

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

**ERIE, PENNSYLVANIA**

**FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016**

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
YEAR ENDED JUNE 30, 2016

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# Zelenkofske Axelrod LLC

## Independent Auditors' Report

Members of the Board  
THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
Erie, Pennsylvania

### Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA'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.

### Auditors' 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 of 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 auditors' 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 auditors consider 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.

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 for the SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA as of June 30, 2016, and the respective changes in the financial position, and cash flows, where applicable, thereof for the year ended in conformity with the accounting principles generally accepted in the United States of America.

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# Zelenkofske Axelrod LLC

Members of the Board  
THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
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## **Going Concern**

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 18 to the financial statements, the District has suffered recurring losses from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plan regarding those matters also described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

## **Adoption of GASB Statements**

As described in Note 1 to the financial statements, in 2016 the District adopted the provisions of Governmental Accounting Standards Board's Statement No. 72, "*Fair Value Measurement and Application*", Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", Statement No. 77, "*Tax Abatement Disclosures*", Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*" and Statement No. 79, "*Certain External Investment Pools and Pool Participants*". Our opinion is not modified with respect to these matters.

## **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 postemployment benefits other than pensions, budgetary comparison, schedule of the district's proportionate share of the net pension liability- last 10 years, and schedule of district's contributions- last 10 years information on pages 4 through 15 and 56 through 59 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.

### *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 Combining Non-Major Funds financial statements on pages 61 through 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

# Zelenkofske Axelrod LLC

Members of the Board

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA

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The combining nonmajor fund financial statements 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, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining nonmajor fund financial statements 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 March 15, 2017 on our consideration of the SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



ZELENKOFKSKE AXELROD LLC

March 15, 2017  
Pittsburgh, Pennsylvania

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA, hereafter referred to as the “SCHOOL DISTRICT”, is pleased to present its financial statements developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled “Basic Financial Statements – Management’s Discussion and Analysis – For State and Local Governments (hereafter “GASB 34”), and related standards. GASB 34 enhances information provided to the users of its financial statements. This section of the financial reporting package presents our discussion and analysis of the SCHOOL DISTRICT’s financial performance during the year that ended on June 30, 2016. Please read this Management Discussion and Analysis in conjunction with the SCHOOL DISTRICT’s financial statements that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of the following three parts:

- Management’s discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information
- Other supplementary information

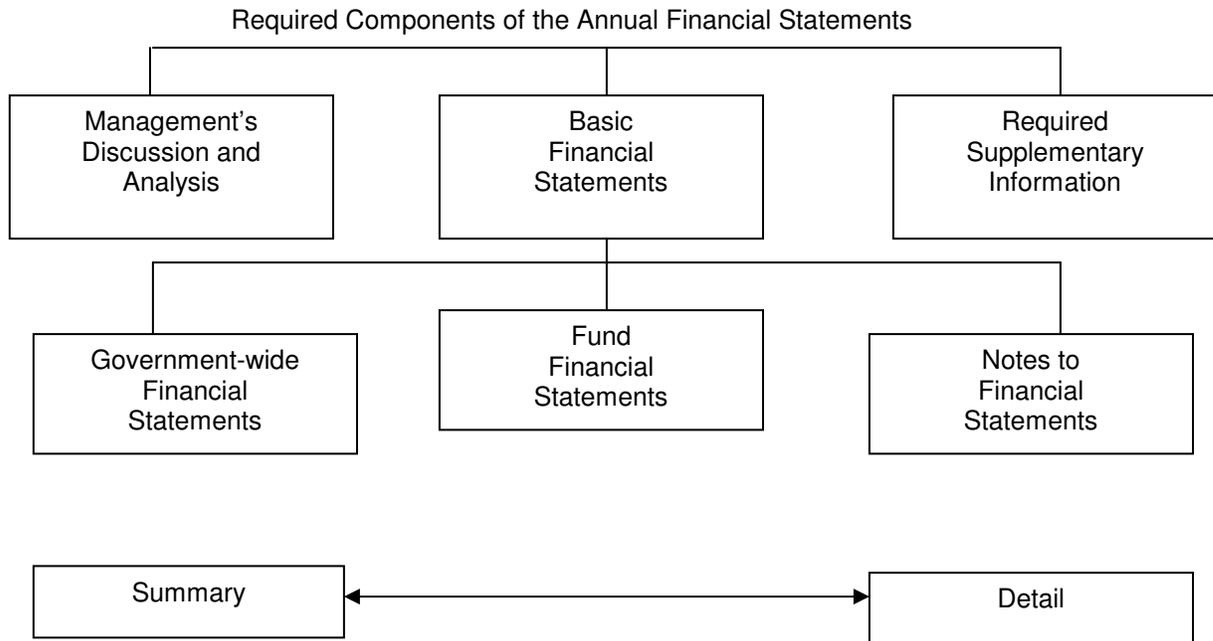
Management’s discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the SCHOOL DISTRICT’s government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the SCHOOL DISTRICT’s budget to actual figures for the general fund as well as certain pension and other postretirement benefit schedules. Other supplementary information consists of combining non-major financial statements.

The basic financial statements present two different views of the SCHOOL DISTRICT.

- *Government-wide financial statements*, the first two statements, provide information about the SCHOOL DISTRICT’s overall financial status.
- *Fund financial statements*, the remaining statements, focus on individual parts of the SCHOOL DISTRICT’s government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
  - *Governmental funds statements* show how services such as instruction, support services, and non-instructional services are financed in the short term, as well as what remains for future spending.
  - *Proprietary fund statements* offer short-term and long-term financial information about the activities the SCHOOL DISTRICT operates like a business, like the Food Service Fund.
  - *Fiduciary funds statements* reflect activities involving resources that are held by the SCHOOL DISTRICT as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the SCHOOL DISTRICT’s programs.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Table A-1: Organization of the School District's annual financial report**



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

Table A-2 summarizes the major features of the SCHOOL DISTRICT's financial statements, including the area of the SCHOOL DISTRICT's activities they cover and the types of information they contain.

**Table A-2: Major features of the government-wide and fund financial statements**

	<b>Government-wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental</b>	<b>Proprietary</b>	<b>Fiduciary</b>
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the SCHOOL DISTRICT, such as instruction and support services.	The activities of the SCHOOL DISTRICT, such as the Food Service Fund	Instances in which the SCHOOL DISTRICT administers resources on behalf of others
Required Financial Statements	-Statement of Net Position -Statement of activities	-Balance Sheet -Statement of revenues, expenditures and changes in fund balances	-Statement of Net Position -Statement of revenues, expenses and changes in Net Position -Statement of cash flows	-Statement of fiduciary Net Position -Statement of changes in fiduciary Net Position
Accounting basis and measurement focus	Accrual	Modified Accrual	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, short-term and long-term	All assets and liabilities, short-term and long-term
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenue for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

The remainder of the overview explains the structure and contents of the government-wide and fund financial statements.

**Government-wide financial statements**

Government-wide financial statements report information about the SCHOOL DISTRICT as a whole using accounting methods similar to those used by private-sector companies.

- The Statement of Net Position includes all the SCHOOL DISTRICT's assets and liabilities, except fiduciary funds, with the difference between the two reported as Net Position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The Statement of Activities focuses on how the SCHOOL DISTRICT's Net Position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

All changes to Net Position are reported using the economic resources measurement focus and the accrual basis of accounting, which requires that revenues be reported when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

Net Position is one way to measure the SCHOOL DISTRICT's financial position. Over time, increases or decreases in the SCHOOL DISTRICT's Net Position are one indicator of whether the SCHOOL DISTRICT's financial position is improving or deteriorating. However, other non-financial factors such as changes in the SCHOOL DISTRICT's property tax base and general economic conditions must be considered to assess the overall position of the SCHOOL DISTRICT.

There are two categories of activities for the primary government:

- *Governmental activities* include the SCHOOL DISTRICT's basic services such as instruction, support services, and non-instructional services.
- *Business-type activities* such as the Food Service Fund charge a fee to customers to help cover the costs of services.

Net Position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets in the fund level statements are reported as expenditures when financial resources (money) are expended to purchase or build assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

Government wide statements are reported on the accrual basis of accounting that involves the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities
- Allocate net position balances as follows:
  - Net Investment in Capital Assets
  - Restricted Net Position are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
  - Unrestricted Net Position is Net Position that does not meet any of the above restrictions

**Fund Financial Statements**

Fund financial statements provide more detailed information on the SCHOOL DISTRICT's most significant funds, not the SCHOOL DISTRICT as a whole. Funds are accounting devices, i.e., a group of related accounts, the SCHOOL DISTRICT uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using the modified accrual basis of accounting.

The SCHOOL DISTRICT has three kinds of funds:

- *Governmental funds* include most of the SCHOOL DISTRICT's basic services and focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and: (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting.

The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The SCHOOL DISTRICT adopts an annual budget for the general fund, as required by state law. A budgetary comparison of the SCHOOL DISTRICT's general fund is presented as required supplementary information.

- *Proprietary Funds* report business-type programs and activities that charge fees designed to recover the cost of providing services. The proprietary funds report using the accrual basis of accounting.
- *Fiduciary Funds* are for which the SCHOOL DISTRICT is the trustee or fiduciary. These include certain agency funds, or clearing accounts for assets held by the SCHOOL DISTRICT in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The SCHOOL DISTRICT is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary Net Position. These funds are excluded from the SCHOOL DISTRICT's government-wide financial statements because the SCHOOL DISTRICT cannot use these assets to finance its operations. The fiduciary funds are reported using the accrual basis of accounting.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Net Position**

The SCHOOL DISTRICT's total assets were \$138,830,992 at June 30, 2016. Of this amount, \$106,092,759 was capital assets.

GASB No. 34 required that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years. The SCHOOL DISTRICT adopted the provisions of GASB 34 related to infrastructure on the retroactive basis.

