (29,625,830)</u></u>

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 59,380,199	\$ 59,722,626	\$ 53,926,391	\$ (5,796,235)
State Sources	86,903,775	87,551,594	89,029,203	1,477,609
Federal Sources	18,309,837	18,686,093	19,473,729	787,636
Total Revenues	164,593,811	165,960,313	162,429,323	(3,530,990)
Expenditures and Other Financing Uses				
Instruction				
Regular Programs	73,650,567	74,055,807	78,257,890	(4,202,083)
Special Education Program	22,463,979	22,708,063	19,826,418	2,881,645
Vocational Education Programs	4,479,436	4,571,138	4,286,250	284,888
Other Instructional Programs	1,412,213	1,447,053	976,512	470,541
Nonpublic School Programs	532,379	596,236	537,044	59,192
Adult Education Programs	15,601	15,608	1,290	14,318
Higher Education Programs	4,500	-	7,924	(7,924)
Pre Kindergarten	1,200,000	1,180,470	1,209,729	(29,259)
Total Instruction	103,758,675	104,574,375	105,103,057	(528,682)
Support Services				
Pupil Personnel	4,442,869	6,285,004	5,606,569	678,435
Instructional Staff	7,365,563	6,435,819	5,809,395	626,424
Administrative	11,077,601	10,864,198	9,941,476	922,722
Pupil Health	1,618,489	1,391,920	1,375,742	16,178
Business	3,010,332	2,974,239	2,790,694	183,545
Operation and Maintenance of				-
Plant Services	14,023,409	14,138,163	12,965,606	1,172,557
Student Transportation Services	4,635,091	4,609,362	4,551,534	57,828
Support Services-Central	1,799,733	1,814,469	1,582,218	232,251
Other Support Services	186,800	389,472	221,039	168,433
Total Support Services	48,159,887	48,902,646	44,844,273	4,058,373
Operation of Noninstructional Services				
Student Activities	2,163,134	2,127,414	1,887,076	240,338
Community Services	1,210,499	1,174,713	1,058,319	116,394
Total Noninstructional Services	3,373,633	3,302,127	2,945,395	356,732
Facilities Acquisition, Construction and Improvement Services				
	139,500	139,500	191,909	(52,409)

Schedule continued on the next page.

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, 2013
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 10,354,915	\$ 10,395,589	\$ 10,350,025	\$ 45,564
Total Expenditures	<u>165,786,610</u>	<u>167,314,237</u>	<u>163,434,659</u>	<u>3,879,578</u>
Excess of Revenues Over/(Under) Expenditures	<u>(1,192,799)</u>	<u>(1,353,924)</u>	<u>(1,005,336)</u>	<u>348,588</u>
Other Financing Sources (Uses)				
Transfers - in	1,300,000	1,600,000	1,300,000	(300,000)
Transfers - (out)	(224,608)	(14,918)	-	14,918
Change in Inventory	-	-	(624,025)	(624,025)
Proceeds from Sale of Buildings	-	-	2,025,213	2,025,213
Refund of Prior Year Revenues	-	-	(895,801)	(895,801)
Refund of Prior Year Expenditures	422,407	-	1,418,954	1,418,954
Budgetary Reserve	<u>(305,000)</u>	<u>(231,158)</u>	<u>-</u>	<u>231,158</u>
Total Other Financing Uses	<u>1,192,799</u>	<u>1,353,924</u>	<u>3,224,341</u>	<u>1,870,417</u>
Net Change in Fund Balance	-	-	2,219,005	2,219,005
Fund Balance - July 1, 2012	<u>377,897</u>	<u>377,897</u>	<u>377,897</u>	<u>-</u>
Fund Balance - June 30, 2013	<u>\$ 377,897</u>	<u>\$ 377,897</u>	<u>\$ 2,596,902</u>	<u>\$ 2,219,005</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Position - Nonmajor Proprietary Funds
June 30, 2013

