



**The School District of
the City of Scranton
Scranton, Pennsylvania
Lackawanna County**

Financial Statements
Year Ended December 31, 2019



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THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The School District of the City of Scranton
Scranton, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Scranton, Scranton, Pennsylvania as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the School District of the City of Scranton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The School District of the City of Scranton, Scranton, Pennsylvania as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability-PSERS and pension plan contributions – PSERS and the schedules of the District's proportionate share of the net OPEB liability-PSERS and OPEB plan contributions – PSERS on pages 3 through 14 and 49 through 53 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 Scranton's basic financial statements. The budgetary comparison schedules – General Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The budgetary comparison schedules – General Fund and schedule of expenditures of federal awards and certain state grants are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the schedule of expenditures of federal awards and certain state grants 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 November 9, 2020, on our consideration of the School District of the City of Scranton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The School District of the City of Scranton's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
November 9, 2020**

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

Management's discussion and analysis ("**MD&A**") of the financial performance of the School District of the City of Scranton (the "**District**") provides an overview of the District's financial performance for fiscal year ended December 31, 2019. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of eighteen schools – eleven elementary schools, three intermediate schools, two high schools and two alternative education schools for all grades, consisting of approximately 10,000 students. The District is an urban public school district in Lackawanna County, Pennsylvania located in northeastern Pennsylvania. The City of Scranton is home to approximately 78,000 people. During 2019, there were 1,176 employees including 745 professional employees, 44 administrators and 387 support staff.

The mission of the School District of the City of Scranton is to educate, inspire and empower students.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources of the District exceeded assets and deferred outflows resulting in a deficit in total net position at the close of the 2019 fiscal year of \$356,196,775. During the 2019 fiscal year, the District had an increase in total net position of \$8,046,794. The net position of governmental activities increased by \$6,303,797 and the net position of business-type activities increased by \$1,742,997.
- The General Fund reported an increase in fund balance of \$1,903,972, bringing the cumulative balance to \$1,435,261 at the conclusion of the 2019 fiscal year.
- At December 31, 2019, the General Fund fund balance of \$1,435,261 is considered unassigned and represents 0.86% of the \$166,141,815 2020 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditures budget.
- Total General Fund revenues and other financing sources were \$736,213 or 0.45% less than budgeted amounts and total General Fund expenditures and other financing uses were \$2,640,185 or 1.61% less than budgeted amounts resulting in a net positive variance of \$1,903,972.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District's business-type activities charge a fee to cover the cost of certain services it provides. The District's food service activities are reported as a business type activity. In addition, the District generates revenue from advertising agreements and other charges for service (e.g. concessions) at the Scranton High School's Memorial Stadium that is to be used for future capital projects at Memorial Stadium.

The government-wide financial statements can be found on Pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the three major funds and the one non-major fund.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 17 through 20 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund and Memorial Stadium Fund are reported as enterprise funds of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded workers compensation program. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on Pages 21 through 23 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 24 and 25 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 26 through 48 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, schedules of the District's proportionate share of the net pension liability and pension plan contributions-PSERS, and the schedules of the District's proportionate share of the net OPEB liability and OPEB plan contributions-PSERS, as well as additional analysis for General Fund revenue and expenditure budgetary comparison schedules.

The required supplementary information and additional analysis can be found on Pages 49 through 58 of this report.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2019 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$356,196,775. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at December 31, 2019 and 2018.

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current assets	\$ 32,964,798	\$ 33,246,323	\$6,715,494	\$4,407,487	\$ 39,680,292	\$ 37,653,810
Noncurrent assets	<u>83,293,701</u>	<u>87,537,014</u>	<u>444,636</u>	<u>471,289</u>	<u>83,738,337</u>	<u>88,008,303</u>
Total assets	<u>116,258,499</u>	<u>120,783,337</u>	<u>7,160,130</u>	<u>4,878,776</u>	<u>123,418,629</u>	<u>125,662,113</u>
DEFERRED OUTFLOWS OF RESOURCES						
	<u>21,035,706</u>	<u>28,788,686</u>	<u>-</u>	<u>-</u>	<u>21,035,706</u>	<u>28,788,686</u>
LIABILITIES						
Current liabilities	13,605,562	13,306,797	538,357	-	14,143,919	13,306,797
Noncurrent liabilities	<u>449,844,220</u>	<u>483,173,227</u>	<u>-</u>	<u>-</u>	<u>449,844,220</u>	<u>483,173,227</u>
Total liabilities	<u>463,449,782</u>	<u>496,480,024</u>	<u>538,357</u>	<u>-</u>	<u>463,988,139</u>	<u>496,480,024</u>
DEFERRED INFLOWS OF RESOURCES						
	<u>36,662,971</u>	<u>22,214,344</u>	<u>-</u>	<u>-</u>	<u>36,662,971</u>	<u>22,214,344</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	(79,829,762)	(77,230,667)	444,636	471,289	(79,385,126)	(76,759,378)
Restricted	323,747	2,077,514	-	-	323,747	2,077,514
Unrestricted (deficit)	<u>(283,312,533)</u>	<u>(293,969,192)</u>	<u>6,177,137</u>	<u>4,407,487</u>	<u>(277,135,396)</u>	<u>(289,561,705)</u>
Total net position (deficit)	<u>\$(362,818,548)</u>	<u>\$(369,122,345)</u>	<u>\$6,621,773</u>	<u>\$4,878,776</u>	<u>\$(356,196,775)</u>	<u>\$(364,243,569)</u>

The District's total assets as of December 31, 2019 were \$123,418,629 of which \$18,433,447 or 14.94% consisted of cash and \$83,738,337 or 67.85% consisted of the District's investment in capital assets. The District's total liabilities as of December 31, 2019 were \$463,988,139 of which \$194,610,000 or 41.94% consisted of general obligation debt used to acquire and construct capital assets and \$222,929,273 or 48.05% consisted of the actuarially determined PSERS net pension and OPEB liabilities.

The District had a deficit in unrestricted net position of \$277,135,396 at December 31, 2019. The District's unrestricted net position increased by \$12,426,309 during 2019 primarily due to the current year results of operations and the changes in the net pension other post-employment liabilities and related deferred outflows and inflows of resources.