**Condensed Statement of Net Position – 2016/2015**

	2016 Governmental Activities	2016 Business-Type Activities	<u>2016 Total</u>	<u>2015 Total</u>
Current and other assets	\$ 30,062,393	\$ 2,675,840	\$ 32,738,233	\$ 33,982,312
Capital assets	<u>101,536,165</u>	<u>4,556,594</u>	<u>106,092,759</u>	<u>111,160,651</u>
Total Assets	<u>\$ 131,598,558</u>	<u>\$ 7,232,434</u>	<u>\$ 138,830,992</u>	<u>\$ 145,142,963</u>
Deferred Outflows of Resources	<u>\$ 26,754,412</u>	<u>\$ 142,518</u>	<u>\$ 26,896,930</u>	<u>\$ 15,870,793</u>
Current and other liabilities	\$ 40,761,931	\$ 399,567	\$ 41,161,498	\$ 34,400,569
Long-term liabilities	<u>371,220,647</u>	<u>3,738,393</u>	<u>374,959,040</u>	<u>374,713,282</u>
Total liabilities	<u>411,982,578</u>	<u>4,137,960</u>	<u>416,120,538</u>	<u>409,113,851</u>
Deferred Inflows of Resources	<u>\$ 28,265,982</u>	<u>\$ -</u>	<u>\$ 28,265,982</u>	<u>\$ 16,337,000</u>
Net Position:				
Net Investment in Capital Assets	(10,804,437)	723,201	(10,081,236)	(9,897,749)
Unrestricted	<u>(271,091,153)</u>	<u>2,513,791</u>	<u>(268,577,362)</u>	<u>(254,539,346)</u>
Total Net Position	<u>\$ (281,895,590)</u>	<u>\$ 3,236,992</u>	<u>\$ (278,658,598)</u>	<u>\$ (264,437,095)</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**Change in Net Position**

The following Statement of Activities represents the Change in Net Position for the years ended June 30, 2016 and 2015. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

	<b>Condensed Statement of Activities</b>			
	2016 Governmental Activities	2016 Business-type Activities	2016 Total	2015 Total
Program Revenues:				
Charges for Services	\$ 744,877	\$ 609,186	\$ 1,354,063	\$ 1,409,171
Grants and Contributions	126,348,746	8,935,438	135,284,184	131,142,750
General Revenues:				
Property Taxes	44,026,818	-	44,026,818	45,841,625
Earned Income and LST	8,441,109	-	8,441,109	6,954,162
Transfer Tax	838,069	-	838,069	696,326
Public Utility Realty	61,069	-	61,069	69,949
Swaption Loss	(3,321,724)	-	(3,321,724)	-
Investment Earnings	-	817	817	613
Loss on Disposal of Assets	-	-	-	(3,412)
Impairment Loss	-	-	-	(3,747,556)
Loss on Sale of Delinquent Taxes	-	-	-	(239,258)
Other Income	82,179	-	82,179	68,463
Transfers	573,706	(573,706)	-	-
<b>Total Revenues</b>	<b>\$ 177,794,849</b>	<b>\$ 8,971,735</b>	<b>\$ 186,766,584</b>	<b>\$ 182,192,833</b>
Expenses:				
Instruction	\$ 129,828,221	\$ -	\$ 129,828,221	\$ 129,750,987
Support Services	47,978,160	-	47,978,160	48,107,657
Noninstructional Services	2,241,775	-	2,241,775	2,962,034
Facilities, Acquisition, Construction and Improvement	975,874	-	975,874	302,277
Food service	-	9,631,332	9,631,332	7,969,591
Stadium Commission	-	127,942	127,942.00	100,041
Interest on Long-Term Debt	6,161,863	-	6,161,863	6,312,338
<b>Total Expenses</b>	<b>187,185,893</b>	<b>9,759,274</b>	<b>196,945,167</b>	<b>195,504,925</b>
Change in Net Position	(9,391,044)	(787,539)	(10,178,583)	(13,312,092)
Net Position - July 1	(268,461,626)	4,024,531	(264,437,095)	(251,125,003)
Net effect of restatement	(4,042,920)	-	(4,042,920)	-
<b>Net Position - June 30</b>	<b>\$ (281,895,590)</b>	<b>\$ 3,236,992</b>	<b>\$ (278,658,598)</b>	<b>\$ (264,437,095)</b>

**MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Net Program Expenses**

Net program expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2016, taxes brought in \$53,367,065.

**Net Cost of Governmental and Business-type Activities**

	2016 Total Cost <u>of Services</u>	2015 Total Cost <u>of Services</u>	2016 Net Cost <u>of Services</u>	2015 Net Cost <u>of Services</u>
Program:				
Instructional	\$ 129,828,221	\$ 129,750,987	\$ (11,925,587)	\$ (13,413,975)
Support Services	47,978,160	48,107,657	(39,259,129)	(41,081,551)
Noninstructional Services	2,241,775	2,962,034	(1,769,817)	(2,691,358)
Facilities, Acquisition, Construction and Improvement	975,874	302,277	(975,874)	(302,277)
Interest on Long-Term Debt	6,161,863	6,312,338	(6,161,863)	(6,312,338)
Food Service	9,631,332	7,969,591	(185,150)	854,683
Stadium Commission	<u>127,942</u>	<u>100,041</u>	<u>(29,500)</u>	<u>(6,188)</u>
Change in Net Position	<u>\$ 196,945,167</u>	<u>\$ 195,504,925</u>	<u>\$ (60,306,920)</u>	<u>\$ (62,953,004)</u>

The SCHOOL DISTRICT relied on property taxes and other general revenues to fund 30.6% of its governmental and business-type activities in 2016.

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**Capital Assets**

The SCHOOL DISTRICT's investment in capital assets in its Governmental Activities at June 30, 2016, net of accumulated depreciation, was \$101,536,165. Capital assets consist primarily of land, buildings, equipment, and books. The following is a summary of capital assets at June 30, 2016:

<b>Capital Assets</b>				
GOVERNMENTAL ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 7,656,376	\$ -	\$ -	\$ 7,656,376
Building/Land Held for Resale	12,520,161	-	-	12,520,161
Total Capital Assets, Not Being Depreciated	<u>20,176,537</u>	-	-	<u>20,176,537</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	190,640,117	-	-	190,640,117
Furniture and Equipment	39,420,942	1,308,641	(27,220)	40,702,363
Vehicles	3,198,610	67,176	(32,979)	3,232,807
Total Capital Assets, Being Depreciated	<u>233,259,669</u>	<u>1,375,817</u>	<u>(60,199)</u>	<u>234,575,287</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(97,935,478)	(4,414,713)	-	(102,350,191)
Furniture and Equipment	(35,382,510)	(1,588,906)	27,220	(36,944,196)
Vehicles	(2,484,602)	(155,118)	32,979	(2,606,741)
Building/Land Held for Resale	(11,314,531)	-	-	(11,314,531)
Total Accumulated Depreciation	<u>(147,117,121)</u>	<u>(6,158,737)</u>	<u>60,199</u>	<u>(153,215,659)</u>
Total Capital Assets, Being Depreciated, Net	<u>86,142,548</u>	<u>(4,782,920)</u>	-	<u>81,359,628</u>
Governmental Activities Capital Assets, Net	<u>\$ 106,319,085</u>	<u>\$ (4,782,920)</u>	<u>\$ -</u>	<u>\$ 101,536,165</u>
BUSINESS TYPE ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Building	\$ 6,685,449	\$ -	\$ -	\$ 6,685,449
Equipment	1,326,255	77,275	-	1,403,530
Vehicles	106,317	-	-	106,317
Total Capital Assets, Being Depreciated	<u>8,118,021</u>	<u>77,275</u>	-	<u>8,195,296</u>
Less Accumulated Depreciation				
Building	(1,964,708)	(318,993)	-	(2,283,701)
Equipment	(1,205,430)	(43,254)	-	(1,248,684)
Vehicles	(106,317)	-	-	(106,317)
Total Accumulated Depreciation	<u>(3,276,455)</u>	<u>(362,247)</u>	-	<u>(3,638,702)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,841,566</u>	<u>(284,972)</u>	-	<u>4,556,594</u>

Detailed information about the SCHOOL DISTRICT's capital assets can be found in Note 4, Notes to the Financial Statements.

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**Debt Administration**

At June 30, 2016, the SCHOOL DISTRICT had \$119,881,517 of long-term liabilities outstanding in its Governmental Activities. Long-term liabilities decreased 3.86% from the previous year. The following is a summary of long-term liabilities for the 2016 year:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	\$ 107,481,159	\$ 2,855,871	\$ (7,105,000)	\$ 103,232,030	\$ 7,145,000
Compensated absences	5,509,568	692,254	-	6,201,822	1,364,853
Lease Payable	9,215,000	-	(435,000)	8,780,000	445,000
Government Obligation Contract	436,744	-	(108,172)	328,572	106,855
Retirement Incentive	2,052,927	-	(713,834)	1,339,093	627,000
<b>Total Long-Term Liabilities</b>	<b>\$ 124,695,398</b>	<b>\$ 3,548,125</b>	<b>\$ (8,362,006)</b>	<b>\$ 119,881,517</b>	<b>\$ 9,688,708</b>

<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	\$ 3,995,000	\$ -	\$ (95,000)	\$ 3,900,000	\$ 95,000
Bond Discount	(69,503)	-	2,896	(66,607)	-
<b>Total Long-Term Liabilities</b>	<b>\$ 3,925,497</b>	<b>\$ -</b>	<b>\$ (92,104)</b>	<b>\$ 3,833,393</b>	<b>\$ 95,000</b>

Detailed information on the SCHOOL DISTRICT's debt can be found in Note 6, Notes to the financial statements.

**GOVERNMENTAL FUNDS**

The SCHOOL DISTRICT uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of governmental funds is to provide information on inflows, outflows, and balances of spendable resources. Such information is useful in assessing the SCHOOL DISTRICT's financing requirements. In particular, unreserved/undesignated fund balance may serve as a useful measure of the SCHOOL DISTRICT's net resources available for spending at the end of the year.

The SCHOOL DISTRICT's governmental funds include the general fund and capital reserve fund. The general fund is the chief operating fund for the SCHOOL DISTRICT. Capital reserve fund funds are restricted to specific legislated use.

**MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**GOVERNMENTAL FUND REVENUES**

Governmental fund revenues by source at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Revenues:		
Local Sources	\$ 58,648,134	\$ 61,396,650
State Sources	103,876,921	99,766,027
Federal Sources	<u>18,182,684</u>	<u>16,463,609</u>
	<u>\$180,707,739</u>	<u>\$177,626,286</u>

There are several factors relating to increases in revenues from 2015 to 2016. State revenues increased \$4,110,894 or 4.12% during 2016 due to an increase in the state budget for education. Federal revenues increased \$1,719,075 or 10.44% during 2016 due to an increase in department of education and health and human services grants and special education IDEA funding.

**GOVERNMENTAL FUND EXPENDITURES**

Governmental fund expenditures by function at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Expenditures:		
Instruction	\$ 123,927,295	\$ 117,799,171
Support Services	46,756,321	47,482,686
Non-instructional Services	2,195,509	2,910,327
Facilities Acquisition, Construction and Improvements	975,874	302,277
Debt Service	<u>10,392,654</u>	<u>10,396,856</u>
	<u>\$ 184,247,653</u>	<u>\$ 178,891,317</u>

Total expenditures for the year increased \$5,356,336 or 2.99%. Instruction expenditures increased \$6,128,124 or 5.20%. This increase was largely due to an increase in pension costs and other employee benefits. Support services decreased \$726,365 or 1.53%. Non-instructional expenditures decreased \$714,818 or 24.6%. The decreases in support and non-instructional expenditures were primarily caused by a reduction in staff. Facilities acquisition, construction, and improvements increased \$673,597 or 222.84%. The increase was related to an increase in the amount of expenses incurred for repairs to various schools throughout the district and replacing a roof on one school. Debt Service decreased \$4,202 or 0.04%. See Note 6 Long Term Liabilities for further information on the Debt Service requirements.

**MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**GOVERNMENTAL FUND BALANCES AND PROPRIETARY FUND NET POSITION**

Ending fund balances for governmental funds and net position for proprietary funds at June 30, 2016 and 2015 were as follows:

	2016	2015	2016	2015
	Governmental	Governmental	Proprietary	Proprietary
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
Fund:				
General Fund	\$ (4,777,127)	\$ 521,771	\$ -	\$ -
Capital Projects	-	-	-	-
Food Service	-	-	2,690,683	3,449,539
Non-Major Funds	-	-	546,309	574,992
Total	<u>\$ (4,777,127)</u>	<u>\$ 521,771</u>	<u>\$ 3,236,992</u>	<u>\$ 4,024,531</u>

The reasons for the changes in governmental fund balances are explained above in the governmental funds revenues and expenditures sections.

