

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

SINGLE AUDIT REPORT

JUNE 30, 2015

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

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Erie, Pennsylvania as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Independent Auditors' Report
(Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Erie, Pennsylvania as of June 30, 2015, 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, schedule of funding progress for other post-employment benefits and pension schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

Independent Auditors' Report
(Continued)

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

Other Reporting Required by *Government Auditing Standards*

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 2, 2015
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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, 2015. 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 2015 are as follows:

- In total, net position decreased \$13,312,092. Net position of governmental activities decreased by \$14,161,195, whereas net position of business-type activities increased by \$849,103.
- Total revenues were \$182,192,833. General revenues accounted for \$49,640,304 or 27.2% of all revenues. Program specific revenue in the form of charges for services and grants accounted for \$132,552,529 of total revenues.
- The Erie School District had \$187,435,293 in expenses related to governmental activities: \$123,633,794 of these expenses was offset by program-specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$49,640,304 offset expenses with \$14,161,195 of net position covering the balance of expenses.
- At the end of the current fiscal year, unrestricted fund balance of the general fund was a (deficit) of (\$264,437,095). \$238,158,000 of this deficit represents the district's proportionate share of the Pennsylvania School Employees' Retirement System (PSERS) unfunded pension liability as described in Footnote 10. Governmental Accounting Standards Board Statement No. 68 – Accounting and Financial Reporting for Pensions required the district to report this liability beginning with the fiscal year ended June 30, 2015.

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 2014-2015?” *The Statement of Net Position* and the *Statement of Activities* answer the question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year’s revenue and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 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 (\$264,437,095) as of June 30, 2015, as compared to (\$251,125,203) as of June 30, 2014.

Statement of Net Position

	Governmental Activities 2015	Business- Type Activities 2015	Total 2015	Total 2014
Current and other assets	\$ 30,620,867	\$ 3,361,445	\$ 33,982,312	\$ 34,511,454
Capital assets	106,319,085	4,841,566	111,160,651	119,836,825
Total Assets	\$ 136,939,952	\$ 8,203,011	\$ 145,142,963	\$ 154,348,279
Deferred Outflows of Resources	15,718,095	152,698	15,870,793	12,110,297
Current and other liabilities	\$ 33,899,888	\$ 500,681	\$ 34,400,569	\$ 32,574,836
Long-term liabilities	370,882,785	3,830,497	374,713,282	375,681,743
Total Liabilities	\$ 404,782,673	\$ 4,331,178	\$ 409,113,851	\$ 408,256,579
Deferred Inflows of Resources	\$ 16,337,000	-	\$ 16,337,000	\$ 9,327,000
Net position				
Net invested in capital assets	\$ (10,813,818)	\$ 916,069	\$ (9,897,749)	\$ (5,198,225)
Restricted for capital projects	-	-	-	43,388
Unrestricted (deficit)	(257,647,808)	3,108,462	(254,539,346)	(245,970,166)
Total Net Position	\$ (268,461,626)	\$ 4,024,531	\$ (264,437,095)	\$(251,125,003)

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 2015.

Statement of Activities

	Governmental Activities 2015	Business- Type Activities 2015	Total 2015	Total 2014
Revenues				
Operating grants and contributions	\$122,738,028	\$8,404,722	\$131,142,750	120,768,355
Charges for services	895,766	513,405	1,409,171	1,522,942
General revenues:				
Property taxes	45,841,625		45,841,625	44,912,636
Earned income and LST	6,954,162		6,954,162	6,925,644
Transfer tax	696,326		696,326	549,953
Public utility realty	69,949		69,949	85,113
Investment earnings (loss)	5	608	613	102,888
Miscellaneous	68,463		68,463	488,223
Loss on Disposal of Assets	(3,412)		(3,412)	-
Impairment Loss	(3,747,556)		(3,747,556)	-
Loss on Sale Delinquent Taxes	(239,258)		(239,258)	(251,638)
Total revenues	\$173,274,098	\$8,918,735	\$182,192,833	\$175,104,116
Expenses				
Instruction	\$129,750,987	\$ -	\$129,750,987	\$119,838,773
Pupil personnel	6,345,335	-	6,345,335	6,187,396
Instructional student support	5,226,678	-	5,226,678	5,038,885
Administrative and financial	11,702,764	-	11,702,764	10,487,814
Pupil health	1,497,504	-	1,497,504	1,410,507
Business	3,583,662	-	3,583,662	3,661,696
Operation of plant	13,416,989	-	13,416,989	13,537,684
Student transportation	5,000,701	-	5,000,701	4,869,479
Other support services	324,069	-	324,069	232,660
Staff services	1,312,232	-	1,312,232	1,520,850
Student activities	2,129,466	-	2,129,466	2,002,696
Community services	832,568	-	832,568	1,150,783
Other	-	100,041	100,041	115,830
Interest on debt	6,312,338	-	6,312,338	6,154,571
Food service	-	7,969,591	7,969,591	6,881,871
Total Expenses	187,435,293	8,069,632	195,504,925	183,091,555
Increase (decrease) in net position	\$ (14,161,195)	\$ 849,103	\$(13,312,092)	\$ (7,987,439)

Governmental Activities

Governmental activities for 2015 resulted in a decrease in net position of \$14,161,195, as compared to a decrease of \$8,130,225 in governmental activities for 2014. The increase in the loss is primarily the result of an increase in retirement, alternative education, and charter tuition costs.

The School District's revenue consists of local (taxes and other): 28.1 percent, and state and federal revenues (subsidies and grants): 71.9 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 \$8,918,735 and expenses and other uses of \$8,069,632. While these activities receive no support from local tax revenues, the food service program received federal and state grants of \$8,404,722. Federal and state funding for these programs has increased by \$1,782,350 from 2014 primarily due to the implementation of a breakfast in the classroom program.

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 \$177,626,289, other financing sources of \$1,761,383, and expenditures of \$178,934,708. The net increase in fund balance was \$452,964.

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 \$173,162,614. At \$173,162,614, actual revenue were \$4,463,627 higher than budget. This was primarily due to a \$3,158,253 adjustment to the district's prior years' retirement subsidy. Expenditures were budgeted at \$173,328,249. Actual expenditures were \$5,563,063 over budget mostly due to unexpected increases in alternative education and charter tuition costs.

The following table summarizes the 2014-15 general fund revenues and expenditures as compared to the 2013-14 school year.

	<u>2014-15</u>	<u>2013-14</u>	<u>INCREASE / (DECREASE)</u>	<u>PERCENT CHANGE</u>
REVENUES				
Current Real Estate Taxes	\$38,598,849	\$38,964,444	\$ (365,595)	-0.95%
Delinquent Real Estate Taxes	7,674,690	6,139,217	1,535,473	20.01%
Earned Income Taxes	6,707,527	6,670,921	36,606	0.55%
Other Taxes	942,961	804,676	138,285	14.66%
Private Contributions & Donations	3,672,070	1,306,918	2,365,152	64.41%
Other Local Revenue	2,293,407	2,591,093	(297,686)	-12.98%
State Subsidies	99,766,027	93,105,355	6,660,672	6.68%
Federal Subsidies	18,472,808	19,016,999	(544,191)	-2.95%
Other Revenue Sources	2,335,719	96,362	2,239,357	95.87%
Total Revenues	<u>180,464,058</u>	<u>168,695,985</u>	<u>\$ 11,768,073</u>	<u>6.52%</u>
EXPENDITURES				
Salaries	74,687,289	77,130,258	\$(2,442,969)	-3.27%
Group Insurance	21,087,069	21,238,363	(151,294)	-0.72%
Payroll Taxes	5,509,994	5,893,448	(383,454)	-6.96%
Retirement	15,690,675	13,064,342	2,626,333	16.74%
Other Employee Benefits	384,797	224,934	159,863	41.54%
Purchased Services	14,763,000	13,136,872	1,626,128	11.01%
Utilities	2,087,351	2,315,746	(228,395)	-10.94%
Insurance	867,290	802,358	64,932	7.49%
Tuition	26,163,299	24,272,412	1,890,887	7.23%
Travel	394,873	348,735	46,138	11.68%
Supplies	4,579,358	4,528,969	50,389	1.10%
Equipment & Capital Expenditures	2,436,766	1,969,551	467,215	19.17%
Debt Service	10,636,115	10,458,393	177,722	1.67%
Fund Transfers & Other Expenditures	679,830	643,231	36,599	5.38%
Total Expenses	<u>179,967,706</u>	<u>176,027,612</u>	<u>\$ 3,940,094</u>	<u>2.19%</u>
Increase/Decrease in Fund Balance	<u>\$ 496,352</u>	<u>\$(7,331,627)</u>		

Following is a summary of major 2014-15 revenue and expenditure variances as compared to 2013-14.

MAJOR REVENUE VARIANCES	
<u>Increases</u>	
Adj. to Prior Year Retirement Subsidy	3,158,253
GE Grant	2,373,000
Transfer from Insurance Reserve	2,000,000
Retirement Subsidy	1,838,434
Delinquent Real Estate Taxes	1,535,473
Ready to Learn Grant	1,152,597
<u>Decreases</u>	
Federal Subsidies	(544,191)
Non-Major Variances	254,507
Total	<u>\$11,768,073</u>

MAJOR EXPENDITURE VARIANCES	
<u>Increases</u>	
Retirement Contribution	\$ 2,626,334
Alternative Ed. Costs	1,511,356
Charter School Tuition	1,318,598
Purchase of Buses	551,740
<u>Decreases</u>	
Salaries & Taxes (due to retirements)	(1,735,133)
Utilities	(228,395)
Non-Major Variances	(104,406)
Total	<u>\$ 3,940,094</u>

At June 30, 2015, the District's governmental funds reported a combined fund balance of a \$521,771, which is an increase of \$ 452,964 from June 30, 2014.

Capital Assets and Debt Administration

As of the end of fiscal year 2015, the School District had \$111,160,651 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 last few years 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, 2015, the School District had a principal balance of \$107,481,159 in bonds and notes outstanding, \$6,955,784 is due and payable in the 2016 fiscal year.