A portion of the District's net position reflects its restricted net position which totaled \$323,747 as of December 31, 2019. All of the District's restricted net position related to amounts restricted for debt service expenditures.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended December 31, 2019, the District's net investment in capital assets decreased by \$2,625,748 because capital assets were being depreciated faster than the debt used to acquire the capital assets was being repaid.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

The following table presents condensed information for the *Statement of Activities* of the District for 2019 and 2018:

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues						
Charges for services	\$ 295,225	\$ 304,670	\$ 307,481	\$ 316,390	\$ 602,706	\$ 621,060
Operating grants and contributions	47,716,357	41,537,925	8,216,971	6,262,988	55,933,328	47,800,913
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	46,277,934	43,664,698	-	-	46,277,934	43,664,698
Earned income taxes levied for general purposes	11,395,455	11,174,212	-	-	11,395,455	11,174,212
Other taxes levied for general purposes	8,146,178	7,966,437	-	-	8,146,178	7,966,437
Grants and entitlements not restricted to specific programs	48,588,321	47,180,350	-	-	48,588,321	47,180,350
Investments earnings	478,223	412,902	13,941	18,561	492,164	431,463
Other	1,528,858	1,397,247	-	-	1,528,858	1,397,247
Total revenues	<u>164,426,551</u>	<u>153,638,441</u>	<u>8,538,393</u>	<u>6,597,939</u>	<u>172,964,944</u>	<u>160,236,380</u>
EXPENSES						
Instruction	105,636,474	108,317,336	-	-	105,636,474	108,317,336
Instructional student support services	9,167,541	9,806,542	-	-	9,167,541	9,806,542
Administrative and financial support services	11,755,286	13,140,537	-	-	11,755,286	13,140,537
Operation and maintenance of plant services	13,171,236	12,969,917	-	-	13,171,236	12,969,917
Pupil transportation	5,281,302	4,848,670	-	-	5,281,302	4,848,670
Student activities	1,560,172	1,789,036	-	-	1,560,172	1,789,036
Community services	166,690	226,698	-	-	166,690	226,698
Interest and amortization expense related to noncurrent liabilities	11,384,053	8,843,502	-	-	11,384,053	8,843,502
Food service	-	-	6,754,939	6,052,856	6,754,939	6,052,856
Memorial stadium	-	-	40,457	25,439	40,457	25,439
Total expenses	<u>158,122,754</u>	<u>159,942,238</u>	<u>6,795,396</u>	<u>6,078,295</u>	<u>164,918,150</u>	<u>166,020,533</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 6,303,797</u>	<u>\$ (6,303,797)</u>	<u>\$ 1,742,997</u>	<u>\$ 519,644</u>	<u>\$ 8,046,794</u>	<u>\$ (5,784,153)</u>

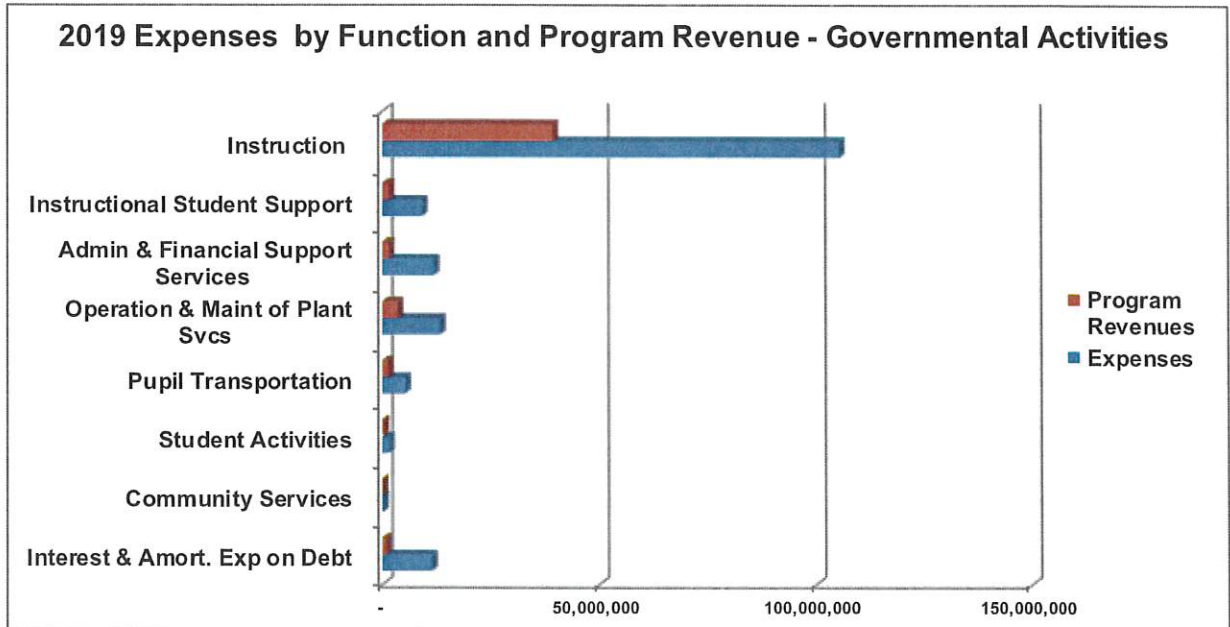
Overall, the District's financial position continues to improve but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