**BUDGETARY HIGHLIGHTS**

The SCHOOL DISTRICT adopts an annual appropriated budget for its general fund. Detailed information about the SCHOOL DISTRICT's 2016 general fund budget can be found in Required Supplemental Information.

Overall the SCHOOL DISTRICT had a negative variance of \$1,255,978 for actual results in comparison to budget. Numerous factors went in to these results. Revenue had a positive variance of \$3,080,278 which resulted from higher than expected federal and state revenue subsidies. Expenditures had a negative variance of \$5,420,192 for actual results in comparison to budget, largely resulting from instruction expenditures that were higher than the budget.

**ECONOMIC CONDITIONS AND NEXT YEAR'S BUDGET**

Current difficult economic conditions have affected the SCHOOL DISTRICT's financial position due largely in part by increased pension and healthcare costs. SCHOOL DISTRICT management has worked on lowering expenses and increasing revenues by submitting a financial plan to the department of education for additional state aid. See Note 19 for further information on the financial plan.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the SCHOOL DISTRICT's finances and to demonstrate the SCHOOL DISTRICT's accountability. Questions concerning this financial information or requests for additional information should be directed to:

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 Brian J. Polito, CPA  
 Chief Financial Officer  
 148 West 21<sup>th</sup> Street  
 Erie, PA 16502  
 Phone: 814-874-6040

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 902,403	\$ 4,252,031	\$ 5,154,434
Investments	617,004	271,555	888,559
Accounts Receivable	493,899	2,201	496,100
Taxes Receivable	6,997,776	-	6,997,776
Due From Other Governments	14,976,009	14,831	14,990,840
Other Receivables	1,036,186	-	1,036,186
Internal Balances	1,993,559	(1,993,559)	-
Prepaid and Other Assets	2,944,676	-	2,944,676
Inventory	100,881	128,781	229,662
Capital Assets:			
Non-depreciable	20,176,537	-	20,176,537
Depreciable (Net)	81,359,628	4,556,594	85,916,222
<b>Total Assets</b>	<b>131,598,558</b>	<b>7,232,434</b>	<b>138,830,992</b>
<b>Deferred Outflows of Resources</b>			
Deferred Contributions subsequent to the measurement date	18,218,629	-	18,218,629
Deferred Changes in Proportions	8,535,783	-	8,535,783
Unamortized Loss on Sale and Leaseback	-	142,518	142,518
<b>Total deferred outflows of resources</b>	<b>26,754,412</b>	<b>142,518</b>	<b>26,896,930</b>
<b>Liabilities</b>			
Current Liabilities:			
Cash Overdraft	\$ 6,127,204	\$ -	\$ 6,127,204
Accounts Payable	6,411,257	304,567	6,715,824
Accrued Wages and Benefits	15,557,705	-	15,557,705
Accrued Interest Payable on Debt	2,573,527	-	2,573,527
Unearned Revenues	87,798	-	87,798
Other Current Liabilities	315,732	-	315,732
Current Portions of Long-Term Liabilities:			
Bonds and Notes Payable	7,145,000	95,000	7,240,000
Capital Lease Payable	445,000	-	445,000
Government Obligation Contract	106,855	-	106,855
Compensated Absences	1,364,853	-	1,364,853
Retirement Incentive	627,000	-	627,000
Non-Current Portions of Long-Term Liabilities:			
Bonds and Notes Payable	96,087,030	3,738,393	99,825,423
Capital Lease Payable	8,335,000	-	8,335,000
Government Obligation Contract	221,717	-	221,717
Other Post Employment Benefits	18,721,999	-	18,721,999
Compensated Absences	4,836,969	-	4,836,969
Retirement Incentive	712,093	-	712,093
Net Pension Liability	242,305,839	-	242,305,839
<b>Total Liabilities</b>	<b>411,982,578</b>	<b>4,137,960</b>	<b>416,120,538</b>
<b>Deferred Inflows of Resources</b>			
Swaption	13,023,724	-	13,023,724
Deferred Difference Between Actual and Experience	749,946	-	749,946
Deferred Changes in Proportion	6,578,000	-	6,578,000
Deferred Difference Between Projected and and Actual Investment Earnings	7,914,312	-	7,914,312
<b>Total deferred inflows of resources</b>	<b>28,265,982</b>	<b>-</b>	<b>28,265,982</b>
<b>Net Position</b>			
Net Investment in Capital Assets	(10,804,437)	723,201	(10,081,236)
Unrestricted	(271,091,153)	2,513,791	(268,577,362)
<b>Total Net Position</b>	<b>\$ (281,895,590)</b>	<b>\$ 3,236,992</b>	<b>\$ (278,658,598)</b>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
Instruction	\$ 129,828,221	\$ 709,665	\$ 117,192,969	\$ (11,925,587)	\$ -	\$ (11,925,587)
Support Services	47,978,160	-	8,719,031	(39,259,129)	-	(39,259,129)
Noninstructional Services	2,241,775	35,212	436,746	(1,769,817)	-	(1,769,817)
Facilities Acquisition, Construction and Improvement	975,874	-	-	(975,874)	-	(975,874)
Interest on Long-Term Debt	6,161,863	-	-	(6,161,863)	-	(6,161,863)
<b>Total Governmental Activities</b>	<b>187,185,893</b>	<b>744,877</b>	<b>126,348,746</b>	<b>(60,092,270)</b>	<b>-</b>	<b>(60,092,270)</b>
<b>Business-Type Activities:</b>						
Food Service	9,631,332	510,744	8,935,438	-	(185,150)	(185,150)
Stadium Commission	127,942	98,442	-	-	(29,500)	(29,500)
<b>Total Business-Type Activities</b>	<b>9,759,274</b>	<b>609,186</b>	<b>8,935,438</b>	<b>-</b>	<b>(214,650)</b>	<b>(214,650)</b>
<b>Total Primary Government</b>	<b>\$ 196,945,167</b>	<b>\$ 1,354,063</b>	<b>\$ 135,284,184</b>	<b>\$ (60,092,270)</b>	<b>\$ (214,650)</b>	<b>\$ (60,306,920)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property				44,026,818	-	44,026,818
Other taxes levied				8,441,109	-	8,441,109
Transfer Tax				838,069	-	838,069
Public Utility Realty Tax				61,069	-	61,069
Swaption Loss				(3,321,724)	-	(3,321,724)
Investment Earnings				-	817	817
Miscellaneous				82,179	-	82,179
Transfers				573,706	(573,706)	-
<b>Total General Revenues</b>				<b>50,701,226</b>	<b>(572,889)</b>	<b>50,128,337</b>
<b>Change in Net Position</b>				<b>(9,391,044)</b>	<b>(787,539)</b>	<b>(10,178,583)</b>
<b>Net Position - Beginning (as restated, Note 17)</b>				<b>(272,504,546)</b>	<b>4,024,531</b>	<b>(268,480,015)</b>
<b>Net Position - Ending</b>				<b>\$ (281,895,590)</b>	<b>\$ 3,236,992</b>	<b>\$ (278,658,598)</b>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	606	40,000	40,606
Receivables:			
Taxes	6,997,776	-	6,997,776
Intergovernmental Receivables	14,976,009	-	14,976,009
Other Receivables	493,899	-	493,899
Interfund Receivables	1,993,559	-	1,993,559
Inventories	<u>100,881</u>	<u>-</u>	<u>100,881</u>
 Total assets	 <u>\$ 24,562,730</u>	 <u>\$ 40,000</u>	 <u>\$ 24,602,730</u>
<u>Liabilities</u>			
Cash Overdraft	\$ 6,127,204	\$ -	\$ 6,127,204
Accounts Payable	2,650,418	-	2,650,418
Accrued Salaries and Benefits	15,557,705	-	15,557,705
Unearned Revenue	87,798	-	87,798
Other Current Liabilities	<u>275,732</u>	<u>40,000</u>	<u>315,732</u>
 Total liabilities	 <u>24,698,857</u>	 <u>40,000</u>	 <u>24,738,857</u>
<u>Deferred Inflows of Resources</u>			
Unavailable Revenue - Property Taxes	<u>4,641,000</u>	<u>-</u>	<u>4,641,000</u>
Total Deferred Inflows of Resources	<u>4,641,000</u>	<u>-</u>	<u>4,641,000</u>
<u>Fund Balances</u>			
Non-spendable	100,881	-	100,881
Unassigned	<u>(4,878,008)</u>	<u>-</u>	<u>(4,878,008)</u>
 Total fund balances	 <u>(4,777,127)</u>	 <u>-</u>	 <u>(4,777,127)</u>
 Total liabilities and fund balances	 <u>\$ 24,562,730</u>	 <u>\$ 40,000</u>	 <u>\$ 24,602,730</u>

The accompanying notes are an integral part of the 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, 2016

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances of governmental funds	\$	(4,777,127)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$254,751,824 and the accumulated depreciation is \$153,215,659.		101,536,165
Property taxes receivable will be collected, but are not available soon enough to pay for current year's expenditures, and therefore are deferred in the Governmental Funds.		4,641,000
Internal service funds are used by management to charge the costs of workers' compensation and dental and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		1,698,824
Long-term liabilities and related deferrals such as Debt, Accrued Interest, and Compensated Absences are not due and payable in the current period and accordingly are not reported as fund liabilities. Both current and long-term liabilities are reported in the Statement of Net Position.		
Long-term Bonds and Notes Payable	\$	(103,232,030)
Swaption		(13,023,724)
Retirement Incentive		(1,339,093)
Accrued interest		(2,573,527)
Capital Lease Payable		(8,780,000)
Government Obligation Contract		(328,572)
Other Post Employment Benefits		(18,721,999)
Deferred Contributions Subsequent to the Measurement Date		18,218,629
Deferred Difference Between Actual and Experience		(749,946)
Deferred Outflow - Changes in Pension Proportions		8,535,783
Deferred Inflow - Changes in Pension Proportions		(6,578,000)
Deferred Difference Between Projected and Actual Investment Earnings		(7,914,312)
Net Pension Liability		(242,305,839)
Compensated Absences		(6,201,822)
		<u>(384,994,452)</u>
Total net position of governmental activities	\$	<u>(281,895,590)</u>