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

Factors Bearing on the Districts Future

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

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

On June 8, 2015 a bipartisan Basic Education Funding Commission recommended that the legislature adopt a new funding formula that includes factors reflecting student and community differences such as poverty, local effort and capacity, and rural and small district conditions. If adopted, this formula would begin to repair the damage caused by the state subsidy cuts that have occurred over the last four years. Until that time, the district will continue to work towards eliminating budget deficits while making every effort to maintain educational stability throughout Erie's Public Schools.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the school board accountability for the money it receives. If you have any questions about the report or wish to request additional financial information, please contact Brian J. Polito, CPA, Chief Financial Officer, 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, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 3,771,750	\$ 2,893,226	\$ 6,664,976
Investments	1,648,629	260,123	1,908,752
Interfund Receivable	259,338	(259,338)	-
Taxes Receivable, Net	7,181,586	-	7,181,586
Intergovernmental Receivables	9,203,912	345,193	9,549,105
Other Receivables	1,853,158	2,201	1,855,359
Inventories	4,042,920	120,040	4,162,960
Prepaid Items	2,659,574	-	2,659,574
Total Current Assets	<u>30,620,867</u>	<u>3,361,445</u>	<u>33,982,312</u>
Non-Current Assets			
Land and Other Nondepreciable Assets	20,176,537	-	20,176,537
Capital Assets, Net	86,142,548	4,841,566	90,984,114
Total Non-Current Assets	<u>106,319,085</u>	<u>4,841,566</u>	<u>111,160,651</u>
Total Assets	<u>136,939,952</u>	<u>8,203,011</u>	<u>145,142,963</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Inflows - Pensions	15,718,095	-	15,718,095
Unamortized Loss on Sale and Leaseback	-	152,698	152,698
Total Deferred Outflows of Resources	<u>15,718,095</u>	<u>152,698</u>	<u>15,870,793</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 152,658,047</u>	<u>\$ 8,355,709</u>	<u>\$ 161,013,756</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 6,688,528	\$ 405,681	\$ 7,094,209
Accounts Payable - PSERS	3,935,389	-	3,935,389
Accrued Salaries and Benefits	11,050,884	-	11,050,884
Unearned Revenue	52,644	-	52,644
Accrued Interest Payable	2,555,189	-	2,555,189
Bond and Notes Payable	6,955,784	95,000	7,050,784
Compensated Absences	1,300,000	-	1,300,000
Lease Payable	435,000	-	435,000
Retirement Incentive	661,573	-	661,573
Government Obligation Contract	108,172	-	108,172
Other Liabilities	156,725	-	156,725
Total Current Liabilities	<u>33,899,888</u>	<u>500,681</u>	<u>34,400,569</u>
Non-Current Liabilities			
Other Post-Employment Benefits	17,489,916	-	17,489,916
Bonds and Notes Payable	100,525,375	3,830,497	104,355,872
Compensated Absences	4,209,568	-	4,209,568
Lease Payable	8,780,000	-	8,780,000
Retirement Incentive	1,391,354	-	1,391,354
Government Obligation Contract	328,572	-	328,572
Net Pension Liability	238,158,000	-	238,158,000
Total Non-Current Liabilities	<u>370,882,785</u>	<u>3,830,497</u>	<u>374,713,282</u>
Total Liabilities	<u>404,782,673</u>	<u>4,331,178</u>	<u>409,113,851</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pensions	6,635,000	-	6,635,000
Other Liabilities - Swaption	9,702,000	-	9,702,000
Total Deferred Inflows of Resources	<u>16,337,000</u>	<u>-</u>	<u>16,337,000</u>
NET POSITION			
Net Investment in Capital Assets	(10,813,818)	916,069	(9,897,749)
Unrestricted (Deficit)	(257,647,808)	3,108,462	(254,539,346)
Total Net Position	<u>(268,461,626)</u>	<u>4,024,531</u>	<u>(264,437,095)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 152,658,047</u>	<u>\$ 8,355,709</u>	<u>\$ 161,013,756</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, 2015**

<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	\$ 129,750,987	\$ 742,406	\$ 115,594,606	\$ -
Pupil Personnel	6,345,335	-	219,965	-
Instructional Student Support	5,226,678	-	73,322	-
Administrative and Financial	11,702,764	-	879,861	-
Pupil Health	1,497,504	-	274,185	-
Business	3,583,662	-	205,301	-
Operation and Maintenance of				
Plant Services	13,416,989	-	2,621,606	-
Student Transportation	5,000,701	-	2,605,223	-
Other Support Services	324,069	-	146,643	-
Staff Services	1,312,232	-	-	-
Student Activities	2,129,466	153,360	117,316	-
Community Services	832,568	-	-	-
Interest on Debt	6,312,338	-	-	-
Total Governmental Activities	187,435,293	895,766	122,738,028	-
<u>Business-Type Activities</u>				
Food Service	7,969,591	419,552	8,404,722	-
Stadium Commission	100,041	93,853	-	-
Total Business-Type Activities	8,069,632	513,405	8,404,722	-
Total Primary Government	\$ 195,504,925	\$ 1,409,171	\$ 131,142,750	\$ -
<u>General Revenues</u>				
Taxes				
Property Taxes				
Earned Income and Local Services				
Taxes				
Transfer Tax				
Public Utility Realty				
Investment Earnings/(Loss)				
Loss on Sale of Taxes				
Loss on Disposal of Assets				
Impairment Loss				
Miscellaneous Income				
Total Revenues				
Change in Net Position				
Net Position, July 1, 2014, as restated				
Net Position, June 30, 2015				

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

Net (Expense)/Revenue and Changes in Net Position

Governmental Activities	Business- Type Activities	Total
\$ (13,413,975)	\$ -	\$ (13,413,975)
(6,125,370)	-	(6,125,370)
(5,153,356)	-	(5,153,356)
(10,822,903)	-	(10,822,903)
(1,223,319)	-	(1,223,319)
(3,378,361)	-	(3,378,361)
(10,795,383)	-	(10,795,383)
(2,395,478)	-	(2,395,478)
(177,426)	-	(177,426)
(1,312,232)	-	(1,312,232)
(1,858,790)	-	(1,858,790)
(832,568)	-	(832,568)
(6,312,338)	-	(6,312,338)
<u>(63,801,499)</u>	<u>-</u>	<u>(63,801,499)</u>
-	854,683	854,683
-	(6,188)	(6,188)
<u>-</u>	<u>848,495</u>	<u>848,495</u>
<u>(63,801,499)</u>	<u>848,495</u>	<u>(62,953,004)</u>
45,841,625	-	45,841,625
6,954,162	-	6,954,162
696,326	-	696,326
69,949	-	69,949
5	608	613
(239,258)	-	(239,258)
(3,412)	-	(3,412)
(3,747,556)	-	(3,747,556)
68,463	-	68,463
<u>49,640,304</u>	<u>608</u>	<u>49,640,912</u>
(14,161,195)	849,103	(13,312,092)
<u>(254,300,431)</u>	<u>3,175,428</u>	<u>(251,125,003)</u>
<u>\$ (268,461,626)</u>	<u>\$ 4,024,531</u>	<u>\$ (264,437,095)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Balance Sheet - Governmental Funds

June 30, 2015

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,374,628	\$ 106,725	\$ 2,481,353
Investments	606	-	606
Taxes Receivable, Net	7,181,586	-	7,181,586
Intergovernmental Receivables	9,203,912	-	9,203,912
Other Receivables	1,246,176	-	1,246,176
Interfund Receivable	259,338	-	259,338
Inventories	4,042,920	-	4,042,920
	\$ 24,309,166	\$ 106,725	\$ 24,415,891
LIABILITIES			
Accounts Payable	\$ 4,024,278	\$ -	\$ 4,024,278
Accrued Salaries and Benefits	14,986,273	-	14,986,273
Unearned Revenues	52,644	-	52,644
Other Liabilities	50,000	106,725	156,725
	19,113,195	106,725	19,219,920
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	4,674,200	-	4,674,200
	4,674,200	-	4,674,200
FUND BALANCES			
Nonspendable - Inventories	4,042,920	-	4,042,920
Unassigned (Deficit)	(3,521,149)	-	(3,521,149)
	521,771	-	521,771
	\$ 24,309,166	\$ 106,725	\$ 24,415,891
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 24,309,166	\$ 106,725	\$ 24,415,891

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, 2015

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

Fund balances - governmental funds	\$	521,771
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		106,319,085
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Unavailable Revenue - Property Taxes		4,674,200
Internal service funds are used by management to charge the costs of workers' compensation and dental and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position		3,540,726
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pensions		15,718,095
Deferred inflows of resources related to pensions (from pension schedule)		(6,635,000)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Other liabilities - swaption	\$	(9,702,000)
Other post-employment benefits		(17,489,916)
Bonds and notes payable		(107,481,159)
Compensated absences		(5,509,568)
Lease payable		(9,215,000)
Retirement incentive		(2,052,927)
Accrued interest payable		(2,555,189)
Government obligation contract		(436,744)
Net pension liability		(238,158,000)
		(392,600,503)
Net position (deficit) of governmental activities	\$	(268,461,626)

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, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources	\$ 61,396,650	\$ 3	\$ 61,396,653
State Sources	99,766,027	-	99,766,027
Federal Sources	16,463,609	-	16,463,609
	<u>177,626,286</u>	<u>3</u>	<u>177,626,289</u>
EXPENDITURES			
Instruction	117,799,171	-	117,799,171
Support Services	47,482,686	-	47,482,686
Noninstructional Services	2,910,327	-	2,910,327
Facilities Acquisition, Construction, and Improvements	302,277	43,391	345,668
Debt Service	10,396,856	-	10,396,856
	<u>178,891,317</u>	<u>43,391</u>	<u>178,934,708</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,265,031)</u>	<u>(43,388)</u>	<u>(1,308,419)</u>
Other Financing Sources (Uses)			
Change in Inventory	(717,601)	-	(717,601)
Refund of Prior Year Expenses	502,054	-	502,054
Transfers - In	2,000,000	-	2,000,000
Government Obligation Contract	551,740	-	551,740
Loss on Sale of Delinquent Taxes	(239,258)	-	(239,258)
Refund of Prior Year Revenues	(335,552)	-	(335,552)
	<u>1,761,383</u>	<u>-</u>	<u>1,761,383</u>
Net Change in Fund Balance	496,352	(43,388)	452,964
Fund Balance - July 1, 2014, restated	<u>25,419</u>	<u>43,388</u>	<u>68,807</u>
Fund Balance - June 30, 2015	<u>\$ 521,771</u>	<u>\$ -</u>	<u>\$ 521,771</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, 2015