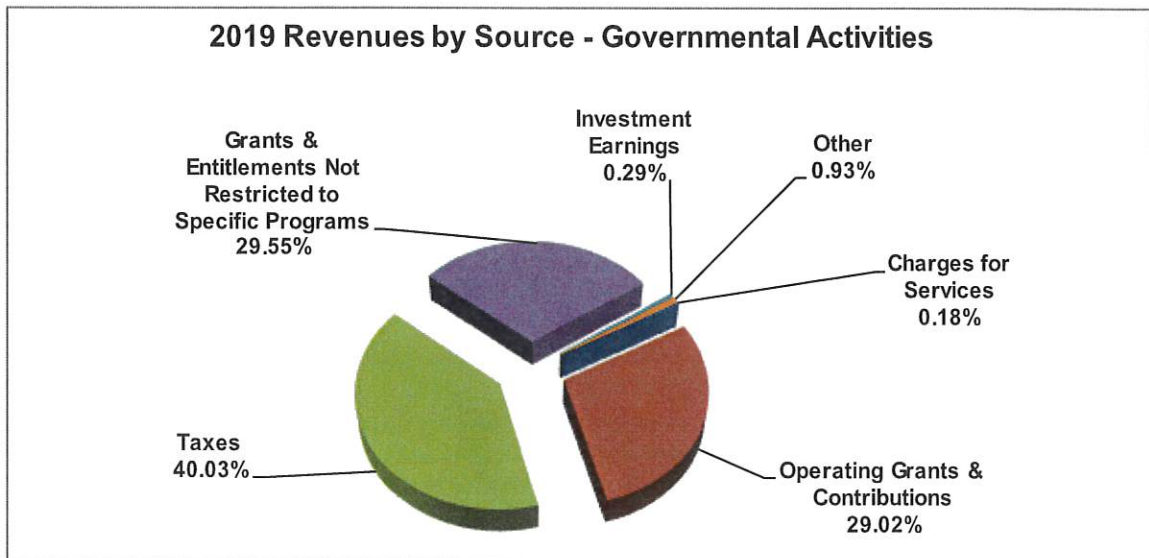
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on intergovernmental revenues to finance its governmental activities.



THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

GOVERNMENTAL FUNDS

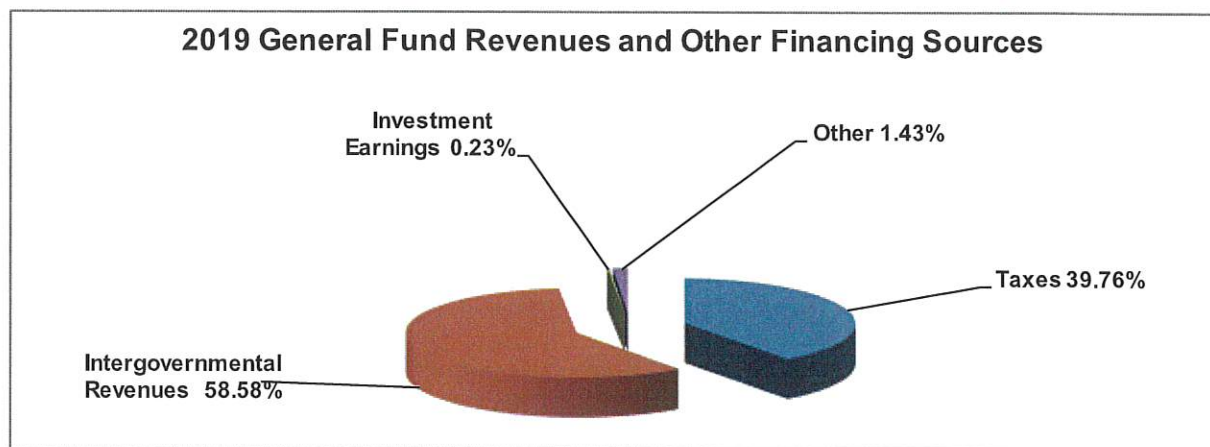
The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of December 31, 2019, the District's governmental funds reported a combined fund balance of \$7,005,545 which is a decrease of \$1,280,577 from the prior year. The following table summarizes the District's total governmental fund balances as of December 31, 2019 and 2018 and the total 2019 change in governmental fund balances.

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>
General Fund	\$1,435,261	\$ (468,711)	\$ 1,903,972
Capital Projects Fund	5,246,537	6,677,319	(1,430,782)
Debt Service Fund	<u>323,747</u>	<u>2,077,514</u>	<u>(1,753,767)</u>
	<u>\$7,005,545</u>	<u>\$8,286,122</u>	<u>\$(1,280,577)</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2019 fiscal year, the General Fund fund balance was \$1,435,261 representing an increase of \$1,903,972 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2019 fiscal year.

The District's reliance upon state and federal subsidies and grants is demonstrated by the graph below that indicates 58.58% of General Fund revenues are derived from intergovernmental revenues.



General Fund Revenues and Other Financing Sources

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$ 65,018,867	\$ 62,805,346	\$2,213,521	3.52%
Intergovernmental revenues	95,799,466	88,669,280	7,130,186	8.04%
Investment earnings	377,480	412,902	(35,422)	(8.58%)
Other	<u>2,329,296</u>	<u>1,750,912</u>	<u>578,384</u>	<u>33.03%</u>
	<u>\$163,525,109</u>	<u>\$153,638,440</u>	<u>\$9,886,669</u>	<u>6.44%</u>

Net tax revenues increased by \$2,213,521 or 3.52% primarily due to an increase in real estate taxes received in 2019 compared to 2018 primarily as a result of a millage increase of 3.60% and increases in collections for earned income taxes, business privilege mercantile taxes and delinquent real estate taxes.

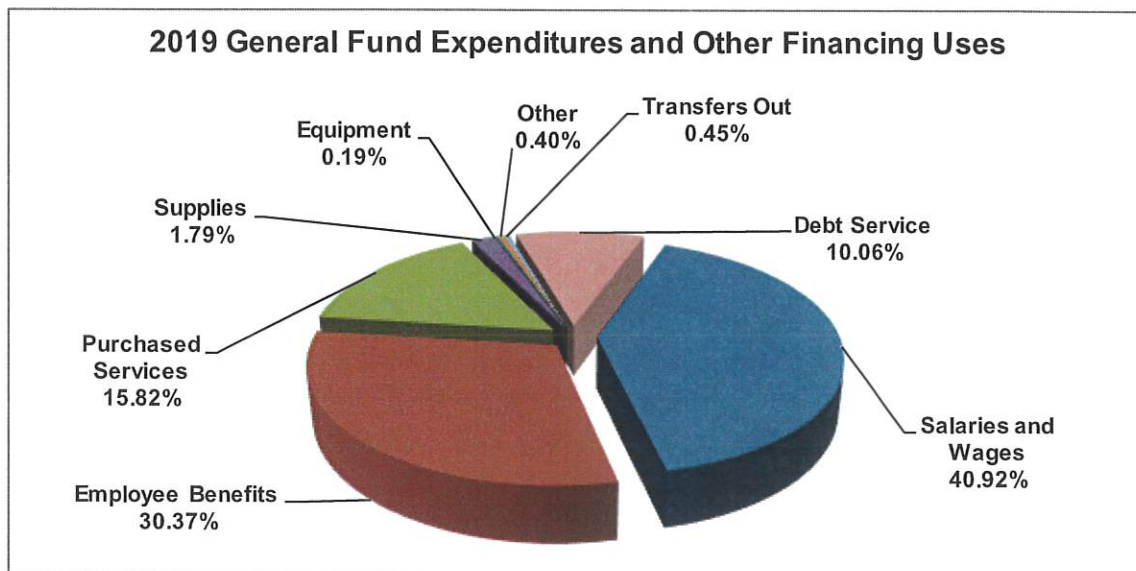
THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