The Accompanying Notes are an Integral Part of the Financial Statements

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Local Revenue Sources	\$ 58,648,134	\$ -	\$ 58,648,134
State Revenue Sources	103,876,921	-	103,876,921
Federal Revenue Sources	18,182,684	-	18,182,684
Total Revenues	<u>180,707,739</u>	<u>-</u>	<u>180,707,739</u>
<b>Expenditures</b>			
Current operating:			
Instruction	123,927,295	-	123,927,295
Support Services	46,756,321	-	46,756,321
Noninstructional Services	2,195,509	-	2,195,509
Facilities Acquisition, Construction and Improvements	975,874	-	975,874
Debt service	<u>10,392,654</u>	<u>-</u>	<u>10,392,654</u>
Total Expenditures	<u>184,247,653</u>	<u>-</u>	<u>184,247,653</u>
Excess (deficiency) of revenues over expenditures	<u>(3,539,914)</u>	<u>-</u>	<u>(3,539,914)</u>
<b>Other financing sources (uses)</b>			
Loss on Special Items	(233,035)	-	(233,035)
Refund of Prior Year Expenses	125,436	-	125,436
Transfers in	2,555,740	-	2,555,740
Refund of Prior Year Revenues	<u>(164,205)</u>	<u>-</u>	<u>(164,205)</u>
Total other financing sources (uses)	<u>2,283,936</u>	<u>-</u>	<u>2,283,936</u>
Net change in fund balance	<u>(1,255,978)</u>	<u>-</u>	<u>(1,255,978)</u>
Fund balance beginning of year (as restated, Note 17)	<u>(3,521,149)</u>	<u>-</u>	<u>(3,521,149)</u>
Fund balance, end of year	<u>\$ (4,777,127)</u>	<u>\$ -</u>	<u>\$ (4,777,127)</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in fund balances - total governmental funds		\$ (1,255,978)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>		
Capital Outlays	1,375,817	
Depreciation Expense	<u>(6,158,737)</u>	(4,782,920)
<p>Payments of long-term debt and certain expenditures of debt issuance are expensed when paid in the Governmental Funds, but are amortized or recorded as a reduction of long term liabilities in the Statement of Net Position</p>		
Debt Principal Repayments	7,105,000	
Change in Accrued Interest	(18,338)	
Capital Lease Payments	435,000	
Government Obligation Contract Payments	108,172	
Change in Retirement Incentive	713,834	
Change in Compensated Absences	<u>(692,254)</u>	7,651,414
<p>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</p>		
Change in accreted value of bonds	(2,855,871)	
Change in swaption value	<u>(3,321,724)</u>	(6,177,595)
<p>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.</p>		
		(1,841,902)
<p>Governmental funds do not report the changes in the Other Post Employment Benefit liability:</p>		
		(1,232,083)
<p>Governmental funds do not report the changes in the Pension expense:</p>		
District Pension Contributions	18,218,629	
Amortization of deferred outflows/inflows related to future pension obligations	3,002,877	
Cost of benefits earned net of employee contributions	<u>(22,940,286)</u>	(1,718,780)
<p>Real estate taxes reported in the funds include receipt of prior year delinquent taxes and do not include revenue attributable to the current year's delinquent tax receivable. This amount is the net effect of these differences.</p>		
Current year	4,641,000	
Prior year	<u>(4,674,200)</u>	<u>(33,200)</u>
Changes in net position of governmental activities		<u>\$ (9,391,044)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	Business-Type Activities - Enterprise Fund Food Service	Business-Type Activities - Enterprise Fund Non-Major Funds	Business-Type Activities - Enterprise Fund Total	Governmental Activities - Internal Service Fund
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 4,178,243	\$ 73,788	\$ 4,252,031	\$ 902,403
Investments	-	271,555	271,555	576,398
Subsidies Receivable	14,831	-	14,831	-
Other receivables	2,201	-	2,201	1,036,186
Prepaid expense	-	-	-	2,944,676
Inventories	128,781	-	128,781	-
Total Current Assets	<u>4,324,056</u>	<u>345,343</u>	<u>4,669,399</u>	<u>5,459,663</u>
Non-current Assets:				
Capital Assets (net of accumulated depreciation)	<u>4,355,628</u>	<u>200,966</u>	<u>4,556,594</u>	<u>-</u>
Total Non-current Assets	<u>4,355,628</u>	<u>200,966</u>	<u>4,556,594</u>	<u>-</u>
Total Assets	<u>\$ 8,679,684</u>	<u>\$ 546,309</u>	<u>\$ 9,225,993</u>	<u>\$ 5,459,663</u>
<u>Deferred Outflows of Resources</u>				
Unamortized Loss on Sale and Leaseback	<u>\$ 142,518</u>	<u>\$ -</u>	<u>\$ 142,518</u>	<u>\$ -</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 304,567	\$ -	\$ 304,567	\$ 3,760,839
Due to other funds	1,993,559	-	1,993,559	-
Current Portion of Bonds Payable	<u>95,000</u>	<u>-</u>	<u>95,000</u>	<u>-</u>
Total current liabilities	<u>2,393,126</u>	<u>-</u>	<u>2,393,126</u>	<u>3,760,839</u>
Noncurrent liabilities:				
Bonds Payable	<u>3,738,393</u>	<u>-</u>	<u>3,738,393</u>	<u>-</u>
Total noncurrent liabilities	<u>3,738,393</u>	<u>-</u>	<u>3,738,393</u>	<u>-</u>
Total liabilities	<u>6,131,519</u>	<u>-</u>	<u>6,131,519</u>	<u>3,760,839</u>
<u>Net Position</u>				
Net Investment in Capital Assets	522,235	200,966	723,201	-
Unrestricted	<u>2,168,448</u>	<u>345,343</u>	<u>2,513,791</u>	<u>1,698,824</u>
Total net position	<u>2,690,683</u>	<u>546,309</u>	<u>3,236,992</u>	<u>1,698,824</u>
Total Liabilities and Net Position	<u>\$ 8,822,202</u>	<u>\$ 546,309</u>	<u>\$ 9,368,511</u>	<u>\$ 5,459,663</u>

The accompanying notes are an integral part of the 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, 2016

	Business-Type Activities - Enterprise Fund Food Service	Business-Type Activities - Enterprise Fund Non-Major Funds	Business-Type Activities - Enterprise Fund Total	Governmental Activities - Internal Service Fund
Operating Revenues				
Receipts from Providing Services	\$ 331,839	\$ 53,425	\$ 385,264	\$ -
Charges for Services	-	-	-	22,723,087
Other Revenue	178,905	45,017	223,922	-
Total Operating Revenues	<u>510,744</u>	<u>98,442</u>	<u>609,186</u>	<u>22,723,087</u>
Operating Expenses				
Service Costs	9,112,452	71,854	9,184,306	-
Depreciation	306,159	56,088	362,247	-
Other Operating Expense	-	-	-	411,787
Insurance Expense	-	-	-	708,616
Claims Expense	-	-	-	21,462,820
Total Operating Expenses	<u>9,418,611</u>	<u>127,942</u>	<u>9,546,553</u>	<u>22,583,223</u>
Operating Income/(Loss)	<u>(8,907,867)</u>	<u>(29,500)</u>	<u>(8,937,367)</u>	<u>139,864</u>
Nonoperating Revenues (Expenses)				
Interest	(212,721)	817	(211,904)	268
Grants	8,935,438	-	8,935,438	-
Transfers to other funds	(573,706)	-	(573,706)	(1,982,034)
Total Nonoperating Revenues (Expenses)	<u>8,149,011</u>	<u>817</u>	<u>8,149,828</u>	<u>(1,981,766)</u>
Change in Net Position	(758,856)	(28,683)	(787,539)	(1,841,902)
Net Position - Beginning of Year	<u>3,449,539</u>	<u>574,992</u>	<u>4,024,531</u>	<u>3,540,726</u>
Net Position - End of Year	<u>\$ 2,690,683</u>	<u>\$ 546,309</u>	<u>\$ 3,236,992</u>	<u>\$ 1,698,824</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Fund Food Service	Business-Type Activities - Enterprise Fund Non-Major	Business-Type Activities - Enterprise Fund Total	Governmental Activities - Internal Service Fund
Cash flows from operating activities				
Cash received from customers	\$ 292,845	\$ 98,442	\$ 391,287	\$ 22,259,613
Cash paid to employees	(457,719)	(8,100)	(465,819)	-
Cash paid to suppliers	(5,900,184)	(63,754)	(5,963,938)	(21,737,466)
Net cash provided by (used in) operating activities	<u>(6,065,058)</u>	<u>26,588</u>	<u>(6,038,470)</u>	<u>522,147</u>
Cash flows from investing activities				
Purchase of Investments	-	(11,432)	(11,432)	(10,910)
Sale of Investments	-			1,082,535
Interest income	-	817	-	268
Transfer to General Fund	(573,706)	-	(573,706)	(1,982,034)
Net cash used in investing activities	<u>(573,706)</u>	<u>(10,615)</u>	<u>(585,138)</u>	<u>(910,141)</u>
Cash flows from non-capital financing activities				
Grant payments received	8,363,696	-	8,363,696	-
Net cash provided by non-capital financing activities	<u>8,363,696</u>	<u>-</u>	<u>8,363,696</u>	<u>-</u>
Cash flows from capital and related financing activities				
Interest Paid on Capital Debt	(209,825)	-	(209,825)	
Bond Payments	(95,000)	-	(95,000)	
Purchase of capital assets	(77,275)	-	(77,275)	-
Net cash used in capital and related financing activities	<u>(382,100)</u>	<u>-</u>	<u>(382,100)</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents	1,342,832	15,973	1,358,805	(387,994)
Beginning cash and cash equivalents	2,835,411	57,815	2,893,226	1,290,397
Ending cash and cash equivalents	<u>\$ 4,178,243</u>	<u>\$ 73,788</u>	<u>4,252,031</u>	<u>\$ 902,403</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (8,907,867)	\$ (29,500)	\$ (8,937,367)	\$ 139,864
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation	306,159	56,088	362,247	-
Donated commodities	571,742	-	571,742	-
(Increase) decrease in assets				
Accounts Receivable	330,362	-	330,362	(429,204)
Inventories	(8,741)	-	(8,741)	-
Deferred Outflows	10,180	-	10,180	-
Prepaid Assets	-	-	-	(285,102)
Increase (decrease) in liabilities				
Accounts Payable	(101,114)	-	(101,114)	1,096,589
Interfund Payable	1,734,221	-	1,734,221	-
Unearned Revenues	-	-	-	-
Accrued Expenses	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ (6,065,058)</u>	<u>\$ 26,588</u>	<u>\$ (6,038,470)</u>	<u>\$ 522,147</u>

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	Private Purpose Trust	Agency Funds
Assets		
Cash and Cash Equivalents	\$ 124,496	\$ 124,496
Total Assets	124,496	124,496
Liabilities		
Liabilities		
Accounts Payable	-	-
Total Liabilities	-	-
Net Position		
Restricted for Scholarships	124,496	124,496
Total Liabilities and Net Position	\$ 124,496	\$ 124,496

The accompanying notes are an integral part of the 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, 2016

	Private Purpose Trust
Additions:	
Earnings on Invesments	\$ 105
Contributions	35,668
Total Contributions	35,773
Deductions:	
Scholarships	26,500
Total Deductions	26,500
Change in Net Position	9,273
Net Postion, July 1, 2015	115,223
Net Position, June 30, 2016	\$ 124,496

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

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA (the "District") is located in Erie County, Pennsylvania. The District's tax base consists of the City of Erie.

The District is governed by a board of nine school board members who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term.

The Board of Directors (the "Board") has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary and other schools necessary to educate every person residing in such district between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any school herein provided, or to pay any school indebtedness, which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the District. The Board is vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

A.) Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B.) Reporting Entity:

The District is the basic level of government, which has financial accountability and control over all activities related to the public school education in the District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District, is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since Board members are elected from the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, its component unit, the Erie School District Foundation, is reported as a component unit as defined in GASB Statement No. 61. The Foundation is reported as a private purpose trust in the financial statements. The Foundation does not issue its own financial statements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C.) Jointly Governed Organizations:

The District is a participating member of the Northwest Tri-County Intermediate Unit and Midwestern Intermediate Unit IV ("IU's"). Operations of the IU's are directed by a board of directors consisting of members from each participating district and other institutions. No participating district or other institution appoints a majority of the board of directors. The board of directors of each participating district or other institution must approve IU's annual operating budget.