Net change in fund balances - total governmental funds	\$	452,964
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in the Statement of Net Position		1,777,351
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(6,446,542)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net position		(3,414)
The net effect of impairment loss for land and building available for sale is to decrease net position		(3,747,556)
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	\$ (361,965)	
Change in accrued interest	<u>(29,650)</u>	(391,615)
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	(2,999,283)	
Change in other liabilities-swaption	(375,000)	
Other post-employment benefits	<u>(1,174,370)</u>	(4,548,653)
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		(3,185,476)
The issuance of long-term debt (bonds, leases) provides current financial resources to governmental funds.		
The effect of issuance of proceeds for the government obligation contract is to decrease net position		(551,740)
Governmental funds report district pension contributions as expenditures; however, in the Statement of Activities, the cost of pension benefits earned net of employee contribution is reported as pension expense.		
District pension contributions	15,718,095	
Cost of benefits earned net of employee contributions (pension expense from the pension schedule)	<u>(22,765,419)</u>	(7,047,324)
Amortization of deferred outflows/inflows is not reflected in the fund statements as they are related to future pension obligations		2,309,000
Repayment of long-term debt is reported as an expenditure in governmental funds but as a reduction of long-term liabilities in the Statement of Net Position. In current year, these amounts are:		
Bonds and note payments	7,068,451	
Capital lease payments	420,000	
Government obligation contract payments	114,996	
Changes in retirement incentive	(336,869)	
Change in compensated absences	<u>(44,768)</u>	7,221,810
Change in net position of governmental activities		<u>\$ (14,161,195)</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Local Sources	\$ 57,630,738	\$ 57,634,307	\$ 61,396,650	\$ 3,762,343
State Sources	94,560,678	99,683,099	99,766,027	82,928
Federal Sources	17,554,887	15,845,208	16,463,609	618,401
Total Revenues	<u>169,746,303</u>	<u>173,162,614</u>	<u>177,626,286</u>	<u>4,463,672</u>
EXPENDITURES				
Instruction	109,702,878	110,995,499	117,799,171	(6,803,672)
Support Services	47,762,335	47,799,476	47,482,686	316,790
Noninstructional Services	2,701,897	2,708,992	2,910,327	(201,335)
Facilities Acquisition, Construction and Improvement Services	139,500	1,106,068	302,277	803,791
Debt Service	10,867,224	10,718,214	10,396,856	321,358
Total Expenditures	<u>171,173,834</u>	<u>173,328,249</u>	<u>178,891,317</u>	<u>(5,563,068)</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,427,531)</u>	<u>(165,635)</u>	<u>(1,265,031)</u>	<u>(1,099,396)</u>
Other Financing Sources (Uses)				
Transfers - In	2,103,800	2,073,800	2,000,000	(73,800)
Refund of Prior Year Expenses	-	-	502,054	502,054
Government Obligation Contract	-	-	551,740	551,740
Change in Inventory	-	-	(717,601)	(717,601)
Refund of Prior Year Revenues	-	-	(335,552)	(335,552)
Loss on Sale of Delinquent Taxes	-	-	(239,258)	(239,258)
Total Other Financing Sources (Uses)	<u>2,103,800</u>	<u>2,073,800</u>	<u>1,761,383</u>	<u>(312,417)</u>
Net Change in Fund Balance	676,269	1,908,165	496,352	(1,411,813)
Fund Balance - July 1, 2014, restated	<u>25,419</u>	<u>25,419</u>	<u>25,419</u>	<u>-</u>
Fund Balance - June 30, 2015	<u>\$ 701,688</u>	<u>\$ 1,933,584</u>	<u>\$ 521,771</u>	<u>\$ (1,411,813)</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Statement of Net Position - Proprietary Funds
June 30, 2015

	<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	\$ 2,835,411	\$ 57,815	\$ 2,893,226	\$ 1,290,397
Investments	-	260,123	260,123	1,648,023
Receivables				
Interfund	-	-	-	572,712
Intergovernmental	345,193	-	345,193	-
Other	2,201	-	2,201	34,270
Inventories	120,040	-	120,040	-
Prepaid Expenses	-	-	-	2,659,574
Total Current Assets	<u>3,302,845</u>	<u>317,938</u>	<u>3,620,783</u>	<u>6,204,976</u>
Non-Current Assets				
Buildings and Building Improvements	6,122,641	562,807	6,685,448	-
Machinery and Equipment	1,223,980	208,594	1,432,574	-
Accumulated Depreciation	<u>(2,762,109)</u>	<u>(514,347)</u>	<u>(3,276,456)</u>	-
Total Non-Current Assets	<u>4,584,512</u>	<u>257,054</u>	<u>4,841,566</u>	-
Total Assets	<u>7,887,357</u>	<u>574,992</u>	<u>8,462,349</u>	<u>6,204,976</u>
Deferred Outflows of Resources				
Unamortized Loss on Sale and Leaseback	<u>152,698</u>	-	<u>152,698</u>	-
Total Deferred Outflows of Resources	<u>152,698</u>	-	<u>152,698</u>	-
Total Assets and Deferred Outflows of Resources	<u>\$ 8,040,055</u>	<u>\$ 574,992</u>	<u>\$ 8,615,047</u>	<u>\$ 6,204,976</u>
Liabilities				
Current Liabilities				
Accounts Payable	\$ 405,681	\$ -	\$ 405,681	\$ 2,664,250
Interfund Payable	259,338	-	259,338	-
Current Portion of Bonds Payable	95,000	-	95,000	-
Total Current Liabilities	<u>760,019</u>	-	<u>760,019</u>	<u>2,664,250</u>
Long-Term Liabilities				
Bonds Payable	<u>3,830,497</u>	-	<u>3,830,497</u>	-
Total Long-Term Liabilities	<u>3,830,497</u>	-	<u>3,830,497</u>	-
Net Position				
Net Investment in Capital Assets	659,015	257,054	916,069	-
Unrestricted	<u>2,790,524</u>	<u>317,938</u>	<u>3,108,462</u>	<u>3,540,726</u>
Total Net Position	<u>3,449,539</u>	<u>574,992</u>	<u>4,024,531</u>	<u>3,540,726</u>
Total Liabilities and Net Position	<u>\$ 8,040,055</u>	<u>\$ 574,992</u>	<u>\$ 8,615,047</u>	<u>\$ 6,204,976</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, 2015

	<u>Food Service</u>	<u>Non-Major Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating Revenues				
Food Service Revenue	\$ 349,125	\$ -	\$ 349,125	\$ -
Charges for Services	-	46,267	46,267	22,106,684
Other Income	70,427	47,586	118,013	-
Total Operating Revenues	<u>419,552</u>	<u>93,853</u>	<u>513,405</u>	<u>22,106,684</u>
Operating Expenses				
Salaries	427,087	6,750	433,837	-
Employee Benefits	59,747	-	59,747	-
Purchased Professional and Technical Service	6,220,887	-	6,220,887	-
Supplies and Food	626,144	11,023	637,167	-
Depreciation	319,364	53,780	373,144	-
Other Operating Expenses	111,076	28,488	139,564	996,596
Insurance Expense	-	-	-	1,401,234
Claim Expense	-	-	-	20,906,019
Total Operating Expenses	<u>7,764,305</u>	<u>100,041</u>	<u>7,864,346</u>	<u>23,303,849</u>
Operating Income (Loss)	<u>(7,344,753)</u>	<u>(6,188)</u>	<u>(7,350,941)</u>	<u>(1,197,165)</u>
Nonoperating Revenues (Expenses)				
Earnings (Loss) on Investments	-	608	608	11,689
State Sources	338,853	-	338,853	-
Federal Sources	8,065,869	-	8,065,869	-
Interest Expense	(205,286)	-	(205,286)	-
Transfer to General Fund	-	-	-	(2,000,000)
Total Nonoperating Revenues (Expenses)	<u>8,199,436</u>	<u>608</u>	<u>8,200,044</u>	<u>(1,988,311)</u>
Change in Net Position	854,683	(5,580)	849,103	(3,185,476)
Net Position, July 1, 2014, as restated	<u>2,594,856</u>	<u>580,572</u>	<u>3,175,428</u>	<u>6,726,202</u>
Net Position, June 30, 2015	<u>\$ 3,449,539</u>	<u>\$ 574,992</u>	<u>\$ 4,024,531</u>	<u>\$ 3,540,726</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, 2015

	Food Service	Non-Major Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:				
Cash Received from Customers	\$ 282,796	\$ 93,853	\$ 376,649	\$ 23,483,972
Cash Payments to Employees for Services	(486,834)	(6,750)	(493,584)	-
Cash Payments to Suppliers for Goods and Services	(5,844,237)	(11,023)	(5,855,260)	(22,644,628)
Cash Payments for Operating Expenses	(98,000)	(28,488)	(126,488)	-
Net Cash Provided by (Used for) Operating Activities	<u>(6,146,275)</u>	<u>47,592</u>	<u>(6,098,683)</u>	<u>839,344</u>
Cash Flows from Noncapital Financing Activities:				
State Sources	338,853	-	338,853	-
Federal Sources	7,528,752	-	7,528,752	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>7,867,605</u>	<u>-</u>	<u>7,867,605</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(68,443)	(48,685)	(117,128)	-
Interest Paid on Capital Debt	(205,286)	-	(205,286)	-
Bond Payments	(90,000)	-	(90,000)	-
Net Cash (Used by) Capital and Related Financing Activities	<u>(363,729)</u>	<u>(48,685)</u>	<u>(412,414)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	-	608	608	11,689
Transfer to General Fund	-	-	-	(2,000,000)
Purchase of Investments	-	(151,265)	(151,265)	(528,200)
Sale of Investments	-	151,885	151,885	508,822
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>1,228</u>	<u>1,228</u>	<u>(2,007,689)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,357,601	135	1,357,736	(1,168,345)
Cash and Cash Equivalents at Beginning of Year	1,477,810	57,680	1,535,490	2,458,742
Cash and Cash Equivalents at End of Year	<u>\$ 2,835,411</u>	<u>\$ 57,815</u>	<u>\$ 2,893,226</u>	<u>\$ 1,290,397</u>
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities:				
Operating Income (Loss)	\$ (7,344,753)	\$ (6,188)	\$ (7,350,941)	\$ (1,197,165)
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used for) Operating Activities				
Depreciation	319,364	53,780	373,144	-
Donated Commodities	537,117	-	537,117	-
(Increase) Decrease in Accounts Receivables	(136,756)	-	(136,756)	1,375,509
(Increase) Decrease in Inventories	(10,871)	-	(10,871)	-
(Increase) Decrease in Prepaid Expenses	-	-	-	1,791,139
(Increase) Decrease in Deferred Outflows	13,076	-	13,076	-
Increase (Decrease) in Accounts Payable	476,548	-	476,548	(1,130,139)
	<u>\$ (6,146,275)</u>	<u>\$ 47,592</u>	<u>\$ (6,098,683)</u>	<u>\$ 839,344</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, 2015

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 115,223	\$ 213,698
Total Assets	<u>\$ 115,223</u>	<u>\$ 213,698</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts Payable Due to Student Groups	\$ -	\$ 213,698
NET POSITION		
Held in Trust for Scholarships	<u>115,223</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ 115,223</u>	<u>\$ 213,698</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, 2015

	Private Purpose Trust
Additions:	
Earnings on Investments	\$ 170
Contributions	1,127
Total Additions	1,297
Deductions:	
Scholarships	35,591
Other Expense	104
Total Deductions	35,695
Change in Net Position	(34,398)
Net Position, July 1, 2014	149,621
Net Position, June 30, 2015	\$ 115,223

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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The government reports the following major governmental funds:

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

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

The District reports the following major enterprise funds.