Intergovernmental revenues increased by \$7,130,186 or 8.04% primarily due to an increase in the state appropriation for the basic and special education subsidy and funding received in the form of the supplement Ready to Learn Block grant for calendar year 2019 and fiscal year 2019-2020. These increases were partially offset by a reduction in a state school improvement grant for educational empowerment activities.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 66,130,989	\$ 68,590,752	\$(2,459,763)	(3.59%)
Employee benefits	49,076,034	48,243,936	832,098	1.72%
Purchased services	25,568,718	22,086,267	3,482,451	15.77%
Supplies	2,898,931	2,715,342	183,589	6.76%
Equipment	310,181	513,865	(203,684)	(39.64%)
Other	648,387	540,742	107,645	19.91%
Debt service	16,264,633	10,921,799	5,342,834	48.92%
Transfers out	723,264	917,135	(193,871)	(21.14%)
	<u>\$161,621,137</u>	<u>\$154,529,838</u>	<u>\$ 7,091,299</u>	<u>4.59%</u>

Salaries and wages decreased by \$2,459,763 or 3.59% in 2019 compared to 2018 as a result of the elimination of approximately 52 professional staff employees effective September 1st 2018 in an effort to address the District's budget deficit as well as various positions that remained unfilled in calendar year 2019. The District also reported expenditures for contracted substitute costs and school resource officer in the purchased services object for 2019 which had previously been reported in salaries and wages.

Employee benefit expenditures increased by \$832,098 or 1.72% due primarily to increases in health insurance cost and an increase in the employer retirement contribution rate from 32.57% in 2017-2018 to 34.29% in 2019-2020 or 5.28% over the three PSERS fiscal years covering the 2018 and 2019 calendar year budgets, which was offset by payroll taxes and other benefits as a result of the elimination of 52 professional employees described above.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

Purchased services increased by \$3,482,451 or 15.77% in 2019 compared to 2018 primarily related to an increase in tuition for cyber and charter schools, contractual increases in student transportation, reclassification of contracted substitute costs and school resource officers from the salary and wages object to the purchased services object.

Debt service expenditures increased by \$5,342,834 or 48.92% in 2019 as compared to 2018. This is the result of the issuance of the general obligation bonds, Series of 2018A, which were used to refund current principal and interest payments that were due in 2018 of various series of general obligation bonds. The refunding transaction was recorded in the Debt Service Fund.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2019, the fund balance in the Capital Projects Fund decreased by \$1,430,782 primarily due to current year capital expenditures. The remaining fund balance of \$5,246,537 as of December 31, 2019 is restricted for future capital expenditures.

DEBT SERVICE FUND

The Debt Service Fund accounts for the interest and principal payments due on the District's outstanding general obligation debt. Transfers are made during the year from the General Fund to finance debt service payments as they become due. During 2019, the District used \$1,753,767 of Debt Service Fund balance to subsidize the District's debt service budget. As of December 31, 2019, the fund balance in the Debt Service Fund was \$323,747 and is restricted for future debt service expenditures.

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the Board of School Directors for approval prior to the beginning of the fiscal year on January 1 each year. The most significant budgeted fund is the General Fund.

Total General Fund revenues and other financing sources were \$736,213 or 0.45% less than budgeted amounts and total General Fund expenditures and other financing uses were \$2,640,185 or 1.61% less than budgeted amounts resulting in a net positive variance of \$1,903,972. Original budgeted amounts used \$3,646,552 of general obligation borrowing to balance the budget, which was not necessary due to revenues over budget and expenditures under budget. Major budgetary highlights for 2019 were as follows:

- Total state source revenues were \$2,058,656 more than budgeted amounts due the District receiving an unbudgeted school improvement grant for \$500,000 and the renewal of the \$6,000,000 Ready to Learn Block Grant for the 2019-2020 fiscal year budget. The District was able to draw down 30% or \$1,800,000 in the 2019 calendar year budget.
- Total expenditures related to salary and benefits were under budget by \$3,435,541. Mainly attributed to lower than anticipated salaries estimates reflecting the furlough of approximately 52 professional staff effective September 1, 2018 and various other unfilled budgeted positions and the corresponding payroll tax and retirement expenditures offset by a higher than anticipated costs related to employee healthcare and the reclassification of workers compensation costs budgeted in the General Fund transferred out to the Workers Compensation Fund.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

BUSINESS-TYPE ACTIVITIES

As of December 31, 2019, the business-type activities had a net position of \$6,621,773. The net position of the Food Service Fund was \$6,093,853 and the net position of the Memorial Stadium Fund was \$527,920. During 2019, the net position of the business-type activities increased by \$1,742,997. The net position of the Food Service Fund increased by \$1,690,603 and the net position of the Memorial Stadium Fund increased by \$52,934.

CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of December 31, 2019 amounted to \$83,738,337 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, furniture and equipment and textbooks. The total decrease in the District's investment in capital assets for the current fiscal year was \$4,269,966 or 4.85%. The decrease was the result of current year depreciation expense in excess of capital additions.

Current year capital additions were \$1,592,211 and depreciation expense was \$5,862,175.

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$194,610,000 consisting of \$133,515,000 in bonds payable and \$61,095,000 in notes payable. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$6,735,000 or 3.35% during the current fiscal year.

In October 2019, the District issued \$19,005,000 of general obligation bonds, Series of 2019, the proceeds from which were used to (1) advance refund a portion of the District's outstanding general obligation bonds, Series of 2011C; and (2) to pay for the costs of issuance. The District refunded the general obligation bonds to reduce future debt service payments by \$831,171.