The IU's are self-sustaining organizations that provide services for fees to participating districts and other institutions. As such, the District has no ongoing financial interest or responsibility in the IU's. The IU's contract with participating districts and other institutions to supply special education services, computer services and to act as a conduit for certain federal programs.

D.) Fund Accounting:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund balance, revenues and expenditures or expenses as appropriate. Resources are allocated to and accounted for in the individual funds based on the purpose for which they are to be spent.

The District uses the following funds:

GOVERNMENTAL FUNDS – These funds are used to account for most of the District's finances. The measurement focus is on determination of the financial position and changes in financial position (current financial resources) rather than on income determination. The district reports the following major funds:

1. General Fund – This is the general operating fund of the District. All activities of the District are accounted for through this major fund except for those required to be accounted for in another fund.
2. Capital Projects Fund – This fund is used to account for financial resources to be used in acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds.

PROPRIETARY FUNDS – These funds account for District activities that are similar to business operations in the private sector or where the reporting focus is on determining net income, financial position and changes in financial position (economic resources measurement focus). The district reports the following major proprietary fund:

1. Food Service Fund – This major fund is used to account for the District's food service operations that are financed and operated in a manner similar to private business enterprises. The Fund accounts for all revenues, food purchases, costs and expenses for the Food Service Program.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

D.) Fund Accounting (Continued)

Additionally, the District reports the following fund types:

INTERNAL SERVICE FUNDS – These funds account for workers' compensation and dental and health insurance charged to other departments of the government on a cost reimbursement basis.

FIDUCIARY FUNDS – These funds are used to account for assets held by the District as trustee or agent.

1. Private Purpose Trust Funds – This fund is used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and therefore not available to support the School District's own programs.
2. Other Agency Funds – This fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist with the explicit approval and are subject to revocation by the District's governing body. This accounting reflects the District's agency relationship with the student activity organizations.

E.) Basis of Presentation:

Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include 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.

Fund financial statements are also provided in the report for all of the governmental funds, proprietary funds and the fiduciary funds of the District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are food service charges and stadium revenues. Operating expenses for the District's Enterprise Funds include food production costs, supplies, stadium expenses, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

F.) Measurement Focus and Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the Proprietary Fund and the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net Position (total assets and deferred outflows less total liabilities and deferred inflows) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the Statement of Net Position.

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 tax revenue to be available if collected within sixty days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. 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.

G.) Budgetary Data:

An annual budget is adopted for the general fund. The budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. Project length financial plans are adopted for the capital projects funds. The District follows the procedures outlined below in establishing the budgetary data reflected in the basic financial statements:

1. Prior to May 31, the Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. Form 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.
5. The budget for the General Fund is adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

G.) Budgetary Data (Continued):

6. The budget of the District is the approved spending plan of the District for the year and the Board is prohibited from obligating funds in excess of these amounts. The Board may, during any fiscal year, amend the budget by making additional appropriations or increase existing appropriations to meet emergencies. The funds shall be provided from unexpended balances in existing appropriations, from unappropriated revenues or from temporary loans. Legal budgetary control is maintained by the Board at the department level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the Board. Budget information in the Budgetary Comparison Schedule is presented at or below the legal level of budgetary control. Several functions had expenditures that exceeded the budgeted amount; however, these overages were absorbed by surpluses in revenues, other functions and fund balance. Total expenditures exceeded the appropriations for the year which is a violation of school code.
7. There were supplemental budgetary appropriations or amendments proposed or approved during the year.

The Chief Financial Officer is authorized to transfer budgeted amounts within a specific budget object. Any other transfers or revisions between funds or within a fund or revisions that alter the total revenues and expenditures of any fund must be approved by the District Board. Budget information in the Budgetary Comparison Schedule for the General Fund is presented at or below the legal level of budgetary control. Instruction and Facilities, Acquisition, Construction and Improvements expenditures exceeded the budgeted amount; however, these overages were absorbed by surpluses in other functions, revenues and fund balance.

Included in the General Fund budget are program budgets as prescribed by the state and federal agencies funding the program. These budgets are approved on a program basis by the state or federal funding agency.

I.) Cash and Cash Equivalents:

Cash and cash equivalents in the basic financial statements include all highly liquid investments with an original maturity of three months or less.

J.) Investments:

Investments are carried at market value based on quoted market prices.

K.) Receivables/Payables:

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

L.) Accounts Receivable:

Accounts receivable are recorded at the invoiced amount. The District determines the allowance for doubtful accounts based on historical write-off experience. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M.) Inventories and Prepaid Items:

Inventories of the General Fund consisting of instruction, operation and maintenance and transportation supplies are carried at cost, using the first-in, first-out method. The inventories on hand at June 30, 2016, consist of the following:

Instruction	\$ 60,567
Operation and Maintenance	24,283
Transportation	<u>16,031</u>
Total Inventory	<u>\$ 100,881</u>

Inventories of the Food Service Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2016, consist of the following:

Donated Commodities	<u>\$ 128,781</u>
Total Inventory	<u>\$ 128,781</u>

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

N.) Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	30 - 50
Equipment	7 - 10
Vehicles	5 - 7

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

O.) Long-Term Obligations:

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize 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, while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

P.) Fund Balance:

*Fund Balance Classification:* The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Non-spendable:* This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School District has \$100,881 in non-spendable fund balance in the General Fund as of June 30, 2016.
- *Restricted:* This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School District did not have any restricted resources as of June 30, 2016.
- *Committed:* This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School District did not have any committed resources as of June 30, 2016.
- *Assigned:* This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the School District's management. The School District did not have any assigned resources as of June 30, 2016.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

P.) Fund Balance: (Continued)

- *Unassigned*: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. The School District had \$(4,878,008) of unassigned fund balance as of June 30, 2016.

The School District uses restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Q.) Deferred Outflows /Inflows of Resources

The Statement of Net Position report separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The District has three items that qualify for reporting in these categories: deferred outflows on unamortized loss on sale leaseback, deferred outflows and inflows related to pensions, and unavailable tax revenue.

In accordance with applicable guidance, the loss on the sale portion of the sale leaseback transaction is recorded as a deferred outflow of resources on the statement of net position and amortized as a component of interest expense over the remaining economic life of the property.

Deferred outflows and inflows of resources related to pensions are described further in Note 8. Annual changes to the net pension liability resulting from differences between expected and actual experience with regard to economic and demographic factors and from changes of assumptions about future economic or demographic factors or other inputs are deferred and amortized over a closed period equal to the average of the expected service lives of all employees that are provided with pension benefits determined for the period during which the changes occurred. Differences between projected and actual earnings on pension plan investments are amortized over a closed five-year period.

In the governmental funds balance sheet, the District only has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R.) Adoption of Governmental Accounting Standards Board Statements

The School District adopted the provisions of GASB Statement No. 72, "*Fair Value Measurement and Application*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 77, "*Tax Abatement Disclosures*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The adoption of this statement had no effect on previously reported amounts.

S.) Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The School District is required to adopt statement No. 73 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The School District is required to adopt statement No. 74 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The School District is required to adopt statement No. 75 for its fiscal year 2018 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*". The School District is required to adopt statement No. 80 for its fiscal year 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The School District is required to adopt statement No. 81 for its fiscal year 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The School District is required to adopt statement No. 82 for its calendar year 2017 financial statements.

The School District has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

Obligations of (a) 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, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) 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 and (d) shares of an investment company registered under the Investment Company Act of 1940, provided that the instruments are those types of investments listed above, and the investment company is managed so as to maintain its shares at a constant net asset value and the investment company is rated in the highest category by a nationally recognized rating agency. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

Act 10 of 2016 broadened the scope of investment options for the District with safeguard measures to protect those investments. The Act added high quality money market instruments including repurchase agreements, commercial paper, negotiable certificates of deposit and bankers' acceptances to the authorized list of investments.

The deposit and investment policy of the District adheres to State statutes and prudent business practice. There were no deposits or investment transactions during the year that were in violation of either the State statutes or the policy of the District.

A portion of the District's cash and investments are in the Pennsylvania Local Government Investment Trust Fund ("PLGIT"), which is a fund very similar to mutual funds. PLGIT operates in accordance with appropriate State laws and regulations and under State oversight. The reported value of the pool is the same as the fair value of the pool shares.

In accordance with the Government Accounting Standards Board, investments in PLGIT are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment. The net asset value per share for the purpose of calculating the price at which shares are issued and redeemed is determined by the Administrator each banking day. Such determination is made by subtracting the liabilities from the value of the assets and dividing the remainder by the number of shares outstanding.

As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

*Interest Rate Risk* – The School District does not have a formal investment policy for the that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

*Credit Risk* – The School District has no formal investment policy for its operating and Fiduciary funds that addresses credit risk. As of June 30, 2016, the School District's operating investments were all maintained in Money Market funds with the Pennsylvania Local Government Investment Trust Fund (PLGIT).

*Custodial Credit Risk* – For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of June 30, 2016, the School District's cash balances for its governmental activities, business-type activities and agency fund were \$(848,274) and its bank balances were \$7,854,427. Of these bank balances, \$509,057 was collateralized with securities held by the pledging financial institutions, or by their trust departments or agents, but not in the School District's name, and therefore was subject to custodial credit risk.

*Concentration of Credit Risk* – The School District has no formal investment policy for operating investments pertaining to the concentration of credit risk. All of the School District's investments were in the PLGIT.

NOTE 3: REAL ESTATE TAXES RECEIVABLE

The District has independently elected tax collectors who are responsible for the collection of taxes. Assessed values are established by the Erie County Board of Assessment. The District tax rate for the year ended June 30, 2016 was 16.6233 mills (\$16.6233) per \$1,000 of assessed valuation) as levied by the Board of School Directors.

The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy Date
July 1 – September 30	3% Discount period
October 1 – February 28	2% Discount period
March 1 – April 30	Face Payment period
May 1 – June 30	10% Penalty period
July 1	Turnover to delinquent collector

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

The District, in accordance with U.S. generally accepted accounting principles, recognizes the delinquent and unpaid taxes receivable, reduced by an allowance for uncollectible taxes, as determined by management. A portion of the net amount estimated to be collectible, which was measurable and available within sixty days, was recognized as revenue and the balance deferred in the fund financial statements.