	Stadium Commission	Play Erie	Total Nonmajor Proprietary Funds
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 76,984	\$ 2,102	\$ 79,086
Investments	201,682	-	201,682
Total Current Assets	278,666	2,102	280,768
Non-Current Assets			
Buildings and Building Improvements	522,622	-	522,622
Machinery and Equipment	200,916	-	200,916
Accumulated Depreciation	(410,253)	-	(410,253)
Total Non-Current Assets	313,285	-	313,285
Total Assets	\$ 591,951	\$ 2,102	\$ 594,053
Net Position			
Net Investment in Capital Assets	\$ 313,285	\$ -	\$ 313,285
Unrestricted	278,666	2,102	280,768
Total Net Position	591,951	2,102	594,053
Total Liabilities and Net Position	\$ 591,951	\$ 2,102	\$ 594,053

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenses and Changes
in Net Position - Nonmajor Proprietary Funds
For the Year Ended June 30, 2013

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues			
Charges for Services	\$ 45,322	\$ -	\$ 45,322
Other Income	57,670	-	57,670
Total Operating Revenues	<u>102,992</u>	<u>-</u>	<u>102,992</u>
Operating Expenses			
Salaries	7,600	-	7,600
Supplies and Food	18,226	-	18,226
Depreciation	58,005	-	58,005
Other Operating Expenses	32,539	-	32,539
Total Operating Expenses	<u>116,370</u>	<u>-</u>	<u>116,370</u>
Operating Income/(Loss)	<u>(13,378)</u>	<u>-</u>	<u>(13,378)</u>
Nonoperating Revenues/(Expenses)			
Earnings/(Loss) on Investments	(609)	2	(607)
Total Nonoperating Revenues/(Expenses)	<u>(609)</u>	<u>2</u>	<u>(607)</u>
Change in Net Position	(13,987)	2	(13,985)
Net Position, July 1, 2012	<u>605,938</u>	<u>2,100</u>	<u>608,038</u>
Net Position, June 30, 2013	<u>\$ 591,951</u>	<u>\$ 2,102</u>	<u>\$ 594,053</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, 2013

	Stadium Commission	Play Erie	Total
Cash Flows From Operating Activities:			
Cash Received from Users	\$ 102,992	\$ -	\$ 102,992
Cash Payments to Employees for Services	(7,600)	-	(7,600)
Cash Payments to Suppliers for Goods and Services	(18,226)	-	(18,226)
Cash Payments for Operating Expenses	(32,539)	-	(32,539)
Net Cash (Used for) Operating Activities	<u>44,627</u>	<u>-</u>	<u>44,627</u>
Cash Flows from Investing Activities:			
Earnings (Loss) from Investments	(609)	2	(607)
Purchase of Investments	(77,034)	-	(77,034)
Sale of Investments	52,420	-	52,420
Net Cash Provided by Investing Activities	<u>(25,223)</u>	<u>2</u>	<u>(25,221)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	19,404	2	19,406
Cash and Cash Equivalents at Beginning of Year	<u>57,580</u>	<u>2,100</u>	<u>59,680</u>
Cash and Cash Equivalents at End of Year	<u>\$ 76,984</u>	<u>\$ 2,102</u>	<u>\$ 79,086</u>
Reconciliation of Operating Income to Net Cash (Used for)			
Operating Activities:			
Operating Income (Loss)	\$ (13,378)	\$ -	\$ (13,378)
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities			
Depreciation	<u>58,005</u>	<u>-</u>	<u>58,005</u>
	<u>\$ 44,627</u>	<u>\$ -</u>	<u>\$ 44,627</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Position - Internal Service Funds
June 30, 2013