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

Additionally, the District reports the following fund types:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Cash and Cash Equivalents

Cash and cash equivalents for all financial statement cash and cash equivalent line items including the proprietary fund cash flow statements are cash on hand, as well as demand deposits, investments, and short-term investments with original maturities of three months or less from the date of acquisition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

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

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

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

Prepaid Items and Inventories

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

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

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has an inventory balance as of June 30, 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2015. The inventory consisted of government donated commodities, which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method.

Capital Assets

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

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

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

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

Long-Term Obligations

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category. One is the unamortized loss on sale leaseback and the second is related to pensions (see Note 10 for further information).

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 and deferred inflow related to pensions (see Note 10 for further information) that are reported as a deferred inflow of resources under the accrual basis of accounting on the statement of net position for governmental activities.

Net Position Flow Assumption

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

G. Revenues and Expenditures/Expense

Program Revenues

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

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

Compensated Absences

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

All regularly scheduled personnel covered under the labor agreement with the Erie Education Association are eligible for ten days of sick leave per year. Employees are allowed unlimited accumulation of unused sick days. Professional employees who retire with 10 years of service may elect to receive \$80 per day with unlimited accumulation. Administrative personnel may elect to receive \$85 per day with unlimited accumulation.

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

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

Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Calendar

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

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

H. Pronouncements Issued

The School District adopted GASB 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 67 and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68. The objectives of the statements are to improve accounting and financial reporting by state and local governments for pensions. The implementation of these statements resulted in the recognition of the Net Pension Obligations of the School District. (See Note 10 for further information).

I. Future Pronouncements

The School will adopt GASB 72, *Fair Value Measurement and Application*. The objective of the statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value and enhance disclosures to provide information about the impact of fair value measurement.

NOTE 2 - BUDGETARY INFORMATION

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

NOTE 2 - BUDGETARY INFORMATION (CONTINUED)

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

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

Excess of Expenditures Over Appropriations

For the year ended June 30, 2015, expenditures exceeded appropriations by \$5.5 million. This was mainly due to Charter School costs and personnel related benefits in the instruction expenditure category.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2015, \$8,373,889 of the District's bank balance of \$8,672,721 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Insured Amount	\$ 298,832
Uninsured and Collateralized Held by the Pledging Bank's Trust Department not in the District's Name	8,373,889
Less: Outstanding Checks	(2,220,565)
Add: Deposits in Transit	-
Carrying Amount of Bank Balance	6,452,156
Plus: Cash on Hand and Petty Cash	212,820
Total Cash and Cash Equivalents per Financial Statements	<u>\$ 6,664,976</u>

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

Investments

As of June 30, 2015, the District had the following investments:

Investment Type	Maturities	Fair Value
Fixed Income Treasury Bonds	Less than 1 year	\$ 450,527
Fixed Income Treasury Bonds	1-5 years	1,011,658
Fixed Income Exchange Traded Funds	1-3 years	446,567
		\$ 1,908,752

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 16.6233 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, 2015 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate/EIT	\$ 7,820,532	\$ 690,000	\$ 7,130,532	\$ 2,457,332	\$ 4,674,200
Transfer Tax	51,054	-	51,054	51,054	-
	\$ 7,871,586	\$ 690,000	\$ 7,181,586	\$ 2,508,386	\$ 4,674,200

NOTE 5 - INTERGOVERNMENTAL RECEIVABLE

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2015, the following amounts are due from other governmental units:

	General Fund	Food Service Fund	Total
Federal	\$ 3,501,476	\$ 330,449	\$ 3,831,925
State	5,702,436	14,744	5,717,180
	<u>\$ 9,203,912</u>	<u>\$ 345,193</u>	<u>\$ 9,549,105</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year is as follows:

	June 30, 2014	Additions	Deletions/ Adjustments	June 30, 2015
Governmental Activities				
Capital Assets Not Depreciated:				
Land	\$ 7,848,756	\$ -	\$ (192,380)	\$ 7,656,376
Construction in Progress	136,704	-	(136,704)	-
Building/Land Held for Resale	8,480,181	-	4,039,980	12,520,161
Total Assets Not Depreciated	<u>\$ 16,465,641</u>	<u>\$ -</u>	<u>\$ 3,710,896</u>	<u>\$ 20,176,537</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 194,307,622	\$ 43,391	\$(3,710,896)	\$ 190,640,117
Furniture and Equipment	38,355,601	1,091,900	(26,559)	39,420,942
Vehicles	2,959,567	642,060	(403,017)	3,198,610
Total Assets Depreciated	<u>235,622,790</u>	<u>1,777,351</u>	<u>(4,140,472)</u>	<u>233,259,669</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(96,628,312)	(4,346,770)	3,039,604	(97,935,478)
Furniture and Equipment	(33,407,739)	(1,997,918)	23,147	(35,382,510)
Vehicles	(2,785,765)	(101,854)	403,017	(2,484,602)
Building/Land Held for Resale	<u>(4,527,371)</u>	<u>-</u>	<u>(6,787,160)</u>	<u>(11,314,531)</u>
Total Accumulated Depreciation	<u>(137,349,187)</u>	<u>(6,446,542)</u>	<u>(3,321,392)</u>	<u>(147,117,121)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 98,273,603</u>	<u>\$ (4,669,191)</u>	<u>\$(7,461,864)</u>	<u>\$ 86,142,548</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Building	\$ 6,645,264	\$ 40,185	\$ -	\$ 6,685,449
Equipment	1,249,312	76,943	-	1,326,255
Vehicles	106,317	-	-	106,317
Total Assets Depreciated	<u>8,000,893</u>	<u>117,128</u>	<u>-</u>	<u>8,118,021</u>
Less Accumulated Depreciation:				
Building	(1,647,948)	(316,760)	-	(1,964,708)
Equipment	(1,149,047)	(56,383)	-	(1,205,430)
Vehicles	<u>(106,317)</u>	<u>-</u>	<u>-</u>	<u>(106,317)</u>
Total Accumulated Depreciation	<u>(2,903,312)</u>	<u>(373,143)</u>	<u>-</u>	<u>(3,276,455)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 5,097,581</u>	<u>\$ (256,015)</u>	<u>\$ -</u>	<u>\$ 4,841,566</u>

At June 30, 2015, the buildings / land available for resale (Burton, Irving, and Roosevelt Schools) were written down to their fair market value based on an appraisal performed during the 2014/2015 fiscal year. The impairment loss was \$3,747,556, which is reflected in the Statement of Activities.

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:	
Instruction	\$ 6,041,239
Support Services:	
Student Transportation	27,693
Administration	346,751
Operation and Maintenance	<u>30,859</u>
 Total Depreciation Expense- Governmental Activities	 <u>\$ 6,446,542</u>
 Business-Type Activities:	
Food Service	319,364
Stadium Commission	<u>53,779</u>
 Total Depreciation Expense- Business-Type Activities	 <u>\$ 373,143</u>

NOTE 7 - CAPITAL LEASES/GOVERNMENT OBLIGATION CONTRACT

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	3,209,188	-	3,209,188
Less Accumulated Depreciation	<u>(4,306,254)</u>	<u>(978,037)</u>	<u>(5,284,291)</u>
Carrying Value of Building And Equipment	<u>\$ 5,485,334</u>	<u>\$ 3,708,215</u>	<u>\$ 9,193,549</u>

During the fiscal year end June 30, 2013 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 6.0%. 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.

During the fiscal year end June 30, 2015 the District entered into a Government Obligation Contract whereby the District agreed to lease four 72 passenger school buses and two wheelchair lift equipped buses for \$551,740. Under the terms of the contract, the District agrees to pay principal and interest payments annually on November 1st at an interest rate of approximately 2.47%, beginning on November 1, 2015 through 2018. The assets acquired through the Government Obligation Contract are as follows:

NOTE 7 - CAPITAL LEASES / GOVERNMENT OBLIGATION CONTRACT (CONTINUED)

	<u>Governmental Activities</u>
Vehicles	\$ 551,740
Less Accumulated Depreciation	<u>(22,989)</u>
Carrying Value of Vehicles	<u>\$ 528,751</u>

The following is a schedule of future minimum lease payments under capital leases and government obligation contract together with the net present value of the minimum lease payments as of June 30, 2015:

	<u>Capital Leases</u>	<u>Government Obligation Contract</u>
2016	\$ 899,750	\$ 114,995
2017	897,788	114,996
2018	895,550	114,996
2019	898,938	114,995
2020	896,138	-
2021-2025	4,486,066	-
2026-2030	4,487,214	-
2031-2035	<u>277,763</u>	<u>-</u>
Total Minimum Lease Payments	13,739,207	459,982
Less Amount Representing Interest	<u>(4,524,207)</u>	<u>(23,238)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 9,215,000</u>	<u>\$ 436,744</u>

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	<u>\$ 259,338</u>

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

**NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
(CONTINUED)**

<u>Transfer In:</u>	<u>Transfer Out: Internal Service Fund</u>
General Fund	<u>\$2,000,000</u>

The transfer noted above is the return of excess claims from the internal service fund to the general fund who funds the internal service activities.

NOTE 9 - LONG -TERM DEBT

Governmental Activities

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.

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%.

NOTE 9 - LONG -TERM DEBT (CONTINUED)

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

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

Compensated absences include accrued sick and personal days.

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

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 payable as of June 30, 2015.