The 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 OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

## NOTE 3: REAL ESTATE TAXES RECEIVABLE (CONTINUED)

The Balances at June 30, 2016 are as follows:

	Gross Tax Receivable	Allowance for Uncollectible Taxes	Net	Tax Revenue Recognized	Deferred Taxes
Real Estate Tax	\$ 5,905,947	\$ 447,000	\$ 5,458,947	\$ 817,947	\$ 4,641,000
Earned Income Tax	1,454,305	-	1,454,305	-	-
Transfer Tax	84,524	-	84,524	-	-
<b>Total</b>	<b>\$ 7,444,776</b>	<b>\$ 447,000</b>	<b>\$ 6,997,776</b>	<b>\$ 817,947</b>	<b>\$ 4,641,000</b>

## NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

GOVERNMENTAL ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 7,656,376	\$ -	\$ -	\$ 7,656,376
Building/Land Held for Resale	12,520,161	-	-	12,520,161
Total Capital Assets, Not Being Depreciated	<u>20,176,537</u>	<u>-</u>	<u>-</u>	<u>20,176,537</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	190,640,117	-	-	190,640,117
Furniture and Equipment	39,420,942	1,308,641	(27,220)	40,702,363
Vehicles	3,198,610	67,176	(32,979)	3,232,807
Total Capital Assets, Being Depreciated	<u>233,259,669</u>	<u>1,375,817</u>	<u>(60,199)</u>	<u>234,575,287</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(97,935,478)	(4,414,713)	-	(102,350,191)
Furniture and Equipment	(35,382,510)	(1,588,906)	27,220	(36,944,196)
Vehicles	(2,484,602)	(155,118)	32,979	(2,606,741)
Building/Land Held for Resale	(11,314,531)	-	-	(11,314,531)
Total Accumulated Depreciation	<u>(147,117,121)</u>	<u>(6,158,737)</u>	<u>60,199</u>	<u>(153,215,659)</u>
Total Capital Assets, Being Depreciated, Net	<u>86,142,548</u>	<u>(4,782,920)</u>	<u>-</u>	<u>81,359,628</u>
Governmental Activities Capital Assets, Net	<u>\$ 106,319,085</u>	<u>\$ (4,782,920)</u>	<u>\$ -</u>	<u>\$ 101,536,165</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

## NOTE 4: CAPITAL ASSETS (CONTINUED)

BUSINESS TYPE ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Building	\$ 6,685,449	\$ -	\$ -	\$ 6,685,449
Equipment	1,326,255	77,275	-	1,403,530
Vehicles	106,317	-	-	106,317
<b>Total Capital Assets, Being Depreciated</b>	<b>8,118,021</b>	<b>77,275</b>	<b>-</b>	<b>8,195,296</b>
Less Accumulated Depreciation				
Building	(1,964,708)	(318,993)	-	(2,283,701)
Equipment	(1,205,430)	(43,254)	-	(1,248,684)
Vehicles	(106,317)	-	-	(106,317)
<b>Total Accumulated Depreciation</b>	<b>(3,276,455)</b>	<b>(362,247)</b>	<b>-</b>	<b>(3,638,702)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>\$ 4,841,566</b>	<b>\$ (284,972)</b>	<b>\$ -</b>	<b>\$ 4,556,594</b>

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

Governmental Activities:	
Instruction	\$ 5,713,857
Support Services:	
Student Transportation	80,957
Administration	332,572
Operation and Maintenance	31,351
<b>Total Depreciation Expense - Governmental Activities</b>	<b>6,158,737</b>
Business Type Activities:	
Food Service	306,159
Stadium Commission	56,088
<b>Total Depreciation Expense - Business Type Activities</b>	<b>\$ 362,247</b>

## NOTE 5: CAPITAL LEASES

The School District is obligated under certain leases accounted for as capital leases. The leased assets are accounted for in the Governmental Activities and Food Service Fund. The leased obligations are accounted for in the governmental activities. The assets acquired through capital leases are as follows:

	Governmental Activities	Food Service Fund	Total
Building	\$ 6,582,400	\$ 4,686,252	\$ 11,268,652
Equipment	3,209,188	-	3,209,188
Less Accumulated Depreciation	(4,671,944)	(1,215,128)	(5,887,072)
<b>Carrying Value of Building and Equipment</b>	<b>\$ 5,119,644</b>	<b>\$ 3,471,124</b>	<b>\$ 8,590,768</b>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 5: CAPITAL LEASES (CONTINUED)

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 ended 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:

<u>Asset Detail</u>	<u>Governmental Activities</u>
Vehicles	\$ 551,740
Less: Accumulated Depreciation	<u>(91,937)</u>
	<u>\$ 459,803</u>

The following is a schedule of the future minimum lease obligations under capital leases and the government obligation contract together with the net present value of the minimum lease payments as of June 30, 2016:

<u>Governmental Activities</u>	<u>Capital Leases</u>	<u>Government Obligation Contract</u>
Year Ended June 30:		
2017	\$ 897,788	\$ 114,995
2018	895,550	114,995
2019	898,938	114,995
2020	896,138	-
2021	897,388	-
2022-2026	4,484,250	-
2027-2031	<u>3,876,984</u>	<u>-</u>
Total Minimum Lease Payments	12,847,036	344,985
Less: Amount Representing Interest	<u>(4,067,036)</u>	<u>(16,413)</u>
Total	<u>\$ 8,780,000</u>	<u>\$ 328,572</u>

## NOTE 6: LONG-TERM LIABILITIES OBLIGATIONS

Bonds Payable:

The government issues general obligation bonds/notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type 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 authority of the School District.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 6: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

Governmental Activities

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%.

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 loan 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.

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 SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 6: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

The following summarizes the maturities and interest payments for general obligation bonds payable as of June 30 2016:

Governmental Activities

<u>Year Ended June 30:</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2017	\$ 7,145,000	\$ 2,219,073	\$ 9,364,073
2018	7,085,000	2,181,027	9,266,027
2019	7,035,000	2,165,664	9,200,664
2020	7,045,000	2,156,312	9,201,312
2021	7,055,000	2,146,449	9,201,449
2022-2026	35,465,000	10,565,138	46,030,138
2027-2031	54,777,000	4,942,152	59,719,152
Less Discounted Interest	<u>(22,374,970)</u>	-	<u>(22,374,970)</u>
Total	<u>\$ 103,232,030</u>	<u>\$ 26,375,815</u>	<u>\$ 129,607,845</u>

Business-Type Activities

<u>Year Ended June 30:</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2017	\$ 95,000	\$ 196,558	\$ 291,558
2018	100,000	193,280	293,280
2019	105,000	189,630	294,630
2020	110,000	185,588	295,588
2021	115,000	180,088	295,088
2022-2026	660,000	808,940	1,468,940
2027-2031	840,000	626,502	1,466,502
2032-2036	1,080,000	384,564	1,464,564
2037-2039	795,000	85,051	880,051
Total	<u>\$ 3,900,000</u>	<u>\$ 2,850,201</u>	<u>\$ 6,750,201</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 6: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

Retirement Incentive:

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.

Compensated Absences:

Compensated absences are comprised of accumulated unused sick days and vacation days. The aggregate liability is \$6,201,822 as of June 30, 2016.

Under the current plan, the following is a summary of the items covered:

Superintendent and Chief Financial Officer – Rate paid equals \$100 per day.  
 Administrators – Rate paid equals \$85 per day.  
 Teachers and Non-Professionals – Rate paid equals \$80 per day.

A summary of changes in long-term debt obligations for 2016 is as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	\$ 107,481,159	\$ 2,855,871	\$ (7,105,000)	\$ 103,232,030	\$ 7,145,000
Compensated absences	5,509,568	692,254	-	6,201,822	1,364,853
Lease Payable	9,215,000	-	(435,000)	8,780,000	445,000
Government Obligation Contract	436,744	-	(108,172)	328,572	106,855
Retirement Incentive	2,052,927	-	(713,834)	1,339,093	627,000
<b>Total Long-Term Liabilities</b>	<b>\$ 124,695,398</b>	<b>\$ 3,548,125</b>	<b>\$ (8,362,006)</b>	<b>\$ 119,881,517</b>	<b>\$ 9,688,708</b>

Payments on bonds are by the General Fund. The compensated absence and retirement incentive liabilities will be liquidated by the General Fund. Total interest paid during the year ended June 30, 2016 was \$3,287,654.

<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	\$ 3,995,000	\$ -	\$ (95,000)	\$ 3,900,000	\$ 95,000
Bond Discount	(69,503)	-	2,896	(66,607)	-
<b>Total Long-Term Liabilities</b>	<b>\$ 3,925,497</b>	<b>\$ -</b>	<b>\$ (92,104)</b>	<b>\$ 3,833,393</b>	<b>\$ 95,000</b>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS

Plan Description:

The District administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The plan provides healthcare, prescription drug, dental and/or vision insurance, at various costs to the member and the District, for the life of the member or until the member is eligible for Medicare, depending on the terms of the contract when they retire, for eligible retirees and their spouses through the District's health insurance plan. The Retiree Health Plan covers both active and retired members. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

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, 2016, 291 retired employees are covered by health insurance. The District's expenses for health insurance benefits were \$ 4,705,755 (\$4,982,571 net of retiree contributions of \$276,816 in 2015/16).

Funding Policy:

The benefits are expensed when incurred and are financed on a pay-as-you-go basis. Retirees currently pay a portion of the monthly premium. The School 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 School District's annual OPEB cost is calculated based on the annual required contribution of the employees (ARC), an amount actually determined in accordance with the parameters of GASB Statement No 45. The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially 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.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

	Governmental <u>Activities</u>
Annual Required Contribution	\$ 6,224,524
Interest on Net OPEB Obligation	787,046
ARC Adjustment	<u>(1,073,732)</u>
Annual OPEB Cost	5,937,838
Estimated contributions made	<u>(4,705,755)</u>
Net Increase in Net OPEB Obligation	1,232,083
Net OPEB Obligation, beginning of year	<u>17,489,916</u>
Net OPEB Obligation, end of year	<u>\$ 18,721,999</u>

Funded Status and Funding Progress:

As of July 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$65,839,556 for the District and the actuarial value of assets was \$0 for the plan, resulting in an unfunded actuarial accrued liability (UAAL) of \$65,839,556 for the District. The covered payroll (annual payroll of active employees covered by the plan) was \$64,030,445 for the District, and the ratio of the UAAL to the covered payroll was 102.83% for the District.

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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about actuarial value of plan assets and 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 cost 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.

In the July 1, 2015 actuarial valuations, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend of 7.0% initially, decreasing 0.5% per year to ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar, 5-year open period.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 8: EMPLOYEE RETIREMENT PLAN

*Pensions.* 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 fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS' 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.

General Information about the Pension Plan:

*Plan Description.* The District contributes to the Commonwealth of Pennsylvania School Employees Retirement System ("PSERS"), a governmental cost-sharing multi-employer defined benefit plan. Benefit provisions of the plan are established under the provisions of the PSERS Code (Act No. 96 of October 2, 1975, as amended) (24 PA C. S. 8101-8535) and may be amended by an act of the Pennsylvania legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contributions upon termination of a member's employment in the public school sector. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to, PSERS, P.O. Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at [www.psers.state.pa.us/publications/cafr/index.htm](http://www.psers.state.pa.us/publications/cafr/index.htm).

*Benefits provided.* PSERS provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retirement at age 60. Employees are eligible for service-related disability benefits regardless of length of service. Five years of services is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two times the employee's final full-year salary.

*Contributions.* The contribution policy is established in the Public School Employee's Retirement Code and requires contributions by active members, employers and the Commonwealth. 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 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 and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-F 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%.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

NOTE 8: EMPLOYEE RETIREMENT PLAN (CONTINUED)

*Employer Contributions.* The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.0% 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 District were \$18,218,629 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$242,305,839 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. The 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, 2015, the District's proportion was 0.5594 percent, which was a decrease of 0.0423 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$19,937,409. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 749,946
Changes of assumptions	-	-
Net difference between projected and actual investment earnings	-	7,914,312
Changes in proportion	8,535,783	6,578,000
Differences between district contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	18,218,629	-
Total	<u>\$ 26,754,412</u>	<u>\$ 15,242,258</u>

\$18,218,629 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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:**

2017	\$ (3,002,877)
2018	(3,002,877)
2019	(700,721)
	<u>\$ (6,706,475)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

NOTE 8: EMPLOYEE RETIREMENT PLAN (CONTINUED)

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
Salary increases	5.50 percent, average, including inflation of 3.00 percent, real wage growth of 1 percent, and merit or seniority increases of 1.50%
Investment rate of return	7.50 percent, net of pension plan investment expense, includes inflation of 3.0%

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.