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 385,888	\$ -	\$ 4,389,702	\$ 4,775,590
Investments	468,378	-	1,034,617	1,502,995
Receivables - Other	-	36,262	-	36,262
Prepaid Expenses	-	23,926	440,000	463,926
Total Current Assets	<u>854,266</u>	<u>60,188</u>	<u>5,864,319</u>	<u>6,778,773</u>
Total Assets	<u>\$ 854,266</u>	<u>\$ 60,188</u>	<u>\$ 5,864,319</u>	<u>\$ 6,778,773</u>
Liabilities				
Current Liabilities				
Accounts Payable	<u>\$ 150,793</u>	<u>\$ 36,262</u>	<u>\$ 5,316,404</u>	<u>\$ 5,503,459</u>
Total Current Liabilities	<u>150,793</u>	<u>36,262</u>	<u>5,316,404</u>	<u>5,503,459</u>
Net Position				
Unrestricted	<u>703,473</u>	<u>23,926</u>	<u>547,915</u>	<u>1,275,314</u>
Total Net Position	<u>703,473</u>	<u>23,926</u>	<u>547,915</u>	<u>1,275,314</u>
Total Liabilities and Net Position	<u>\$ 854,266</u>	<u>\$ 60,188</u>	<u>\$ 5,864,319</u>	<u>\$ 6,778,773</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Revenues, Expenditures and Changes
in Net Position - Internal Service Funds
For the Year Ended June 30, 2013

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 459,268	\$ 867,048	\$ 22,188,272	\$ 23,514,588
Total Operating Revenues	<u>459,268</u>	<u>867,048</u>	<u>22,188,272</u>	<u>23,514,588</u>
Operating Expenses				
Other Operating Expenses	2,605	48,185	995,091	1,045,881
Insurance Expense	-	-	1,587,688	1,587,688
Claim Payments	<u>282,648</u>	<u>814,925</u>	<u>19,487,217</u>	<u>20,584,790</u>
Total Operating Expenses	<u>285,253</u>	<u>863,110</u>	<u>22,069,996</u>	<u>23,218,359</u>
Operating Income (Loss)	<u>174,015</u>	<u>3,938</u>	<u>118,276</u>	<u>296,229</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	<u>1,752</u>	<u>-</u>	<u>2,644</u>	<u>4,396</u>
Total Nonoperating Revenue (Expense)	<u>1,752</u>	<u>-</u>	<u>2,644</u>	<u>4,396</u>
Income (Loss) before Operating Transfers	175,767	3,938	120,920	300,625
Operating Transfers (Out)	<u>(300,000)</u>	<u>-</u>	<u>(1,000,000)</u>	<u>(1,300,000)</u>
Change in Net Position	(124,233)	3,938	(879,080)	(999,375)
Net Position, July 1, 2012	<u>827,706</u>	<u>19,988</u>	<u>1,426,995</u>	<u>2,274,689</u>
Net Position, June 30, 2013	<u>\$ 703,473</u>	<u>\$ 23,926</u>	<u>\$ 547,915</u>	<u>\$ 1,275,314</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, 2013

	<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	\$ 459,268	\$ 864,408	\$ 22,188,272	\$ 23,511,948
Cash Payments to Suppliers for Goods and Services	(297,698)	(864,408)	(20,407,369)	(21,569,475)
Net Cash Provided by Operating Activities	<u>161,570</u>	<u>-</u>	<u>1,780,903</u>	<u>1,942,473</u>
Cash Flows from Noncapital Financing Activities:				
Transfers Out	(300,000)	-	(1,000,000)	(1,300,000)
Net Cash Used by Noncapital Financing Activities	<u>(300,000)</u>	<u>-</u>	<u>(1,000,000)</u>	<u>(1,300,000)</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	1,752	-	2,644	4,396
Purchase of Investments	(451,336)	-	(542,336)	(993,672)
Sale of Investments	561,044	-	1,599,055	2,160,099
Net Cash Provided by Investing Activities	<u>111,460</u>	<u>-</u>	<u>1,059,363</u>	<u>1,170,823</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(26,970)	-	1,840,266	1,813,296
Cash and Cash Equivalents at Beginning of Year	<u>412,858</u>	<u>-</u>	<u>2,549,436</u>	<u>2,962,294</u>
Cash and Cash Equivalents at End of Year	<u>\$ 385,888</u>	<u>\$ -</u>	<u>\$ 4,389,702</u>	<u>\$ 4,775,590</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 174,015	\$ 3,938	\$ 118,276	\$ 296,229
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities				
(Increase) Decrease in Receivables	-	(2,640)	-	(2,640)
(Increase) Decrease in Prepaid Expenses	-	(3,938)	-	(3,938)
Increase (Decrease) in Accounts Payable	(12,445)	2,640	1,662,627	1,652,822
	<u>\$ 161,570</u>	<u>\$ -</u>	<u>\$ 1,780,903</u>	<u>\$ 1,942,473</u>