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,955,784	\$ 250,473	\$ 7,206,257
2017	6,708,429	498,752	7,207,181
2018	6,375,852	736,268	7,112,120
2019	6,059,798	1,000,550	7,060,348
2020	5,822,800	1,247,502	7,070,302
2021-2025	25,851,119	9,548,880	35,399,999
2026-2030	<u>49,707,377</u>	<u>12,403,119</u>	<u>62,110,496</u>
	<u>\$107,481,159</u>	<u>\$ 25,685,544</u>	<u>\$133,166,703</u>

NOTE 9 - LONG - TERM DEBT (CONTINUED)

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 95,000	\$ 133,691	\$ 228,691
2017	95,000	130,000	225,000
2018	100,000	126,182	226,182
2019	105,000	122,235	227,235
2020	-	118,154	118,154
2021-2025	-	524,518	524,518
2026-2030	1,365,000	399,521	1,764,521
2031-2035	-	251,765	251,765
2036-2040	2,235,000	77,108	2,312,108
	<u>\$ 3,995,000</u>	<u>\$ 1,883,174</u>	<u>\$ 5,878,174</u>

Long-term liability activity for the year ended June 30, 2015 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	\$111,550,327	\$ 2,999,283	\$ (7,068,451)	\$107,481,159	\$ 6,955,784
Compensated Absences	5,464,800	1,245,640	(1,200,872)	5,509,568	1,300,000
Capital Lease Payable	9,635,000	-	(420,000)	9,215,000	435,000
Government Obligation Contract	-	551,740	(114,996)	436,744	108,172
Retirement Incentive	1,716,058	1,004,462	(667,593)	2,052,927	661,573
	<u>\$128,366,185</u>	<u>\$ 5,801,125</u>	<u>\$ (9,471,912)</u>	<u>\$124,695,398</u>	<u>\$ 9,460,529</u>

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

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 4,085,000	\$ -	\$ (90,000)	\$ 3,995,000	\$ 95,000
Bond Discount	(72,399)	-	2,896	(69,503)	-
	<u>\$ 4,012,601</u>	<u>\$ -</u>	<u>\$ (87,104)</u>	<u>\$ 3,925,497</u>	<u>\$ 95,000</u>

NOTE 10 - RETIREMENT PLAN

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of credited service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

NOTE 10 - RETIREMENT PLAN (CONTINUED)

Contributions

Member Contributions

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E are effected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$15,718,095 for the year ended June 30, 2015.

Pensions Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the School District reported a liability of \$238,158,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was .6017%, which was an increase of .0245% from its proportion measured as of June 30, 2013.

NOTE 10 - RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2015, the School District recognized pension expense of \$20,456,419. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	12,923,349
Changes in proportions and the effect of certain employer contributions on the employer's net pension liability	-	(6,288,349)
Contributions subsequent to the measurement date	15,718,095	-
	<u>\$ 15,718,095</u>	<u>\$ 6,635,000</u>

\$15,718,095 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (2,309,000)
2017	(2,309,000)
2018	(2,309,000)
2019	292,000
	<u>\$ (6,635,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1.00%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

NOTE 10 - RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLP's/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	(9%)	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 10 - RETIREMENT PLAN (CONTINUED)

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District’s proportionate share of the net pension liability	<u>\$ 297,068,000</u>	<u>\$ 238,158,000</u>	<u>\$ 187,863,000</u>

Pension plan fiduciary net position

Detailed information about PSERS’ fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System’s website at www.psers.state.pa.us.

Payable to PSERS

The School District has an outstanding payable to PSERS for employer contributions as of June 30, 2015 in the amount of \$3,935,389. The payable is due to legally required pension contributions.

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 \$450,000. 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 and claims are reimbursed from \$125,000 - \$300,000. Claims expenditures and liabilities are reported when it is probable that a loss can be reasonably estimated.

At June 30, 2015, the workers’ compensation fund had a liability of \$109,620, which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers’ compensation claim payments totaled \$160,369 for the year ended June 30, 2015.

Health insurance claim payments totaled \$19,995,208 for the year ended June 30, 2015 and a liability of \$2,520,360 at June 30, 2015 was owed to Highmark. The School District also had a prepayment at NOREBT in the amount of \$2,157,411 and a prepayment at Highmark in the amount of \$440,000.

The dental plan has a liability of \$34,270, which represents current year claims paid by the administrator but not reimbursed by the District as of June 30, 2015. Claim payments totaled \$750,442 for the year ended June 30, 2015.

At June 30, 2015, the workers' compensation, health insurance and dental plan had a net position balance of \$1,002,262, \$2,476,301 and \$62,163, respectively.

NOTE 11 - SELF-INSURANCE (CONTINUED)

Changes in the balances of claims liabilities during the years ended June 30, 2014 through 2015 are as follows:

	<u>Workers’ Comp.</u>	<u>Dental Plan</u>	<u>Health Insurance</u>	<u>Total</u>
Unpaid Claims, June 30, 2013	\$ 150,793	\$ 36,262	\$ 5,316,404	\$ 5,503,459
Incurred Claims	82,371	777,797	18,615,236	19,475,404
Claim Payments	<u>(138,070)</u>	<u>(781,568)</u>	<u>(20,264,836)</u>	<u>(21,184,474)</u>
Unpaid Claims, July 1, 2014	95,094	32,491	3,666,804	3,794,389
Incurred Claims	174,895	752,221	18,848,764	19,775,880
Claim Payments	<u>(160,369)</u>	<u>(750,442)</u>	<u>(19,995,208)</u>	<u>(20,906,019)</u>
Unpaid Claims, June 30, 2015	<u>\$ 109,620</u>	<u>\$ 34,270</u>	<u>\$ 2,520,360</u>	<u>\$ 2,664,250</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.

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 (currently negotiating)
The International Union of Operating Engineers	June 30, 2016
The Erie Educational Secretaries Association	June 30, 2014 (currently negotiating)
The Erie County Civil Service Employees of Painters and Allied Trades, AFL-CIO	June 30, 2016
Administrative Personnel	June 30, 2015

NOTE 13 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

Hospitalization coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of June 30, 2015, 246 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$ 4,045,920 (\$4,341,120 net of retiree contributions of \$295,200 in 2014/15).

Funding Policy

The School District has the authority to establish or amend obligations of plan members or the School District as long as in compliance with the bargaining unit contracts. The benefits are expensed when incurred and are financed on a pay-as-you-go basis. Retirees currently pay a portion of the monthly premium. The District covers the balance of the premium not paid by the retiree. Retiree and dependent coverage, group plans, and costs to the retiree are subject to change. A spouse may be covered as a dependent until the death of the retiree; thereafter, they are eligible to continue coverage by paying 100% of the monthly insurance premium.

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

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

Annual Required Contribution	\$ 5,484,043
Interest on Net OPEB Obligation	724,088
Adjustment to Annual Required Contributions	(987,841)
Annual OPEB Cost	<u>5,220,290</u>
Contribution Made	<u>(4,045,920)</u>
Increase in Net OPEB Obligation	1,174,370
Net OPEB Obligation - Beginning of Year	<u>16,315,546</u>
Net OPEB Obligation - End of Year	<u>\$ 17,489,916</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, 2015	\$ 5,220,290	29.85%	\$ 17,489,916
June 30, 2014	5,241,917	32.12%	16,315,546
June 30, 2013	6,172,131	41.79%	14,771,463

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, 2015 using the following actuarial assumptions: (1) actuarial cost method: entry age normal; (2) amortization method level dollar; (3) amortization period 30 years; (4) discount rate of 4.50% compounded annually; (5) PSERS defined benefit pension plan mortality rates, and (6) health care cost trend rates of 7%, decreasing by .5% per year to 5.5% in 2016 decreasing to 5.3% in 2017.

NOTE 14 - RISK MANAGEMENT

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

NOTE 14 - RISK MANAGEMENT (CONTINUED)

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, 2015 and the two previous fiscal years, no settlement exceeded insurance coverage.

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

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

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

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

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

Swaption Restructuring

In 2006, the District restructured its 2003 Swaption.

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

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

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

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

Fair Value

Because interest rates have declined from rates that were in effect on dates the swaps were entered into, both swaps have a negative fair value as of June 30, 2015. 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, 2015, the swaps had a fair value of negative \$ 9,702,000, which is a decrease in value of \$375,000 recorded in the statement of net position and statement of activities, respectively.

Risks

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

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

Credit Risk As of June 30, 2015, 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 A by Standard and Poor’s and A2 by Moody’s Investors Service and A+ by Fitch. The Counterparty has entered into a Credit Support Annex that could enable it to avoid termination upon downgrade by posting certain specified collateral.

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

NOTE 16 – DELINQUENT REAL ESTATE TAX SALE

In March 2011, the District entered into an agreement with Northwest Pennsylvania Incubator Association (NPIA) to sell delinquent real estate tax claims outstanding as of May 18, 2011. The District has agreed to negotiate with NPIA concerning NPIA's acquiring future tax claims from the District for the fiscal year ending June 30, 2011 and thereafter pursuant to the terms and conditions of the agreement. The District sold the 2012 delinquent real estate tax claims during the year ended June 30, 2013. The District sold the 2013 delinquent real estate tax claims during the year ended June 30, 2014. The District sold the 2014 delinquent tax claims during the year ended June 30, 2015. The purchase price for the tax claims was \$3,597,906, less fees of \$215,850 and reserve account of \$14,031, for a net of \$3,368,025. Tax claims outstanding at date of sale was \$3,837,164. The net loss realized in the Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities was \$239,258.

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 FUND BALANCE/NET POSITION

The capital projects fund, general fund, internal service fund and governmental activities fund balance/net position were restated as follows:

	<u>Capital Projects Fund Balance</u>	<u>General Fund Fund Balance</u>	<u>Internal Service Funds Net Position</u>	<u>Governmental Activities Net Position</u>
Beginning balance	\$ 144,874	\$ (4,734,727)	\$ 3,136,958	\$ (38,211,754)
To restate balance owed to bondholders as liability	(101,486)	-	-	(101,486)
To restate beginning receivable balances for state subsidy, retirement and social security aid	-	3,118,435	-	3,118,435
To restate for local grant funding previously reported as unearned	-	1,520,763	-	1,520,763
To restate beginning liability balances	-	120,948	-	120,948
To restate beginning prepaid expense balances	-	-	3,589,244	3,589,244
To restate beginning balance for School District's proportionate of				
Net pension liability	-	-	-	(236,284,000)
Deferred outflows-pensions	-	-	-	11,947,419
Restated balance	<u>\$ 43,388</u>	<u>\$ 25,419</u>	<u>\$ 6,726,202</u>	<u>\$ (254,300,431)</u>

Required Supplementary Information

POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

Schedules of Required Supplementary Information
**SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 PSERS**

	<u>2014</u>	<u>2013</u>
School District's proportion of the net pension liability (asset)	.6017%	.5772%
School District's proportionate share of the net pension liability (asset)	\$ 238,158,000	\$ 236,284,000
School District's covered employee payroll	\$ 76,775,653	\$ 74,068,145
School District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	310%	319%
Plan fiduciary net position as a percentage of the total pension liability	57%	54%

Schedules of Required Supplementary Information
 SCHEDULE OF SCHOOL DISTRICT'S CONTRIBUTIONS
PSERS

	2015	2014
Contractually required contribution	\$ 15,718,095	\$ 11,947,419
Contributions in relation to the contractually required contribution	15,718,095	11,947,419
Contribution deficiency (excess)	\$ -	\$ -
School District's covered employee payroll	\$ 74,267,796	\$ 76,775,653
Contributions as a percentage of covered employee payroll	21.16%	15.56%

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Notes to Required Supplementary Information
June 30, 2015

There were no changes in benefit terms or actuarial assumptions used as this is the first year of recognition in the financial statements.