In June 2019, the District remarketed its general obligation notes, Series of 2016A, in the amount of \$5,615,000, and its general obligation bonds, Series of 2016B, in the amount of \$2,830,000 the proceeds from which along with a contribution from the District were used to (1) pay the purchase price, including accrued interest of the of the outstanding purchased bonds on their tender date and to (2) pay for the costs of remarketing the bonds.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$346,218,590 which exceeds the District's outstanding general obligation debt as of December 31, 2019.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$213,235,127 as of December 31, 2019. The District's net pension liability decreased by \$24,773,873 or 10.41% during the fiscal year.

The District reports a liability for its other post-employment benefits ("**OPEB**") related to its participation in the PSERS health insurance premium assistance program. The District's OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$9,694,146 as of December 31, 2019. The District's OPEB liability decreased by \$642,854 or 6.22% during the fiscal year.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

Other noncurrent liabilities of the District's liabilities for compensated absences and retirement incentives which totaled \$25,676,880 as of December 31, 2019. The District's compensated absences and retirement incentives decreased by \$1,717,039 or 6.27% during the fiscal year.

The District uses swap contracts that have fixed interest payments made in exchange for variable interest payments received based on an underlying interest rate index. These interest payments received are meant to offset the variable interest cost of the hedged bond. These are considered hedging derivative instruments, and are used to reduce financial risks, such as offsetting increases in interest rate costs. As of December 31, 2019, the District had one interest rate swap related to its general obligation bonds, Series of 2014.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- On February 1st, 2019 the District was placed in Financial Recovery Status and is subject to the provisions of Article VI-A of the Public School Code that apply to Moderate Financial Recovery School Districts as defined in section 651-A, 24 P.S. § 6-651-A. This designation required the appointment of a Chief Recovery Officer, appointed February 5th, 2019, who was charged with the developing a financial recovery plan for the District. The financial recovery plan was accepted by the Scranton School District Board of Directors on August 15th, 2019.
- The District adopted a balance 2020 budget totaling \$166,141,815 that included a real estate tax millage rate increase of 4.5301 mills or 3.40% to 137.6201 mills.
- The District expects to increase taxes to the Act 1 limit yearly as required by the Recovery Plan and applies annually for exceptions to the Act 1 Index if required to balance the annual budget.
- The 2020-2021 Commonwealth of Pennsylvania budget flat funded basic education and special education funding at the 2019-2020 levels. The 2020 budget included approximately 53.09% of total revenue provided by the Commonwealth of Pennsylvania. Local sources of revenue, primarily property taxes provide approximately 42.42% of total revenue.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increases in real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (3.40% for the Scranton School District for 2020), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions, special education cost increases) over which the school district has no control.
 - ◆ Gaming revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted gambling in Pennsylvania.)
 - ◆ The Scranton School District as required by our Recovery Plan will apply for exceptions to Act 1 annually if required to balance the annual budget.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2019

- In November 2010 and, again, in 2017 legislation was signed into law to implement a series of actuarial and funding changes to the Public School Employees' Retirement System ("**PSERS**"). The 2017 law did not take effect until July of 2019. The law changed the pension plans for all new hires effective July 1, 2019. The new legislation does not impact the pension benefits of current or retired PSERS members. Based on available projections, school districts will not see relief from the new legislation until 10-20 years in the future. Currently, the employer contribution rate for 2019-2020 is 34.29% which is an increase of 2.57% from the 2018-2019 employer contribution rate of 33.43%.
- Professional/instructional and paraprofessional employees of the District are represented for purposes of collective bargaining by the Scranton Federation of Teachers ("**SFT**"), which is affiliated with the American Federation of Teachers ("**AFT**"). This agreement expired on August 31, 2017. The District and the SFT have not been successful in negotiating a new agreement, negotiations are ongoing.
- Support staff (including custodian and maintenance employees, clerical and secretarial employees, attendance officers, hall monitors and behavioral technicians) are represented for purposes of collective bargaining by the Service Employees International Union Local 32BJ ("**SEIU**"). This agreement was renegotiated January 1st, 2018 and expires on December 31st, 2020, and efforts to negotiate a new agreement are expected to resume shortly.
- Non – represented employees are covered by compensation plan for all Act 93 employees. The compensation plan for Act 93 employees expired December 31st, 2017, and efforts to develop a new agreement are expected to resume shortly.
- The District is partnering with its financial advisor to take advantage of refunding opportunities for its general obligation debt in an effort to restructure its debt, reduce future debt service payment and support capital improvements.
- The District is currently in the process of evaluating its buildings and facilities in an effort to prioritize capital projects in conjunction with the development of a District-wide capital improvement plan.
- In December 2019, an outbreak of a novel strain of coronavirus ("**COVID-19**") was identified and has since spread worldwide including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 14, 2020, Pennsylvania Governor Tom Wolf ordered the closure of the physical location of every "non-essential business" in Lackawanna County, Pennsylvania for what was an extended period of time resulting in a disruption of District services and a diminishing of the ability of the District to generate revenues.
- As of October 1, 2020, the School District's enrollment was approximately 9,248 students, which is a 765 student decrease from the prior academic year. The District eliminated 3 year old Pre-K program for 2020-2021 contributing a reduction of approximately 287 students to the enrollment decline. The District has also seen a decrease of approximately 153 students in the Kindergarten program and an approximate increase of 253 students enrolled in outside charter/cyber schools. The District management attributes the enrollment variations in part to the COVID-19 pandemic.
- The District began the 2020-2021 academic year operating a virtual learning program due to the COVID 19 pandemic. The District continues to monitor the impact of COVID 19 and plans an eventual transition to a Hybrid learning model at a date to be determined. To support the virtual learning program the District has committed approximately \$2.9 million towards the purchase of approximately 10,000 chrome books. The District has been awarded approximately \$5.3M in various federal and state funding specific to COVID-19 protections.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, School District of the City of Scranton, 425 North Washington Avenue, Scranton, PA 18503.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION (DEFICIT)