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

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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Fiduciary Net Position
June 30, 2013

	<u>Phelps</u>	<u>Drug Free</u>	<u>Mentoring Community Service</u>	<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
ASSETS							
Cash and Cash Equivalents	<u>\$ 13,213</u>	<u>\$ 1,573</u>	<u>\$ 173</u>	<u>\$ 1,916</u>	<u>\$ 68,753</u>	<u>\$ 11,922</u>	<u>\$ 3,715</u>
Total Assets	<u><u>\$ 13,213</u></u>	<u><u>\$ 1,573</u></u>	<u><u>\$ 173</u></u>	<u><u>\$ 1,916</u></u>	<u><u>\$ 68,753</u></u>	<u><u>\$ 11,922</u></u>	<u><u>\$ 3,715</u></u>
NET Position							
Held in Trust for Scholarships	<u>\$ 13,213</u>	<u>\$ 1,573</u>	<u>\$ 173</u>	<u>\$ 1,916</u>	<u>\$ 68,753</u>	<u>\$ 11,922</u>	<u>\$ 3,715</u>
Total Liabilities and Net Position	<u><u>\$ 13,213</u></u>	<u><u>\$ 1,573</u></u>	<u><u>\$ 173</u></u>	<u><u>\$ 1,916</u></u>	<u><u>\$ 68,753</u></u>	<u><u>\$ 11,922</u></u>	<u><u>\$ 3,715</u></u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Fiduciary Net Position
June 30, 2013
(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	\$ 2,263	\$ 3,356	\$ 313	\$ -	\$ 70,458	\$ 178,454
Total Assets	<u>\$ 799</u>	<u>\$ 2,263</u>	<u>\$ 3,356</u>	<u>\$ 313</u>	<u>\$ -</u>	<u>\$ 70,458</u>	<u>\$ 178,454</u>
NET Position							
Held in Trust for Scholarships	\$ 799	\$ 2,263	\$ 3,356	\$ 313	\$ -	\$ 70,458	\$ 178,454
Total Liabilities and Net Position	<u>\$ 799</u>	<u>\$ 2,263</u>	<u>\$ 3,356</u>	<u>\$ 313</u>	<u>\$ -</u>	<u>\$ 70,458</u>	<u>\$ 178,454</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013

	<u>Phelps</u>	<u>Drug Free</u>	<u>Mentoring Community Service</u>	<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
Additions:							
Earnings on Investments	\$ 593	\$ 2	\$ -	\$ 199	\$ 135	\$ 127	\$ 15
Contributions	-	-	-	-	2,063	-	-
Total Additions	<u>593</u>	<u>2</u>	<u>-</u>	<u>199</u>	<u>2,198</u>	<u>127</u>	<u>15</u>
Deductions:							
Scholarships	-	-	-	-	31,500	-	-
Other Expense	-	-	-	-	-	-	16
Total Deductions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,500</u>	<u>-</u>	<u>16</u>
Change in Net Position	593	2	-	199	(29,302)	127	(1)
Net Position, July 1, 2012	<u>12,620</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 Position, June 30, 2013	<u>\$ 13,213</u>	<u>\$ 1,573</u>	<u>\$ 173</u>	<u>\$ 1,916</u>	<u>\$ 68,753</u>	<u>\$ 11,922</u>	<u>\$ 3,715</u>

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	\$ 5	\$ -	\$ -	\$ 72	\$ 1,150
-	-	-	-	-	4,822	6,885
-	2	5	-	-	4,894	8,035
-	-	-	-	-	5,030	36,530
-	-	-	-	55	-	71
-	-	-	-	55	5,030	36,601
-	2	5	-	(55)	(136)	(28,566)
799	2,261	3,351	313	55	70,594	207,020
<u>\$ 799</u>	<u>\$ 2,263</u>	<u>\$ 3,356</u>	<u>\$ 313</u>	<u>\$ -</u>	<u>\$ 70,458</u>	<u>\$ 178,454</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