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Supplementary Information

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 57,630,738	\$ 57,634,307	\$ 61,396,650	\$ 3,762,343
State Sources	94,560,678	99,683,099	99,766,027	82,928
Federal Sources	17,554,887	15,845,208	16,463,609	618,401
Total Revenues	<u>169,746,303</u>	<u>173,162,614</u>	<u>177,626,286</u>	<u>4,463,672</u>
Expenditures and Other Financing Uses				
Instruction				
Regular Programs	80,245,055	80,324,085	88,740,045	(8,415,960)
Special Education Program	22,086,875	22,851,968	21,539,997	1,311,971
Vocational Education Programs	3,973,675	4,263,122	4,332,813	(69,691)
Other Instructional Programs	1,599,938	1,855,528	1,428,453	427,075
Nonpublic School Programs	601,162	474,615	500,250	(25,635)
Adult Education Programs	15,703	15,711	7,607	8,104
Pre Kindergarten	1,180,470	1,210,470	1,250,006	(39,536)
Total Instruction	<u>109,702,878</u>	<u>110,995,499</u>	<u>117,799,171</u>	<u>(6,803,672)</u>
Support Services				
Pupil Personnel	6,546,244	6,694,336	6,272,349	421,987
Instructional Staff	5,244,020	4,698,156	5,200,026	(501,870)
Administrative	10,258,221	10,825,469	10,940,218	(114,749)
Pupil Health	1,678,486	1,679,234	1,450,121	229,113
Business	3,374,009	3,202,385	3,441,512	(239,127)
Operation and Maintenance of				-
Plant Services	13,635,886	13,729,867	13,044,564	685,303
Student Transportation Services	5,301,790	5,344,771	5,544,978	(200,207)
Support Services-Central	1,351,865	1,438,458	1,264,849	173,609
Other Support Services	371,814	186,800	324,069	(137,269)
Total Support Services	<u>47,762,335</u>	<u>47,799,476</u>	<u>47,482,686</u>	<u>316,790</u>
Operation of Noninstructional Services				
Student Activities	2,126,097	2,095,424	2,077,759	17,665
Community Services	575,800	613,568	832,568	(219,000)
Total Noninstructional Services	<u>2,701,897</u>	<u>2,708,992</u>	<u>2,910,327</u>	<u>(201,335)</u>
Facilities Acquisition, Construction and Improvement Services				
	<u>139,500</u>	<u>1,106,068</u>	<u>302,277</u>	<u>803,791</u>

Schedule continued on the next page.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2015
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt Service	\$ 10,867,224	\$ 10,718,214	\$ 10,396,856	\$ 321,358
Total Expenditures	<u>171,173,834</u>	<u>173,328,249</u>	<u>178,891,317</u>	<u>(5,563,068)</u>
Excess of Revenues Over/(Under) Expenditures	<u>(1,427,531)</u>	<u>(165,635)</u>	<u>(1,265,031)</u>	<u>(1,099,396)</u>
Other Financing Sources (Uses)				
Transfers -In	2,103,800	2,073,800	2,000,000	(73,800)
Refund of Prior Year Expenses	-	-	502,054	502,054
Government Obligation Contract	-	-	551,740	551,740
Change in Inventory	-	-	(717,601)	(717,601)
Refund of Prior Year Revenues	-	-	(335,552)	(335,552)
Loss on Sale of Delinquent Taxes	<u>-</u>	<u>-</u>	<u>(239,258)</u>	<u>(239,258)</u>
Total Other Financing Sources (Uses)	<u>2,103,800</u>	<u>2,073,800</u>	<u>1,761,383</u>	<u>(312,417)</u>
Net Change in Fund Balance	676,269	1,908,165	496,352	(1,411,813)
Fund Balance - July 1, 2014, restated	<u>25,419</u>	<u>25,419</u>	<u>25,419</u>	<u>-</u>
Fund Balance - June 30, 2015	<u>\$ 701,688</u>	<u>\$ 1,933,584</u>	<u>\$ 521,771</u>	<u>\$ (1,411,813)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Position - Nonmajor Proprietary Funds
June 30, 2015

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 55,754	\$ 2,061	\$ 57,815
Investments	260,123	-	260,123
Total Current Assets	<u>315,877</u>	<u>2,061</u>	<u>317,938</u>
Non-Current Assets			
Buildings and Building Improvements	562,807	-	562,807
Machinery and Equipment	208,594	-	208,594
Accumulated Depreciation	(514,347)	-	(514,347)
Total Non-Current Assets	<u>257,054</u>	<u>-</u>	<u>257,054</u>
Total Assets	<u>\$ 572,931</u>	<u>\$ 2,061</u>	<u>\$ 574,992</u>
Net Position			
Net Investment in Capital Assets	\$ 257,054	\$ -	\$ 257,054
Unrestricted	<u>315,877</u>	<u>2,061</u>	<u>317,938</u>
Total Net Position	<u>572,931</u>	<u>2,061</u>	<u>574,992</u>
Total Liabilities and Net Position	<u>\$ 572,931</u>	<u>\$ 2,061</u>	<u>\$ 574,992</u>

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, 2015

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues			
Charges for Services	\$ 46,267	\$ -	\$ 46,267
Other Income	47,586	-	47,586
Total Operating Revenues	<u>93,853</u>	<u>-</u>	<u>93,853</u>
Operating Expenses			
Salaries	6,750	-	6,750
Supplies and Food	11,023	-	11,023
Depreciation	53,780	-	53,780
Other Operating Expenses	28,446	42	28,488
Total Operating Expenses	<u>99,999</u>	<u>42</u>	<u>100,041</u>
Operating Income/(Loss)	<u>(6,146)</u>	<u>(42)</u>	<u>(6,188)</u>
Nonoperating Revenues/(Expenses)			
Earnings/(Loss) on Investments	608	-	608
Total Nonoperating Revenues/(Expenses)	<u>608</u>	<u>-</u>	<u>608</u>
Change in Net Position	(5,538)	(42)	(5,580)
Net Position, July 1, 2014	<u>578,469</u>	<u>2,103</u>	<u>580,572</u>
Net Position, June 30, 2015	<u>\$ 572,931</u>	<u>\$ 2,061</u>	<u>\$ 574,992</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Cash Flows - Nonmajor Proprietary Funds
For the Year Ended June 30, 2015

	Stadium Commission	Play Erie	Total
Cash Flows From Operating Activities:			
Cash Received from Users	\$ 93,853	\$ -	\$ 93,853
Cash Payments to Employees for Services	(6,750)	-	(6,750)
Cash Payments to Suppliers for Goods and Services	(11,023)	-	(11,023)
Cash Payments for Operating Expenses	(28,446)	(42)	(28,488)
Net Cash (Used for) Operating Activities	<u>47,634</u>	<u>(42)</u>	<u>47,592</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of Capital Assets	(48,685)	-	(48,685)
Net Cash Used By Capital and Related Financing Activities	<u>(48,685)</u>	<u>-</u>	<u>(48,685)</u>
Cash Flows from Investing Activities:			
Earnings (Loss) from Investments	608	-	608
Purchase of Investments	(151,265)	-	(151,265)
Sale of Investments	151,885	-	151,885
Net Cash Provided by Investing Activities	<u>1,228</u>	<u>-</u>	<u>1,228</u>
Net Increase (Decrease) in Cash and Cash Equivalents	177	(42)	135
Cash and Cash Equivalents at Beginning of Year	<u>55,577</u>	<u>2,103</u>	<u>57,680</u>
Cash and Cash Equivalents at End of Year	<u>\$ 55,754</u>	<u>\$ 2,061</u>	<u>\$ 57,815</u>
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities:			
Operating Income (Loss)	\$ (6,146)	\$ (42)	\$ (6,188)
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities			
Depreciation	<u>53,780</u>	<u>-</u>	<u>53,780</u>
	<u>\$ 47,634</u>	<u>\$ (42)</u>	<u>\$ 47,592</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Net Position - Internal Service Funds
June 30, 2015

	Workers' Comp.	Dental Plan	Health Plan	Total
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 546,394	\$ -	\$ 744,003	\$ 1,290,397
Investments	565,488	-	1,082,535	1,648,023
Interfund Receivables	-	-	572,712	572,712
Receivables - Other	-	34,270	-	34,270
Prepaid Expenses	-	62,163	2,597,411	2,659,574
Total Current Assets	<u>1,111,882</u>	<u>96,433</u>	<u>4,996,661</u>	<u>6,204,976</u>
Total Assets	<u>\$ 1,111,882</u>	<u>\$ 96,433</u>	<u>\$ 4,996,661</u>	<u>\$ 6,204,976</u>
Liabilities				
Current Liabilities				
Accounts Payable	\$ 109,620	\$ 34,270	\$ 2,520,360	\$ 2,664,250
Total Current Liabilities	<u>109,620</u>	<u>34,270</u>	<u>2,520,360</u>	<u>2,664,250</u>
Net Position				
Unrestricted	<u>1,002,262</u>	<u>62,163</u>	<u>2,476,301</u>	<u>3,540,726</u>
Total Net Position	<u>1,002,262</u>	<u>62,163</u>	<u>2,476,301</u>	<u>3,540,726</u>
Total Liabilities and Net Position	<u>\$ 1,111,882</u>	<u>\$ 96,433</u>	<u>\$ 4,996,661</u>	<u>\$ 6,204,976</u>