December 31, 2019

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash	\$ 13,308,884	\$ 5,124,563	\$ 18,433,447
Taxes receivable	9,374,928	-	9,374,928
Due from other governments	11,321,308	502,998	11,824,306
Other receivables	7,400	-	7,400
Internal balances	(1,047,722)	1,047,722	-
Inventories	-	40,211	40,211
Total current assets	<u>32,964,798</u>	<u>6,715,494</u>	<u>39,680,292</u>
NONCURRENT ASSETS			
Capital assets, net	<u>83,293,701</u>	<u>444,636</u>	<u>83,738,337</u>
Total assets	<u>116,258,499</u>	<u>7,160,130</u>	<u>123,418,629</u>
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivative	6,628,067	-	6,628,067
Deferred charges on proportionate share of pension - PSERS	13,766,147	-	13,766,147
Deferred charges on proportionate share of OPEB - PSERS	641,492	-	641,492
Total deferred outflows of resources	<u>21,035,706</u>	<u>-</u>	<u>21,035,706</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	9,761,894	538,357	10,300,251
Accrued salaries, payroll withholdings and benefits	2,727,732	-	2,727,732
Accrued interest payable	1,115,936	-	1,115,936
Total current liabilities	<u>13,605,562</u>	<u>538,357</u>	<u>14,143,919</u>
NONCURRENT LIABILITIES			
Due within one year	14,110,490	-	14,110,490
Due in more than one year	435,733,730	-	435,733,730
Total noncurrent liabilities	<u>449,844,220</u>	<u>-</u>	<u>449,844,220</u>
Total liabilities	<u>463,449,782</u>	<u>538,357</u>	<u>463,988,139</u>
DEFERRED INFLOWS OF RESOURCES			
Grants received in advance	5,325,971	-	5,325,971
Deferred changes on proportionate share of pension - PSERS	29,802,000	-	29,802,000
Deferred changes on proportionate share of OPEB - PSERS	1,535,000	-	1,535,000
Total deferred inflows of resources	<u>36,662,971</u>	<u>-</u>	<u>36,662,971</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	(79,829,762)	444,636	(79,385,126)
Restricted	323,747	-	323,747
Unrestricted (deficit)	(283,312,533)	6,177,137	(277,135,396)
Total net position (deficit)	<u>\$ (362,818,548)</u>	<u>\$ 6,621,773</u>	<u>\$ (356,196,775)</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF ACTIVITIES

Year ended December 31, 2019

	Program Revenues			Net (Expense) Revenue and Changes in Net Position (Deficit)		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 105,636,474	\$ 39,170,125	\$ -	\$ (66,367,647)	\$ -	\$ (66,367,647)
Instructional student support	9,167,541	1,487,397	-	(7,680,144)	-	(7,680,144)
Administrative and financial support services	11,755,286	1,490,083	-	(10,265,203)	-	(10,265,203)
Operation and maintenance of plant services	13,171,236	3,367,828	-	(9,712,944)	-	(9,712,944)
Pupil transportation	5,281,302	1,266,016	-	(4,015,286)	-	(4,015,286)
Student activities	1,560,172	135,816	-	(1,318,297)	-	(1,318,297)
Community services	166,690	32,120	-	(134,570)	-	(134,570)
Interest and amortization expense related to noncurrent liabilities	11,394,053	766,972	-	(10,617,081)	-	(10,617,081)
Total governmental activities	<u>158,122,754</u>	<u>47,716,357</u>	<u>-</u>	<u>(110,111,172)</u>	<u>-</u>	<u>(110,111,172)</u>
BUSINESS-TYPE ACTIVITIES						
Food service	6,754,939	8,216,971	-	-	1,681,528	1,681,528
Memorial stadium	40,457	-	-	-	47,528	47,528
Total business-type activities	<u>6,795,396</u>	<u>8,216,971</u>	<u>-</u>	<u>-</u>	<u>1,729,056</u>	<u>1,729,056</u>
Total primary government	<u>\$ 164,918,150</u>	<u>\$ 55,933,328</u>	<u>\$ -</u>	<u>(110,111,172)</u>	<u>1,729,056</u>	<u>(108,382,116)</u>
GENERAL REVENUES						
Property taxes levied for general purposes				46,277,934	-	46,277,934
Earned income taxes levied for general purposes				11,395,455	-	11,395,455
Other taxes levied for general purposes				8,146,178	-	8,146,178
Grants and entitlements not restricted to specific programs				48,588,321	-	48,588,321
Investment earnings				478,223	13,941	492,164
Other				1,528,858	-	1,528,858
Total general revenues				<u>116,414,969</u>	<u>13,941</u>	<u>116,428,910</u>
CHANGE IN NET POSITION (DEFICIT)				6,303,797	1,742,997	8,046,794
NET POSITION (DEFICIT)				<u>(369,122,345)</u>	<u>4,878,776</u>	<u>(364,243,569)</u>
Beginning of year, restated				<u>\$ (362,818,548)</u>	<u>\$ 6,621,773</u>	<u>\$ (356,196,775)</u>
End of year						

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2019

	Major Funds			Total
	General Fund	Capital Projects Fund	Debt Service Fund	
ASSETS				
Cash	\$ 9,091,171	\$ 3,332,038	\$ 323,747	\$ 12,746,956
Taxes receivable	9,374,928	-	-	9,374,928
Due from other funds	97,000	2,135,050	-	2,232,050
Due from other governments	11,321,308	-	-	11,321,308
Other receivables	7,400	-	-	7,400
Total assets	\$ 29,891,807	\$ 5,467,088	\$ 323,747	\$ 35,682,642
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 9,541,343	\$ 220,551	\$ -	\$ 9,761,894
Accrued salaries, payroll withholdings and benefits	2,727,732	-	-	2,727,732
Due to other funds	3,279,772	-	-	3,279,772
Total liabilities	15,548,847	220,551	-	15,769,398
DEFERRED INFLOWS OF RESOURCES				
Grants received in advance	5,325,971	-	-	5,325,971
Unavailable revenues - property taxes	7,581,728	-	-	7,581,728
Total deferred inflows of resources	12,907,699	-	-	12,907,699
FUND BALANCES				
Restricted for				
Capital projects	-	5,246,537	-	5,246,537
Debt service	-	-	323,747	323,747
Unassigned	1,435,261	-	-	1,435,261
Total fund balances	1,435,261	5,246,537	323,747	7,005,545
Total liabilities, deferred inflows of resources and fund balances	\$ 29,891,807	\$ 5,467,088	\$ 323,747	\$ 35,682,642