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	7/1/12-6/30/13
Passed Through the PA Department of Education				
National School Lunch Program	I	10.555	362	7/1/11-6/30/12
National School Lunch Program	I	10.555	362	7/1/12-6/30/13
After School Snacks	I	10.555	359	7/1/11-6/30/12
After School Snacks	I	10.555	359	7/1/12-6/30/13
Subtotal				
Severe Needy Breakfast Program	I	10.553	367	7/1/11-6/30/13
Severe Needy Breakfast Program	I	10.553	367	7/1/12-6/30/13
Regular Needy Breakfast Program	I	10.553	365	7/1/11-6/30/12
Regular Needy Breakfast Program	I	10.553	365	7/1/12-6/30/13
Subtotal				
Total Child Nutrition Cluster				
Elect & Fatherhood Initiative	I	10.561	110-100009	7/1/11-6/30/12
Elect & Fatherhood Initiative	I	10.561	110-110009	7/1/12-6/30/13
Subtotal				
Total U.S. Department of Agriculture				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2012	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2013
\$ (40,830) (b)	\$ 489,442 (a)	\$ 480,308 (c)	\$ (49,964)
96,776	96,776	-	-
-	4,190,357	4,310,638	120,281
2,012	2,012	-	-
-	37,535	37,852	317
57,958	4,816,122	4,828,798	70,634
24,357	24,357	-	-
-	1,064,177	1,093,830	29,653
539	539	-	-
-	37,370	38,681	1,311
24,896	1,126,443	1,132,511	30,964
82,854	5,942,565	5,961,309	101,598
23,864	23,864	-	-
-	43,325	70,911	27,586
23,864	67,189	70,911	27,586
106,718	6,009,754	6,032,220	129,184

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, 2013
(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
<u>U.S. Department of Education</u>				
Passed Through PA Department of Education				
Title I Improving Basics Program	I	84.010	013-120139	7/1/11-9/30/12
Title I Improving Basics Program	I	84.010	013-130139	7/1/12-9/30/13
Prog. Improvement-Set Aside	I	84.010	042-100139	7/1/12-9/30/13
Total Title I Cluster				
School Improvement Grant	I	84.377	142-110139	7/1/11-9/30/12
School Improvement Grant	I	84.377	142-122139	7/1/12-9/30/13
Subtotal				
ARRA-Education Jobs Fund	I	84.410	140-120139	7/1/12-6/30/13
Passed Through Mid-West Intermediate Unit				
Title II Improving Teacher Quality	I	84.367	020-120139	7/1/11-9/30/12
Title II Improving Teacher Quality	I	84.367	020-120139	7/1/12-9/30/13
Subtotal				
Title II Education Technology	I	84.318	055-110139	8/12/11-9/30/12
Title II Education Technology	I	84.318	055-110139	8/12/11-9/30/12
Subtotal				
Title III Language Inst LEP Immigrant Students	I	84.365	010-120139	7/1/11-9/30/12
Title III Language Inst LEP Immigrant Students	I	84.365	010-130139	7/1/12-9/30/13
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2012	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2013
\$ (250,666)	\$ 3,780,788	\$ 4,031,454	\$ -
-	3,982,040	5,655,862	1,673,822
-	96,780	96,780	-
<u>(250,666)</u>	<u>7,859,608</u>	<u>9,784,096</u>	<u>1,673,822</u>
318,920	318,920	-	-
-	2,783,644	2,950,311	166,667
<u>318,920</u>	<u>3,102,564</u>	<u>2,950,311</u>	<u>166,667</u>
-	57,112	57,112	-
8,236	849,537	841,301	-
-	635,219	990,002	354,783
<u>8,236</u>	<u>1,484,756</u>	<u>1,831,303</u>	<u>354,783</u>
(19,748)	-	19,748	-
-	50,000	50,000	-
<u>(19,748)</u>	<u>50,000</u>	<u>69,748</u>	<u>-</u>
(51,603)	125,905	152,994	(24,514)
-	109,320	86,548	(22,772)
<u>\$ (51,603)</u>	<u>\$ 235,225</u>	<u>\$ 239,542</u>	<u>\$ (47,286)</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, 2013
(Continued)