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, 2015

	<u>Workers'</u> <u>Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 230,100	\$ 833,952	\$ 21,042,632	\$ 22,106,684
Total Operating Revenues	<u>230,100</u>	<u>833,952</u>	<u>21,042,632</u>	<u>22,106,684</u>
Operating Expenses				
Other Operating Expenses	2,598	47,966	946,032	996,596
Insurance Expense	-	-	1,401,234	1,401,234
Claim Expense	<u>160,369</u>	<u>750,442</u>	<u>19,995,208</u>	<u>20,906,019</u>
Total Operating Expenses	<u>162,967</u>	<u>798,408</u>	<u>22,342,474</u>	<u>23,303,849</u>
Operating Income (Loss)	<u>67,133</u>	<u>35,544</u>	<u>(1,299,842)</u>	<u>(1,197,165)</u>
Nonoperating Revenues (Expenses)				
Transfer to General Fund	-	-	(2,000,000)	(2,000,000)
Earnings (Loss) on Investments	<u>4,511</u>	<u>-</u>	<u>7,178</u>	<u>11,689</u>
Total Nonoperating Revenue (Expense)	<u>4,511</u>	<u>-</u>	<u>(1,992,822)</u>	<u>(1,988,311)</u>
Change in Net Position	71,644	35,544	(3,292,664)	(3,185,476)
Net Position, July 1, 2014, restated	<u>930,618</u>	<u>26,619</u>	<u>5,768,965</u>	<u>6,726,202</u>
Net Position, June 30, 2015	<u>\$ 1,002,262</u>	<u>\$ 62,163</u>	<u>\$ 2,476,301</u>	<u>\$ 3,540,726</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2015

	<u>Workers' Comp.</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Cash Flows From Operating Activities:				
Cash Received from Users	\$ 230,100	\$ 833,952	\$ 22,419,920	\$ 23,483,972
Cash Payments to Suppliers for Goods and Services	(148,441)	(833,952)	(21,662,235)	(22,644,628)
Net Cash Provided by Operating Activities	<u>81,659</u>	<u>-</u>	<u>757,685</u>	<u>839,344</u>
Cash Flows from Investing Activities:				
Earnings (Loss) from Investments	4,511	-	7,178	11,689
Transfer to General Fund	-	-	(2,000,000)	(2,000,000)
Purchase of Investments	(204,186)	-	(324,014)	(528,200)
Sale of Investments	204,027	-	304,795	508,822
Net Cash Provided by Investing Activities	<u>4,352</u>	<u>-</u>	<u>(2,012,041)</u>	<u>(2,007,689)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	86,011	-	(1,254,356)	(1,168,345)
Cash and Cash Equivalents at Beginning of Year	<u>460,383</u>	<u>-</u>	<u>1,998,359</u>	<u>2,458,742</u>
Cash and Cash Equivalents at End of Year	<u>\$ 546,394</u>	<u>\$ -</u>	<u>\$ 744,003</u>	<u>\$ 1,290,397</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 67,133	\$ 35,544	\$ (1,299,842)	\$ (1,197,165)
Adjustment to Reconcile Operating Income (Loss) to Net Cash (Used) for Operating Activities				
(Increase) Decrease in Receivables	-	(1,779)	1,377,288	1,375,509
(Increase) Decrease in Prepaid Expenses	-	(35,544)	1,826,683	1,791,139
Increase (Decrease) in Accounts Payable	14,526	1,779	(1,146,444)	(1,130,139)
	<u>\$ 81,659</u>	<u>\$ -</u>	<u>\$ 757,685</u>	<u>\$ 839,344</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Fiduciary Net Position
June 30, 2015

	<u>Phelps</u>	<u>Drug Free</u>	<u>Mentoring Community Service</u>	<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
ASSETS							
Cash and Cash Equivalents	\$ 13,213	\$ 1,574	\$ 173	\$ 828	\$ 10,459	\$ 11,945	\$ 3,856
Total Assets	<u>\$ 13,213</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 828</u>	<u>\$ 10,459</u>	<u>\$ 11,945</u>	<u>\$ 3,856</u>
NET Position							
Held in Trust for Scholarships	\$ 13,213	\$ 1,574	\$ 173	\$ 828	\$ 10,459	\$ 11,945	\$ 3,856
Total Liabilities and Net Position	<u>\$ 13,213</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 828</u>	<u>\$ 10,459</u>	<u>\$ 11,945</u>	<u>\$ 3,856</u>

<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ -	\$ 2,266	\$ 3,362	\$ 314	\$ 67,233	\$ 115,223
<u>\$ -</u>	<u>\$ 2,266</u>	<u>\$ 3,362</u>	<u>\$ 314</u>	<u>\$ 67,233</u>	<u>\$ 115,223</u>
\$ -	\$ 2,266	\$ 3,362	\$ 314	\$ 67,233	\$ 115,223
<u>\$ -</u>	<u>\$ 2,266</u>	<u>\$ 3,362</u>	<u>\$ 314</u>	<u>\$ 67,233</u>	<u>\$ 115,223</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

	<u>Phelps</u>	<u>Drug Free</u>	<u>Mentoring Community Service</u>	<u>Ray Kroc</u>	<u>ASL Scholarship</u>	<u>Doris Greidler</u>	<u>Harry "Bud" Massing Scholarship</u>
Additions:							
Earnings on Investments	\$ -	\$ -	\$ -	\$ 2	\$ 6	\$ 5	\$ 126
Contributions	-	-	-	-	-	-	-
Total Additions	-	-	-	2	6	5	126
Deductions:							
Scholarships	-	-	-	1,125	29,800	-	-
Other Expense	2	-	-	3	-	-	-
Total Deductions	2	-	-	1,128	29,800	-	-
Change in Net Position	(2)	-	-	(1,126)	(29,794)	5	126
Net Position, July 1, 2014	13,215	1,574	173	1,954	40,253	11,940	3,730
Net Position, June 30, 2015	<u>\$ 13,213</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 828</u>	<u>\$ 10,459</u>	<u>\$ 11,945</u>	<u>\$ 3,856</u>

<u>Service Learning</u>	<u>Uniform Dress Code</u>	<u>Tile Restoration & Preservation</u>	<u>Musical Instrument Equipment</u>	<u>Foundation</u>	<u>Total Private Purpose Trust</u>
\$ -	\$ 2	\$ 1	\$ -	\$ 28	\$ 170
-	-	-	-	1,127	1,127
-	2	1	-	1,155	1,297
700	-	-	-	3,966	35,591
99	-	-	-	-	104
799	-	-	-	3,966	35,695
(799)	2	1	-	(2,811)	(34,398)
799	2,264	3,361	314	70,044	149,621
<u>\$ -</u>	<u>\$ 2,266</u>	<u>\$ 3,362</u>	<u>\$ 314</u>	<u>\$ 67,233</u>	<u>\$ 115,223</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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	7/1/14-6/30/15
Passed Through the PA Department of Education				
National School Lunch Program	I	10.555	362	7/1/13-6/30/14
National School Lunch Program	I	10.555	362	7/1/14-6/30/15
Subtotal				
Severe Needy Breakfast Program	I	10.553	367	7/1/13-6/30/14
Regular Needy Breakfast Program	I	10.553	365	7/1/13-6/30/14
Regular Needy Breakfast Program	I	10.553	365	7/1/14-6/30/15
Subtotal				
Total Child Nutrition Cluster				
Fresh Fruit and Vegetable Program	I	10.582	362	7/1/13-6/30/14
Fresh Fruit and Vegetable Program	I	10.582	362	7/1/14-6/30/15
Subtotal				
Child and Adult Care Food Program	I	10.558	164	7/1/14-6/30/15
Elect & Fatherhood Initiative	I	10.561	110-100009	7/1/13-6/30/14
Elect & Fatherhood Initiative	I	10.561	110-110009	7/1/14-6/30/15
Subtotal				
Total U.S. Department of Agriculture				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2014	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2015
\$ (98,391)	\$ 537,117	\$ 535,787	\$ (99,721)
140,393	140,393	-	-
<u>-</u>	<u>5,346,668</u>	<u>5,576,707</u>	<u>230,039</u>
<u>42,002</u>	<u>6,024,178</u>	<u>6,112,494</u>	<u>130,318</u>
38,337	38,337	-	-
638	638	-	-
<u>-</u>	<u>1,674,032</u>	<u>1,761,996</u>	<u>87,964</u>
<u>38,975</u>	<u>1,713,007</u>	<u>1,761,996</u>	<u>87,964</u>
<u>80,977</u>	<u>7,737,185</u>	<u>7,874,490</u>	<u>218,282</u>
5,988 *	5,988	-	-
<u>-</u>	<u>65,632</u>	<u>76,574</u>	<u>10,942</u>
<u>5,988</u>	<u>71,620</u>	<u>76,574</u>	<u>10,942</u>
<u>-</u>	<u>105,983</u>	<u>105,983</u>	<u>-</u>
19,745	19,745	-	-
<u>-</u>	<u>36,030</u>	<u>70,911</u>	<u>34,881</u>
<u>19,745</u>	<u>55,775</u>	<u>70,911</u>	<u>34,881</u>
<u>106,710</u>	<u>7,970,563</u>	<u>8,127,958</u>	<u>264,105</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, 2015
(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	013-140139	7/1/13-9/30/14
Title I Improving Basics Program	I	84.010	013-150139	7/1/14-9/30/15
Prog. Improvement-Set Aside	I	84.010	042-130139	7/1/13-9/30/14
Prog. Improvement-Set Aside	I	84.010	042-140139	7/1/14-9/30/15
Total Title I Cluster				
School Improvement Grant	I	84.377	142-140139	7/1/14-9/30/15
Subtotal				
Title II Improving Teacher Quality	I	84.367	020-140139	7/1/13-9/30/14
Title II Improving Teacher Quality	I	84.367	020-150139	7/1/14-9/30/15
Subtotal				
Title III Language Inst LEP Immigrant Students	I	84.365	010-130139	7/1/12-9/30/14
Title III Language Inst LEP Immigrant Students	I	84.365	010-140139	7/1/13-9/30/14
Title III Language Inst LEP Immigrant Students	I	84.365	010-150139	7/1/14-9/30/15
Subtotal				
Carol M. White PEP grant	I	84.215F	N/A	7/1/14-6/30/15

The accompanying notes are an integral part of this schedule.