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

December 31, 2019

TOTAL GOVERNMENTAL FUND BALANCES	\$ 7,005,545
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	83,293,701
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	7,581,728
Deferred outflows created from derivative hedging transactions are not reported as assets and liabilities in the governmental funds balance sheet	6,628,067
Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	(16,929,361)
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(449,844,220)
The Internal Service Fund is used by management to charge the cost of workers' compensation insurance premiums and claims to the General Fund. The assets and liabilities of the Internal Service fund are included in the governmental activities on the government-wide statement of net position (deficit).	561,928
Accrued interest payable on long-term liabilities is included in the government-wide statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(1,115,936)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (362,818,548)</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended December 31, 2019

	Major Funds			Total
	General Fund	Capital Projects Fund	Debt Service Fund	
REVENUES				
Local sources	\$ 67,725,643	\$ 78,677	\$ 11,516	\$ 67,815,836
State sources	86,565,658	-	-	86,565,658
Federal sources	9,233,808	-	-	9,233,808
Total revenues	<u>163,525,109</u>	<u>78,677</u>	<u>11,516</u>	<u>163,615,302</u>
EXPENDITURES				
Current				
Instruction	102,751,245	-	-	102,751,245
Support services	40,076,561	-	614,848	40,691,409
Operation of noninstructional services	1,509,862	-	-	1,509,862
Facilities acquisition, construction and improvement services	-	1,509,459	-	1,509,459
Debt service	16,264,633	-	1,768,283	18,032,916
Total expenditures	<u>160,602,301</u>	<u>1,509,459</u>	<u>2,383,131</u>	<u>164,494,891</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,922,808</u>	<u>(1,430,782)</u>	<u>(2,371,615)</u>	<u>(879,589)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(295,572)	-	-	(295,572)
Issuance of debt - refunding	-	-	27,450,000	27,450,000
Payment of debt - refunding	-	-	(26,832,152)	(26,832,152)
Transfers out	(723,264)	-	-	(723,264)
Total other financing sources (uses)	<u>(1,018,836)</u>	<u>-</u>	<u>617,848</u>	<u>(400,988)</u>
NET CHANGE IN FUND BALANCES	1,903,972	(1,430,782)	(1,753,767)	(1,280,577)
FUND BALANCES				
Beginning of year	(468,711)	6,677,319	2,077,514	8,286,122
End of year	<u>\$ 1,435,261</u>	<u>\$ 5,246,537</u>	<u>\$ 323,747</u>	<u>\$ 7,005,545</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended December 31, 2019

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (1,280,577)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 1,541,564	
Depreciation expense	<u>(5,784,876)</u>	(4,243,312)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount in the current period.

Deferred inflows of resources December 31, 2018	(6,781,027)	
Deferred inflows of resources December 31, 2019	<u>7,581,728</u>	800,701

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of debt	(27,450,000)	
Repayment of bonds and notes payable	34,185,000	
Amortization of deferred amounts on refunding	<u>(231,382)</u>	6,503,618

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.

Change in net pension liability and related deferred inflows and outflows	2,370,153	
Current year change in accrued interest payable	142,245	
Current year change in compensated absences	920,847	
Current year change in retirement incentives	796,192	
Change in net post-employment benefit (OPEB) liability and related deferred inflows and outflows	<u>285,217</u>	<u>4,514,654</u>

The Internal Service Fund is used by management to charge the cost of workers' compensation insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported within the governmental activities

8,713

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 6,303,797

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2019

	<u>Major Fund Food Service</u>	<u>Memorial Stadium Fund</u>	<u>Total</u>	<u>Internal Service Fund</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 4,546,441	\$ 578,122	\$ 5,124,563	\$ 561,928
Due from other funds	1,144,722	-	1,144,722	-
Due from other governments	502,998	-	502,998	-
Inventories	40,211	-	40,211	-
Total current assets	<u>6,234,372</u>	<u>578,122</u>	<u>6,812,494</u>	<u>561,928</u>
NONCURRENT ASSETS				
Capital assets, net	421,838	22,798	444,636	-
Total assets	<u>6,656,210</u>	<u>600,920</u>	<u>7,257,130</u>	<u>561,928</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	538,357	-	538,357	-
Due to other funds	24,000	73,000	97,000	-
Total current liabilities	<u>562,357</u>	<u>73,000</u>	<u>635,357</u>	<u>-</u>
Total liabilities	<u>562,357</u>	<u>73,000</u>	<u>635,357</u>	<u>-</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	421,838	22,798	444,636	-
Unrestricted	5,672,015	505,122	6,177,137	561,928
Total net position (deficit)	<u>\$ 6,093,853</u>	<u>\$ 527,920</u>	<u>\$ 6,621,773</u>	<u>\$ 561,928</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

Year ended December 31, 2019

	<u>Major Fund Food Service</u>	<u>Memorial Stadium Fund</u>	<u>Total</u>	<u>Internal Service Fund</u>
OPERATING REVENUES				
Food service revenue	\$ 219,496	\$ -	\$ 219,496	\$ -
Other local education activity income	-	87,985	87,985	-
Total operating revenues	<u>219,496</u>	<u>87,985</u>	<u>307,481</u>	<u>-</u>
OPERATING EXPENSES				
Salaries and wages	179,908	-	179,908	346,426
Employee benefits	98,118	-	98,118	263,603
Purchased services	5,991,532	36,931	6,028,463	115,072
Supplies	411,608	-	411,608	-
Depreciation	73,773	3,526	77,299	-
Total operating expenses	<u>6,754,939</u>	<u>40,457</u>	<u>6,795,396</u>	<u>725,101</u>
Operating income (loss)	<u>(6,535,443)</u>	<u>47,528</u>	<u>(6,487,915)</u>	<u>(725,101)</u>
NONOPERATING REVENUES				
Earnings on investments	9,075	4,866	13,941	10,550
State sources	302,116	-	302,116	-
Federal sources	7,914,855	-	7,914,855	-
Total nonoperating revenues	<u>8,226,046</u>	<u>4,866</u>	<u>8,230,912</u>	<u>10,550</u>
Change in net position before transfers	1,690,603	52,394	1,742,997	(714,551)
Transfers in	-	-	-	723,264
CHANGE IN NET POSITION	1,690,603	52,394	1,742,997	8,713
NET POSITION				
Beginning of year	<u>4,403,250</u>	<u>475,526</u>	<u>4,878,776</u>	<u>553,215</u>
End of year	<u>\$ 6,093,853</u>	<u>\$ 527,920</u>	<u>\$ 6,621,773</u>	<u>\$ 561,928</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended December 31, 2019