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date
Secondary Education/Perkins	I	84.048	380-122055	9/1/12-6/30/13
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
Homeless Children & Youth	I	84.196	081-110008	7/1/12-6/30/13
Subtotal				
Passed Through Northwest Tri-County Intermediate Unit				
EHA-B IDEA	I	84.027	062-02-0-005	7/1/12-6/30/13
Subtotal				
State Access Direct	I	84.173	N/A	7/1/12-6/30/13
Subtotal				
Total Special Education Cluster				
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/11-6/30/12
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	4100043277	7/1/12-6/30/13
Subtotal				
Total U.S. Dept of Education				
<u>U.S Department of Health and Human Services</u>				
Passed Through PA Department of Welfare				
State Access Indirect	I	93.778	410-0009941	7/1/11-6/30/12
State Access Indirect	I	93.778	410-0009941	7/1/12-6/30/13
Early Intervention	I	93.778	092-007139	7/1/12-6/30/13
Subtotal				
Passed Through Erie County				
Family Center	I	93.556	4100057297	7/1/11-6/30/12
Family Center	I	93.556	4100057297	7/1/12-6/30/13
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2012	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2013
-	378,622	378,622	-
-	378,622	378,622	-
81,595	81,595	-	-
71,273	71,273	-	-
-	57,123	137,568	80,445
152,868	209,991	137,568	80,445
-	1,909,637	1,909,637	-
-	1,909,637	1,909,637	-
-	457,141	457,141	-
-	457,141	457,141	-
-	2,366,778	2,366,778	-
119,494	119,494	-	-
-	284,389	491,809	207,420
119,494	403,883	491,809	207,420
277,501	16,148,539	18,306,889	2,435,851
89,125	89,125	-	-
-	122,379	163,154	40,775
-	100,000	100,000	-
89,125	311,504	263,154	40,775
113,116	113,116	-	-
-	205,039	346,050	141,011
113,116	318,155	346,050	141,011

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, 2013
(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	7/1/11-6/30/12
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/12-6/30/13
Subtotal				
Passed Through PA Department of Education				
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/11-6/30/12
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/12-6/30/13
Subtotal				
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/11-8/14/12
Refugee Child Sch. Imp Act	I	93.576	4100045645	8/15/12-8/14/13
Subtotal				
Passed Through Regional Center for Workforce Excellence				
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>U.S. Department of Labor</u>				
Passed Through Regional Center for Workforce Excellence				
Workforce Investment Act Non-TANF	I	17.259	N/A	7/1/12-6/30/13
Total U.S. Department of Labor				
Total Federal Awards				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2012	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2013
\$ 12,235	\$ 12,235	\$ -	\$ -
<u>-</u>	<u>25,091</u>	<u>30,600</u>	<u>5,509</u>
<u>12,235</u>	<u>37,326</u>	<u>30,600</u>	<u>5,509</u>
125,966	125,966	-	-
<u>-</u>	<u>234,295</u>	<u>382,376</u>	<u>148,081</u>
<u>125,966</u>	<u>360,261</u>	<u>382,376</u>	<u>148,081</u>
57,340	57,340	-	-
<u>-</u>	<u>-</u>	<u>21,369</u>	<u>21,369</u>
<u>57,340</u>	<u>57,340</u>	<u>21,369</u>	<u>21,369</u>
121,804	121,804	-	-
<u>121,804</u>	<u>121,804</u>	<u>-</u>	<u>-</u>
<u>519,586</u>	<u>1,206,390</u>	<u>1,043,549</u>	<u>356,745</u>
-	-	-	-
<u>213,345</u>	<u>225,493</u>	<u>12,148</u>	<u>-</u>
<u>213,345</u>	<u>225,493</u>	<u>12,148</u>	<u>-</u>
<u>\$ 1,117,150</u>	<u>\$ 23,590,176</u>	<u>\$ 25,394,806</u>	<u>\$ 2,921,780</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
Footnotes and Other Information
For the Year Ended June 30, 2013

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, 2013. 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



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive · Erie, Pennsylvania 16506

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Erie, Pennsylvania as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements and have issued our report, thereon dated January 16, 2014.