The actuarial assumptions used in the June 30, 2014 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equit	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long term treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
Total	<u>100.0%</u>	

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts 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 active and inactive employees. 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.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 8: EMPLOYEE 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 District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50 percent) or 1-percentage point higher (8.50 percent) than the current rate:

	<b>Amounts X \$1,000</b>		
	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
	<b>6.50%</b>	<b>7.50%</b>	<b>8.50%</b>
District's proportionate share of the net pension liability	\$ 298,665	\$ 242,306	\$ 194,936

*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](http://www.psers.state.pa.us).

## NOTE 9: 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, 2016, the workers' compensation fund had a liability of \$107,680, which represented the estimated amount required to satisfy existing claims and those incurred but not reported. Workers' compensation claim payments totaled \$147,339 for the year ended June 30, 2016.

Health insurance claim payments totaled \$20,552,645 for the year ended June 30, 2016 and a liability of \$3,653,159 at June 30, 2016 was owed to Highmark. The School District also had a prepayment at NOREBT in the amount of \$2,436,841 and a prepayment at Highmark in the amount of \$440,000.

Dental plan claim payments totaled \$762,836 for the year ended June 30, 2016.

At June 30, 2016, the workers' compensation, health insurance and dental plan had a net position balance of \$1,108,292, \$522,697 and \$67,835, respectively.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 9: SELF-INSURANCE (CONTINUED)

Changes in the balances of claims liabilities during the years ended June 30, 2015 through 2016 are as follows:

	Workers' Comp.	Dental Plan	Health Insurance	Total
Unpaid Claims, June 30, 2014	\$ 95,094	\$ 32,491	\$ 3,666,804	\$ 3,794,389
Incurring 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, July 1, 2015	109,620	34,270	2,520,360	2,664,250
Incurring Claims	145,399	728,566	21,685,444	22,559,409
Claim Payments	<u>(147,339)</u>	<u>(762,836)</u>	<u>(20,552,645)</u>	<u>(21,462,820)</u>
Unpaid Claims, June 30, 2016	<u>\$ 107,680</u>	<u>\$ -</u>	<u>\$ 3,653,159</u>	<u>\$ 3,760,839</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 10: DERIVATIVE INSTRUMENTS

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

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).

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 10: DERIVATIVE INSTRUMENTS (CONTINUED)

**Swaption Restructuring**

In 2006, the District restructured its 2003 Swaption. 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.

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, 2016. 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, 2016, the swaps had a fair value of negative \$ 13,023,724, which is a decrease in value of \$3,321,724 recorded in the statement of net position and statement of activities, respectively.

**Credit Risk.** As of June 30, 2016, 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.

**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.

**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.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 10: DERIVATIVE INSTRUMENTS (CONTINUED)

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

## NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of Interfund Receivables and Payables at June 30, 2016:

	Due from	Due to
<u>Governmental Fund Types</u>		
General Fund	\$ -	\$ 1,993,559
Total Governmental Fund Type	<u>-</u>	<u>1,993,559</u>
<u>Enterprise Fund</u>		
Food Service	1,993,559	-
Total Enterprise Fund	<u>1,993,559</u>	<u>-</u>
 Total Internal Balances	 <u>\$ 1,993,559</u>	 <u>\$ 1,993,559</u>

Interfund balances between the General Fund and the Enterprise Fund represent subsidy payments deposited in the General Fund during 2016 which have not been remitted to the Enterprise Fund by June 30, 2016.

## NOTE 12: INTERFUND OPERATING TRANSFERS

Interfund operating transfers are as follows:

	Transfers In	Transfers Out
<u>Governmental Fund Types</u>		
General Fund	\$ 2,555,740	\$ -
Internal Service Fund	-	1,982,034
Total Governmental Fund Type	<u>2,555,740</u>	<u>1,982,034</u>
 Enterprise Fund		
Food Service	-	573,706
Total Enterprise Fund Type	<u>-</u>	<u>573,706</u>
 Total Interfund Transfers	 <u>\$ 2,555,740</u>	 <u>\$ 2,555,740</u>

The Internal Service Fund transferred excess claims to the General Fund which funds internal service activities. The Food Service fund transferred funds to the General Fund to reimburse the fund for expenses incurred.

## NOTE 13: EXCESS OF EXPENDITURES OVER APPROPRIATION IN MAJOR FUND

For the Year ended June 30, 2016, the General Fund's total expenditures exceeded total appropriations by \$5,420,192 or 3.03%.

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

## NOTE 14: 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 (currently negotiating)
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 (currently negotiating)
Administrative Personnel	June 30, 2018

## NOTE 15: COMMITMENTS AND CONTINGENCIES

The School District is a defendant in various lawsuits. Management does not believe the settlement of these matters will have a material effect upon the District's financial condition.

The District receives a number of state and federal grants. The grants may be subject to audit by the granting agency to determine if activities undertaken by the District comply with the conditions of the grant. Management believes no material liability would arise from any such audit.

## NOTE 16: DEFICIT FUND BALANCE

For the year ended June, 2016, the following fund had a deficit fund balance:

<u>Fund</u>	<u>Balance</u>
General Fund	\$ 4,777,127
Total Deficit Fund Balance	<u>\$ 4,777,127</u>

Revenues were not sufficient to fund the expenditures in the above fund.

## NOTE 17: RESTATEMENT OF NET POSITION/FUND BALANCE

The general fund and governmental activities fund balance/net position were restated as follows:

	General Fund	Governmental Activities
Beginning Balance	\$ 521,771	\$ (268,461,626)
To restate beginning inventory balance	<u>(4,042,920)</u>	<u>(4,042,920)</u>
Restated Balance	<u>\$ (3,521,149)</u>	<u>\$ (272,504,546)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

NOTE 18: GOING CONCERN

The District has prepared its financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The District has suffered recurring losses from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. As detailed in Note 19, management has submitted its Financial Plan to the Pennsylvania Department of Education, which asks for additional subsidies to stay solvent. However, no assurance can be provided that these events will occur. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary, should the District be unable to continue to meet short and long term commitments.

NOTE 19: SUBSEQUENT EVENTS

Pursuant to Section 694-A of the PA School Code, ECSD was placed in "Financial Watch" status by the PA Department of Education (PDE) on September 27, 2016 and is required to submit a Financial Plan that outlines a path toward the district's financial solvency within 180 days of that date. In order to complete this plan, ECSD has received technical assistance from Public Financial Management (PFM), gathered data from peer school districts, held public meetings, and consulted with internal and external experts on all matters of public education. The school district submitted its Financial Plan on December 6, 2016 and is awaiting approval from PDE. The school district is asking for additional state aid of \$31.8 million a year to stay solvent, repair its buildings and improve educational resources.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30,2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Local Revenue Sources	\$ 58,266,820	\$ 58,266,820	\$ 58,648,134	\$ 381,314
State Revenue Sources	102,734,123	102,734,123	103,876,921	1,142,798
Federal Revenue Sources	<u>16,626,518</u>	<u>16,626,518</u>	<u>18,182,684</u>	<u>1,556,166</u>
Total Revenues	<u>177,627,461</u>	<u>177,627,461</u>	<u>180,707,739</u>	<u>3,080,278</u>
<b>Expenditures</b>				
Current operating:				
Instruction	116,618,567	116,618,567	123,927,295	(7,308,728)
Support Services	47,873,158	47,873,158	46,756,321	1,116,837
Noninstructional Services	2,653,449	2,653,449	2,195,509	457,940
Facilities Acquisition, Construction and Improvements	639,500	639,500	975,874	(336,374)
Other Objects	475,299	475,299	-	475,299
Debt Service	<u>10,567,488</u>	<u>10,567,488</u>	<u>10,392,654</u>	<u>174,834</u>
Total Expenditures	<u>178,827,461</u>	<u>178,827,461</u>	<u>184,247,653</u>	<u>(5,420,192)</u>
Excess (deficiency) of revenues over expenditures	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>(3,539,914)</u>	<u>(2,339,914)</u>
<b>Other financing sources (uses)</b>				
Loss on Special Items	-	-	(233,035)	(233,035)
Refund of Prior Year Expenses	-	-	125,436	125,436
Transfers in	1,200,000	1,200,000	2,555,740	1,355,740
Refund of Prior Year Revenues	<u>-</u>	<u>-</u>	<u>(164,205)</u>	<u>(164,205)</u>
Total other financing sources (uses)	<u>1,200,000</u>	<u>1,200,000</u>	<u>2,283,936</u>	<u>1,083,936</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,255,978)</u>	<u>\$ (1,255,978)</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
SCHEDULE OF FUNDING PROGRESS  
JUNE 30, 2016

Schedule of Funding Progress for Post Employment Benefits other than Pensions

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) - Projected Unit Credit ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll (( b - a ) / c)
7/1/2011	\$ -	\$ 60,743,894	\$ 60,743,894	0.00%	\$ 67,093,945	90.54%
7/1/2013	-	53,223,943	53,223,943	0.00%	56,970,633	93.42%
7/1/2015	-	65,839,556	65,839,556	0.00%	64,030,445	102.83%

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
Schedules of Required Supplementary Information  
SCHEDULE OF THE DISTRICT'S PRPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
Teachers Pension Plan  
Last 10 Fiscal Years\*  
(Dollar amounts in thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Districts proportion of the net pension liability	0.5572%	0.6017%	0.5594%
District's proportionate share of the net pension liability	\$ 236,284	\$ 238,158	\$ 242,306
District's covered-employee payroll	\$ 74,068	\$ 76,776	\$ 71,976
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	319%	310%	337%
Plan fiduciary net position as a percentage of the total pension liability	54%	57%	54%

\* The amounts presented for each fiscal year were determined as of 06/30

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available
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THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
Schedules of Required Supplementary Information  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
Teachers Pension Plan  
Last 10 Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 18,218,629	\$ 15,718,095	\$ 11,947,419
Contributions in relation to the contractually required contribution	18,218,629	15,718,095	11,947,419
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 68,594,236	\$ 71,975,741	\$ 76,775,653
Contributions as a percentage of covered-employee payroll	26.56%	21.84%	15.56%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available

OTHER  
SUPPLEMENTARY  
INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF NET POSITION - NON-MAJOR PROPRIETARY FUNDS  
 JUNE 30, 2016