<u>Accrued/ (Deferred) Revenue at July 1, 2014</u>	<u>Total Received for the Year</u>	<u>Expenditures</u>	<u>Accrued/ (Deferred) Revenue at June 30, 2015</u>
\$ 2,033,049	\$ 2,541,312	\$ 508,263	\$ -
-	7,303,322	7,250,615	(52,707)
58,484	155,956	97,472	-
<u>-</u>	<u>108,848</u>	<u>248,796</u>	<u>139,948</u>
<u>2,091,533</u>	<u>10,109,438</u>	<u>8,105,146</u>	<u>87,241</u>
<u>-</u>	<u>1,050,436</u>	<u>1,138,211</u>	<u>87,775</u>
<u>-</u>	<u>1,050,436</u>	<u>1,138,211</u>	<u>87,775</u>
404,950	809,899	404,949	-
<u>-</u>	<u>323,695</u>	<u>1,213,072</u>	<u>889,377</u>
<u>404,950</u>	<u>1,133,594</u>	<u>1,618,021</u>	<u>889,377</u>
43,728	65,592	21,864	-
187,108	210,497	46,777	23,388
<u>-</u>	<u>83,795</u>	<u>141,930</u>	<u>58,135</u>
<u>230,836</u>	<u>359,884</u>	<u>210,571</u>	<u>81,523</u>
<u>34,231</u>	<u>529,842</u>	<u>505,231</u>	<u>9,620</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, 2015
(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	380-1500057	9/1/14-6/30/15
Subtotal				
Passed Through Midwestern Intermediate Unit #IV				
Homeless Children & Youth	I	84.196	081-110008	7/1/13-6/30/14
Homeless Children & Youth	I	84.196	081-110008	7/1/14-6/30/15
Subtotal				
Passed Through Northwest Tri-County Intermediate Unit				
EHA-B IDEA	I	84.027	062-02-0-005	7/1/13-9/30/14
EHA-B IDEA	I	84.027	062-02-0-005	7/1/14-6/30/15
IDEA-B Section 611 Flow Through	I	84.027	062-02-0-005	7/1/14-6/30/15
Subtotal				
State Access Direct	I	84.173	N/A	7/1/14-6/30/15
Subtotal				
Total Special Education Cluster				
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	N/A	10/1/13-9/30/14
Elect Parenting 21st Century Community Learning Ctr.	D	84.287	N/A	10/1/14-9/30/15
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	7/1/13-9/30/14
State Access Indirect	I	93.778	410-0009941	7/1/14-6/30/15
Early Intervention	I	93.778	092-007139	7/1/14-6/30/15
Subtotal				
Passed Through Erie County				
Family Center	I	93.556	4100057297	7/1/13-9/30/14
Family Center	I	93.556	4100057297	7/1/14-6/30/15
Subtotal				

The accompanying notes are an integral part of this schedule.

Accrued/ (Deferred) Revenue at July 1, 2014	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2015
\$ -	\$ 359,141	\$ 359,141	\$ -
<u>-</u>	<u>359,141</u>	<u>359,141</u>	<u>-</u>
69,122	69,122	-	-
<u>-</u>	<u>-</u>	<u>26,000</u>	<u>26,000</u>
<u>69,122</u>	<u>69,122</u>	<u>26,000</u>	<u>26,000</u>
584,306	933,553	349,247	-
-	2,397,142	2,397,142	-
<u>-</u>	<u>24,148</u>	<u>522,968</u>	<u>498,820</u>
<u>584,306</u>	<u>3,354,843</u>	<u>3,269,357</u>	<u>498,820</u>
<u>- *</u>	<u>-</u>	<u>632,824</u>	<u>632,824</u>
<u>-</u>	<u>-</u>	<u>632,824</u>	<u>632,824</u>
<u>584,306</u>	<u>3,354,843</u>	<u>3,902,181</u>	<u>1,131,644</u>
-	323,056	605,748	282,692
<u>-</u>	<u>139,313</u>	<u>404,945</u>	<u>265,632</u>
-	462,369	1,010,693	548,324
<u>3,414,978</u>	<u>17,428,669</u>	<u>16,875,195</u>	<u>2,861,504</u>
55,106	82,893	27,787	-
-	99,376	128,105	28,729
<u>-</u>	<u>-</u>	<u>96,179</u>	<u>96,179</u>
<u>55,106</u>	<u>182,269</u>	<u>252,071</u>	<u>124,908</u>
124,927	157,021	32,094	-
<u>-</u>	<u>-</u>	<u>304,259</u>	<u>304,259</u>
<u>124,927</u>	<u>157,021</u>	<u>336,353</u>	<u>304,259</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, 2015
(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	7/1/13-6/30/14
Family Center/Fatherhood Initiative	D	93.590	4100044462	7/1/14-6/30/15
Subtotal				
Home Visitation Program	I	93.505	N/A	7/1/14-6/30/15
Passed Through PA Department of Education				
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/13-6/30/14
Elect & Fatherhood Initiative	I	93.558	110-110009	7/1/14-6/30/15
Subtotal				
Refugee Child Sch. Imp Act	I	93.576	4100045645	7/1/13-9/30/14
Refugee Child Sch. Imp Act	I	93.576	4100045645	7/1/14-6/30/15
Subtotal				
Total U.S. Department of Health & Human Services				
U.S. Department of Labor				
Passed through Commonwealth of PA				
Incentive Grants - WIA	I	17.267	PI-25823-14-55-A-42	7/1/14-6/30/15
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, 2014	Total Received for the Year	Expenditures	Accrued/ (Deferred) Revenue at June 30, 2015
\$ 27,151	\$ 27,151	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>30,600</u>	<u>30,600</u>
<u>27,151</u>	<u>27,151</u>	<u>30,600</u>	<u>30,600</u>
<u>-</u>	<u>509,695</u>	<u>582,509</u>	<u>72,814</u>
97,846 *	97,846	-	-
<u>-</u>	<u>197,435</u>	<u>380,648</u>	<u>183,213</u>
<u>97,846</u>	<u>295,281</u>	<u>380,648</u>	<u>183,213</u>
51,573	69,049	17,476	-
<u>-</u>	<u>9,207</u>	<u>57,654</u>	<u>48,447</u>
<u>51,573</u>	<u>78,256</u>	<u>75,130</u>	<u>48,447</u>
<u>356,603</u>	<u>1,249,673</u>	<u>1,657,311</u>	<u>764,241</u>
<u>-</u>	<u>89,000</u>	<u>89,000</u>	<u>-</u>
<u>-</u>	<u>89,000</u>	<u>89,000</u>	<u>-</u>
<u>\$ 3,878,291</u>	<u>\$ 26,737,905</u>	<u>\$ 26,749,464</u>	<u>\$ 3,889,850</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, 2015

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, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School District of the City of Erie, Pennsylvania.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - LEGEND

- a) Total amount of commodities received from Department of Agriculture.
- b) Beginning inventory at July 1.
- c) Total amount of commodities used.
- d) Ending inventory at June 30.

- I = Indirect funding
- D = Direct funding
- (1) = Restated beginning balance

NOTE 4 – RESTATEMENT OF BEGINNING ACCRUED (DEFERRED) REVENUE

Balance per prior year SEFA:	\$ 4,171,483
Understatement of Fresh Fruit and Vegetable Program	5,988
Overstatement of State Access Direct Program	(224,342)
Overstatement of Elect and Fatherhood Program	<u>(74,838)</u>
Restated Balance	<u>\$ 3,878,291</u>



FELIX & GLOEKLER, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

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

We have audited, 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, 2015, and the related notes to the financial statements, which collectively comprise the School District of the City of Erie, Pennsylvania's basic financial statements and have issued our report, thereon dated December 2, 2015.

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.

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. *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.

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

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

December 2, 2015
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, 2015. The School District of the City of Erie, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

**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, 2015.

Report on Internal Control Over Compliance

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

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

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

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

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 2, 2015
Erie, Pennsylvania

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

1. Summary of auditors' results

i. Type of Auditors' report issued on the financial statements: Unqualified opinion.

ii. Internal Control over financial reporting:

Material weakness (es) identified:	No
Significant deficiency (ies) identified:	No

iii. The audit disclosed no noncompliance which is material to the financial statements.

iv. Internal control over major federal program:

Material weakness (es) identified:	None
Significant deficiency (ies) identified:	None

v. Type of report issued on compliance for major programs: Unqualified opinion.

vi. The audit disclosed no audit findings which are required to be reported in accordance with Section 510 (a) of OMB Circular A-133.

vii. Major programs:

	<u>CFDA #</u>
Child Nutrition Cluster	10.553/10.555
School Improvement Grant	84.377
IDEA	84.027/84.173
21 st Century Community Learning Center	84.287

viii. Dollar threshold used to distinguish between Type A and Type B programs:
\$802,484.

ix. The School District of the City of Erie, Pennsylvania did not qualify as a low-risk auditee.

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

None

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, 2015

1. Prior significant deficiencies:
 - 2014 – 01 Oversight over financial reporting
 - 2014 – 02 Reconciliation of Grant Program Expenditures
2. Prior material noncompliance with provisions of laws, regulations, contracts or grant agreements related to a major program: None.
3. Known questioned costs greater than \$10,000: None.
4. There were no findings in the prior year.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
Corrective Action Plan
For the Year Ended June 30, 2015

Not applicable. There were no prior year findings required to be reported.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA
List of Report Distribution
For the Year Ended June 30, 2015

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, 2015, have been accurately compiled and reflect the audited books and records of The School District of the City of Erie, Pennsylvania. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in format required by the DPW Single Audit Supplement pertaining to this period.

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

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

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

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

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

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

December 2, 2015
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, 2015

Grant number	<u>Budget</u>	<u>Actual</u>
Revenues		
DPW Grant Revenue	\$ 304,259	\$ 304,259
Total Revenues	<u>\$ 304,259</u>	<u>\$ 304,259</u>
Expenditures		
Personnel	<u>\$ 288,000</u>	<u>\$ 288,000</u>
Operations		
Professional/Technical Services	\$ 843	\$ 843
Transportation and Travel	4,314	4,314
Service Contracts	6,700	6,700
Communication	778	778
Facility Expenses	222	222
Supplies	2,142	2,142
Other	597	597
Indirect Costs	<u>663</u>	<u>663</u>
Total Operations	<u>\$ 16,259</u>	<u>\$ 16,259</u>
Equipment		
Equipment (\$500 or more)	<u>\$ -</u>	<u>\$ -</u>
Total Equipment	<u>\$ -</u>	<u>\$ -</u>
Total Expenditures	<u>\$ 304,259</u>	<u>\$ 304,259</u>