Internal Control Over Financial Reporting

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

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

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards
(Continued)**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the finding 2013-01 discussed in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-02 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

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

Purpose of this Report

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

January 16, 2014
Erie, Pennsylvania



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive · Erie, Pennsylvania 16506

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

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

Report on Compliance for each Major Federal Program

We have audited the School District of the City of Erie, Pennsylvania's compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of the School District of the City of Erie, Pennsylvania's major federal programs for the year ended June 30, 2013. The School District of the City of Erie, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District of the City of Erie, Pennsylvania's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Erie, Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Erie, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School District of the City of Erie, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District of the City of Erie, Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Erie, Pennsylvania's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

January 16, 2014
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

1. Summary of auditors' results

- i. Type of report issued on the financial statements: Unqualified opinion.
- ii. Internal Control over financial reporting:

Material weaknesses identified:	Yes
Significant deficiencies identified:	Yes
- 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>
Title I Cluster	84.010
- viii. Dollar threshold used to distinguish between Type A and Type B programs: \$761,844.
- 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

2013 – 01 Oversight over financial reporting

During the audit performed, we recommended over sixty adjusting journal entries in the general fund and departmental funds. The effect of such entries was to decrease the net change in fund balance by \$2.1 million. Substantially all of the entries were to correct bookkeeping errors or to record accruals and other adjustments that should have been made by the finance department. We believe that a review and evaluation of transactions and proper monthly and year-end closing procedures, including reconciliation of all balance sheet accounts, will provide more accurate reporting to the Board of Directors. We also recommend that the finance department develop reports that resemble the audited financial statements to present the financial information in a summarized format that is easily understood in order to make informed decisions.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued)

2013 – 02 Reconciliation of Grant Program Expenditures

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

3. Findings and questioned costs for Federal awards

None.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013

1. Prior significant deficiencies:
None noted.
2. Prior material noncompliance with provisions of laws, regulations, contracts or grant agreements related to a major program: None.
3. Known questioned costs greater than \$10,000: None.
4. There were no findings in the prior year.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Corrective Action Plan
For the Year Ended June 30, 2013

Internal Control Over Financial Reporting

Finding: 2013-01 Oversight Over Financial Reporting

Response: In the June 30, 2014 fiscal year, the Finance Department will post revenue and land budgets to reduce the number of adjusting journal entries proposed by the auditors.

In the June 30, 2014 fiscal year, the Finance Department continues to work with the software company to develop and improve the financial reports presented to the Board of Directors.

Finding: 2013-02 Reconciliation of Grant Program Expenditures

Response: In the June 30, 2014 fiscal year, the finance Department is providing weekly reports to the grant program managers to allow the managers to review accounts that are overspent and make necessary adjustments. The managers have received instructions on what is to be done with these reports.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
List of Report Distribution
For the Year Ended June 30, 2013

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

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



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive · Erie, Pennsylvania 16506

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

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

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

The procedures and associated findings are as follows:

- (a) We have verified by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DPW for fiscal year ended June 30, 2013, 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.

January 16, 2014
Erie, Pennsylvania

The School District of the City of Erie, Pennsylvania
Schedule of Revenues and Expenditures
Family Center Program
For the year ended June 30, 2013

Grant number 4100057297

	<u>Budget</u>	<u>Actual</u>
Revenues		
DPW Grant Revenue	\$ 346,050	\$ 346,050
Total Revenues	<u>\$ 346,050</u>	<u>\$ 346,050</u>
Expenditures		
Personnel	<u>\$ 324,422</u>	<u>\$ 324,422</u>
Operations		
Training and Conferences	1,000	1,000
Professional Services	1,500	1,500
Transportation and Travel	5,951	5,951
Service Contracts	1,000	1,000
Facility Expenses	10,000	10,000
Supplies	446	446
Indirect Costs	<u>1,731</u>	<u>1,731</u>
Total Operations	<u>21,628</u>	<u>21,628</u>
Total Expenditures	<u>\$ 346,050</u>	<u>\$ 346,050</u>