Assets	Stadium Commission	Play Erie	Total Non-Major Proprietary Funds
<hr/>			
Current Assets:			
Cash	\$ 71,727	\$ 2,061	\$ 73,788
Investments	271,555	-	271,555
	<hr/>	<hr/>	<hr/>
Total Current Assets	343,282	2,061	345,343
	<hr/>	<hr/>	<hr/>
Non-current Assets:			
Buildings and Building Improvements	562,807	-	562,807
Machinery and Equipment	208,594	-	208,594
Accumulated Depreciation	(570,435)	-	(570,435)
	<hr/>	<hr/>	<hr/>
Total Non-current Assets	200,966	-	200,966
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 544,248	\$ 2,061	\$ 546,309
	<hr/>	<hr/>	<hr/>
<hr/>			
Net Position			
Net Investment in Capital Assets	200,966	-	200,966
Unrestricted	343,282	2,061	345,343
	<hr/>	<hr/>	<hr/>
Total Net Position	544,248	2,061	546,309
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Position	\$ 544,248	\$ 2,061	\$ 546,309
	<hr/>	<hr/>	<hr/>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN NET POSITION - NON-MAJOR PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Stadium Commission</u>	<u>Play Erie</u>	<u>Total Non-Major Proprietary Funds</u>
Operating Revenues			
Receipts from Providing Services	\$ 53,425	\$ -	\$ 53,425
Other Revenue	<u>45,017</u>	<u>-</u>	<u>45,017</u>
Total Operating Revenues	<u>98,442</u>	<u>-</u>	<u>98,442</u>
Operating Expenses			
Service Costs	71,854	-	71,854
Depreciation	<u>56,088</u>	<u>-</u>	<u>56,088</u>
Total Operating Expenses	<u>127,942</u>	<u>-</u>	<u>127,942</u>
Operating Loss	<u>(29,500)</u>	<u>-</u>	<u>(29,500)</u>
Nonoperating Revenues (Expenses)			
Interest	<u>817</u>	<u>-</u>	<u>817</u>
Total Nonoperating Revenues (Expenses)	<u>817</u>	<u>-</u>	<u>817</u>
Change in Net Position	<u>(28,683)</u>	<u>-</u>	<u>(28,683)</u>
Net Position - Beginning of Year	<u>572,931</u>	<u>2,061</u>	<u>574,992</u>
Net Position - End of Year	<u>\$ 544,248</u>	<u>\$ 2,061</u>	<u>\$ 546,309</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF CASH FLOWS - NON-MAJOR PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	Stadium Commission	Play Erie	Total
Cash flows from operating activities			
Cash received from customers	\$ 98,442	\$ -	\$ 98,442
Cash paid to employees	(8,100)	-	(8,100)
Cash paid to suppliers	(63,754)	-	(63,754)
Net cash provided by operating activities	<u>26,588</u>	<u>-</u>	<u>26,588</u>
Cash flows from investing activities			
Purchase of Investments	(11,432)	-	(11,432)
Interest income	817	-	817
Net cash used in investing activities	<u>(10,615)</u>	<u>-</u>	<u>(10,615)</u>
Net increase in cash and cash equivalents	15,973	-	15,973
Beginning cash and cash equivalents	<u>55,754</u>	<u>2,061</u>	<u>57,815</u>
Ending cash and cash equivalents	<u>\$ 71,727</u>	<u>\$ 2,061</u>	<u>73,788</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss	\$ (29,500)	\$ -	\$ (29,500)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	56,088	-	56,088
Net cash used in operating activities	<u>\$ 26,588</u>	<u>\$ -</u>	<u>\$ 26,588</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS  
 JUNE 30, 2016

<u>Assets</u>	<u>Workers' Comp</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
<u>Current Assets:</u>				
Cash	\$ 639,574	\$ -	\$ 262,829	\$ 902,403
Investments	576,398	-	-	576,398
Other Receivables	-	-	1,036,186	1,036,186
Prepaid Expenses	-	67,835	2,876,841	2,944,676
	<u>1,215,972</u>	<u>67,835</u>	<u>4,175,856</u>	<u>5,459,663</u>
Total Current Assets	<u>1,215,972</u>	<u>67,835</u>	<u>4,175,856</u>	<u>5,459,663</u>
Total Assets	<u><u>1,215,972</u></u>	<u><u>67,835</u></u>	<u><u>4,175,856</u></u>	<u><u>5,459,663</u></u>
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts Payable	107,680	-	3,653,159	3,760,839
	<u>107,680</u>	<u>-</u>	<u>3,653,159</u>	<u>3,760,839</u>
Total Current Liabilities	<u>107,680</u>	<u>-</u>	<u>3,653,159</u>	<u>3,760,839</u>
Total Liabilities	<u><u>107,680</u></u>	<u><u>-</u></u>	<u><u>3,653,159</u></u>	<u><u>3,760,839</u></u>
<u>Net Position</u>				
Unrestricted	1,108,292	67,835	522,697	1,698,824
	<u>1,108,292</u>	<u>67,835</u>	<u>522,697</u>	<u>1,698,824</u>
Total Net Position	<u>1,108,292</u>	<u>67,835</u>	<u>522,697</u>	<u>1,698,824</u>
Total Liabilities and Net Position	<u><u>\$ 1,215,972</u></u>	<u><u>\$ 67,835</u></u>	<u><u>\$ 4,175,856</u></u>	<u><u>\$ 5,459,663</u></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, 2016

	<u>Workers' Comp</u>	<u>Dental Plan</u>	<u>Health Plan</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$ 253,225	\$ 816,908	\$ 21,652,954	\$ 22,723,087
Total Operating Revenues	<u>253,225</u>	<u>816,908</u>	<u>\$ 21,652,954</u>	<u>\$ 22,723,087</u>
Operating Expenses				
Insurance Expense	-	-	708,616	708,616
Claims Expense	147,339	762,836	20,552,645	21,462,820
Other Operating Expense	-	48,400	363,387	411,787
Total Operating Expenses	<u>147,339</u>	<u>811,236</u>	<u>21,624,648</u>	<u>22,583,223</u>
Operating Income	<u>105,886</u>	<u>5,672</u>	<u>28,306</u>	<u>139,864</u>
Nonoperating Revenues (Expenses)				
Transfer to General Fund	-	-	(1,982,034)	(1,982,034)
Earnings (Loss) on Investments	144	-	124	268
Total Nonoperating Revenues (Expenses)	<u>144</u>	<u>-</u>	<u>(1,981,910)</u>	<u>(1,981,766)</u>
Change in Net Position	<u>106,030</u>	<u>5,672</u>	<u>(1,953,604)</u>	<u>(1,841,902)</u>
Net Position - Beginning of Year	<u>1,002,262</u>	<u>62,163</u>	<u>2,476,301</u>	<u>3,540,726</u>
Net Position - End of Year	<u>\$ 1,108,292</u>	<u>\$ 67,835</u>	<u>\$ 522,697</u>	<u>\$ 1,698,824</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	Workers' Comp	Dental Plan	Health Plan	Total
Cash flows from operating activities				
Cash received from customers	\$ 253,225	\$ 816,908	\$ 21,189,480	\$ 22,259,613
Cash paid to suppliers	(149,279)	(816,908)	(20,771,279)	(21,737,466)
Net cash provided by operating activities	<u>103,946</u>	<u>-</u>	<u>418,201</u>	<u>522,147</u>
Cash flows from investing activities				
Earnings/(Loss) on Investments	144	-	124	268
Transfer to General Fund	-	-	(1,982,034)	(1,982,034)
Purchase of Investments	(10,910)	-	-	(10,910)
Sale of Investments	-	-	1,082,535	1,082,535
Net cash used in investing activities	<u>(10,766)</u>	<u>-</u>	<u>(899,375)</u>	<u>(910,141)</u>
Net increase/(decrease) in cash and cash equivalents	93,180	-	(481,174)	(387,994)
Beginning cash and cash equivalents	<u>546,394</u>	<u>-</u>	<u>744,003</u>	<u>1,290,397</u>
Ending cash and cash equivalents	<u>\$ 639,574</u>	<u>\$ -</u>	<u>\$ 262,829</u>	<u>902,403</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 105,886	\$ 5,672	\$ 28,306	\$ 139,864
Adjustments to reconcile operating income to net cash provided by operating activities				-
(Increase) decrease in assets				-
Other Receivables	-	34,270	(463,474)	(429,204)
Prepaid Assets	-	(5,672)	(279,430)	(285,102)
Increase (decrease) in liabilities				-
Accounts Payable	<u>(1,940)</u>	<u>(34,270)</u>	<u>1,132,799</u>	<u>1,096,589</u>
Net cash provided by operating activities	<u>\$ 103,946</u>	<u>\$ -</u>	<u>\$ 418,201</u>	<u>\$ 522,147</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 JUNE 30, 2016

	Phelps	Drug Free	Mentoring Community Service	Ray Kroc	ASL Scholarship	Doris Greidler	Harry "Bud" Massing Scholarship	Service Learning	Uniform Dress Code	Tile Restoration & Preservation	Musical Instrument Equipment	Student Savings Bond	Foundation	Total Private Purpose Trust
<u>Assets</u>														
Cash and Cash Equivalents	\$ 13,236	\$ 1,574	\$ 173	\$ 829	\$ 18,959	\$ 11,978	\$ 3,876	\$ -	\$ 2,267	\$ 3,369	\$ 314	\$ 668	\$ 67,253	\$ 124,496
Total Assets	<u>13,236</u>	<u>1,574</u>	<u>173</u>	<u>829</u>	<u>18,959</u>	<u>11,978</u>	<u>3,876</u>	<u>-</u>	<u>2,267</u>	<u>3,369</u>	<u>314</u>	<u>668</u>	<u>67,253</u>	<u>124,496</u>
<u>Net Position</u>														
Restricted for Scholarships	<u>13,236</u>	<u>1,574</u>	<u>173</u>	<u>829</u>	<u>18,959</u>	<u>11,978</u>	<u>3,876</u>	<u>-</u>	<u>2,267</u>	<u>3,369</u>	<u>314</u>	<u>668</u>	<u>67,253</u>	<u>124,496</u>
Total Liabilities and Net Position	<u>\$ 13,236</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 829</u>	<u>\$ 18,959</u>	<u>\$ 11,978</u>	<u>\$ 3,876</u>	<u>\$ -</u>	<u>\$ 2,267</u>	<u>\$ 3,369</u>	<u>\$ 314</u>	<u>\$ 668</u>	<u>\$ 67,253</u>	<u>\$ 124,496</u>

THE SCHOOL DISTRICT OF THE CITY OF ERIE, PENNSYLVANIA  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

	Phelps	Drug Free	Mentoring Community Service	Ray Kroc	ASL Scholarship	Doris Greidler	Harry "Bud" Massing Scholarship	Service Learning	Uniform Dress Code	Tile Restoration & Preservation	Musical Instrument Equipment	Student Savings Bond	Foundation	Total Private Purpose Trust
Additions:														
Earnings on Investments	\$ 23	\$ -	\$ -	\$ 1	\$ -	\$ 33	\$ 20	\$ -	\$ 1	\$ 7	\$ -	\$ -	\$ 20	\$ 105
Contributions	-	-	-	-	35,000	-	-	-	-	-	-	668	-	35,668
Total Contributions	23	-	-	1	35,000	33	20	-	1	7	-	668	20	35,773
Deductions:														
Scholarships	-	-	-	-	26,500	-	-	-	-	-	-	-	-	26,500
Total Deductions	-	-	-	-	26,500	-	-	-	-	-	-	-	-	26,500
Change in Net Position	23	-	-	1	8,500	33	20	-	1	7	-	668	20	9,273
Net Position, July 1, 2015	13,213	1,574	173	828	10,459	11,945	3,856	-	2,266	3,362	314	-	67,233	115,223
Net Position, June 30, 2016	<u>\$ 13,236</u>	<u>\$ 1,574</u>	<u>\$ 173</u>	<u>\$ 829</u>	<u>\$ 18,959</u>	<u>\$ 11,978</u>	<u>\$ 3,876</u>	<u>\$ -</u>	<u>\$ 2,267</u>	<u>\$ 3,369</u>	<u>\$ 314</u>	<u>\$ 668</u>	<u>\$ 67,253</u>	<u>\$ 124,496</u>