	<u>Major Fund Food Service</u>	<u>Memorial Stadium Fund</u>	<u>Total</u>	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 219,496	\$ 87,985	\$ 307,481	\$ -
Cash payments to employees for services	(278,026)	-	(278,026)	(610,029)
Cash payments to supplies for goods and services	<u>(5,377,821)</u>	<u>(36,931)</u>	<u>(5,414,752)</u>	<u>(115,072)</u>
Net cash provided by (used for) operating activities	<u>(5,436,351)</u>	<u>51,054</u>	<u>(5,385,297)</u>	<u>(725,101)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	282,799	-	282,799	-
Federal sources	7,062,918	-	7,062,918	-
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>723,264</u>
Net cash provided by noncapital financing activities	<u>7,345,717</u>	<u>-</u>	<u>7,345,717</u>	<u>723,264</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	<u>(50,647)</u>	<u>-</u>	<u>(50,647)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	<u>9,075</u>	<u>4,866</u>	<u>13,941</u>	<u>10,550</u>
Net Increase in cash	<u>1,867,794</u>	<u>55,920</u>	<u>1,923,714</u>	<u>8,713</u>
CASH				
Beginning of year	<u>2,678,647</u>	<u>522,202</u>	<u>3,200,849</u>	<u>553,215</u>
End of year	<u>\$ 4,546,441</u>	<u>\$ 578,122</u>	<u>\$ 5,124,563</u>	<u>\$ 561,928</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (6,535,443)	\$ 47,528	(6,487,915)	\$ (725,101)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	73,773	3,526	77,299	-
Donated commodities used	368,257	-	368,257	-
(Increase) decrease in				
Due from other funds	115,247	-	115,247	-
Inventories	3,458	-	3,458	-
Increase (decrease) in				
Accounts payable	<u>538,357</u>	<u>-</u>	<u>538,357</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ (5,436,351)</u>	<u>\$ 51,054</u>	<u>\$ (5,923,654)</u>	<u>\$ (725,101)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	<u>\$ 368,257</u>	<u>\$ -</u>	<u>\$ 368,257</u>	<u>\$ -</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2019

	Private- Purpose Trust	Agency
ASSETS		
Cash	<u>\$4,539</u>	<u>\$495,527</u>
LIABILITIES		
Due to student groups	<u>-</u>	<u>\$495,527</u>
NET POSITION		
Net position held in trust for scholarships	<u>\$4,539</u>	

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended December 31, 2019

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Local contributions	\$ -
Investment earnings	<u>42</u>
Total additions	<u>42</u>
DEDUCTIONS	
Scholarships/awards and fees paid	<u>-</u>
CHANGE IN NET POSITION	42
NET POSITION	
Beginning of year	<u>4,497</u>
End of year	<u>\$4,539</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District of the City of Scranton (the "**District**") operates eleven elementary schools, three intermediate schools, two high schools and two alternative education schools for all grades to provide education and related services to the residents of City of Scranton. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

On February 5, 2019, the District was declared to be in a state of moderate distress under the Commonwealth of Pennsylvania's Act 141 of 2012. This designation required the appointment of a Chief Recovery Officer who was charged with developing a financial and academic recovery plan for the District. The Chief Recovery Officer with the assistance of a financial consultant prepared a ("**Recovery Plan**") for the District dated July 25, 2019. The Recovery Plan was approved by the District's Board of Directors in August 2019. The District would not continue operations under the current "municipality" governance, unless the Recovery Plan is implemented and successful, but would rather be under "receivership" management by the Commonwealth of Pennsylvania Department of Education.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") 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. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

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

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term principal, interest and other related costs.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, 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 District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources is reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Memorial Stadium Fund was established to account for advertising agreements and other charges for services (e.g. concessions) at the Scranton High School's Memorial Stadium that is to be used for future capital projects at Memorial Stadium.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

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

Property Taxes

Taxes are levied on January 1 and are payable in the following periods:

Discount period	
January 1 – February 28	- 2.50% of gross levy
March 1 – April 30	- 2.00% of gross levy
Face period	
May 1 – June 30	- Face period
Penalty period	
July 1 – August 31	- 5.00% of gross levy
September 1 – October 31	- 7.50% of gross levy
July 1 – December 31	- 10.00% of gross levy

The County Board of Assessments determines assessed valuations of property, and the taxes are billed and collected by the Scranton Single Tax Office. The tax on real estate for public school purposes for 2019 was 133.049 mills (\$133.049 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Pledged Taxes Receivable

The District has entered into an agreement with the Northwest Pennsylvania Incubator Association ("*NPIA*") under which the District relinquishes to NPIA delinquent property tax revenues. The District received from NPIA a lump sum payment in exchange for the rights to receive and retain future delinquent property tax revenues.

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

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 and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$1,000 and an estimated life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 20-50 years, furniture and equipment – 5-20 years and textbooks – 7 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended December 31, 2019.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Nonspendable

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the Receiver. Committed amounts cannot be used for any other purpose unless the Receiver removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Superintendent or Business Manager or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as nonspendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 84 "*Fiduciary Activities*" will be effective for the District for the year ended December 31, 2020. GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 88 "*Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*" will be effective for the District for the year ended December 31, 2020. GASB Statement No. 88 improves the information that is disclosed in the notes to financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

GASB Statement No. 90 "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*" will effective for the District for the year ended December 31, 2020. GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

GASB Statement No. 87, "*Leases*" will be effective for the District for the year ended December 31, 2022. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

GASB Statement No. 89, "Accounting for Interest Cost Incurred Before the End of a Construction Period", will be effective for the District for the year ended December 31, 2021. The objectives of GASB Statement No. 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 establishes accounting required for interest cost incurred before the end of a construction period. Such interest costs includes all interest that previously was accounted for in accordance with the requirements of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", which are superseded by GASB Statement No. 89. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB Statement No. 89 also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with government fund accounting principles.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

The deadline for the District to adopt the final General Fund budget is December 31. After the legal adoption of the budget, the District is required to file a copy of the budget with the Pennsylvania Department of Education no later than 15 days after final adoption. Additional copies of the budget also are required to be filed with the House Education Committee and the Senate Education Committee.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(3) DEPOSITS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2019, the carrying amount of the District's deposits was \$18,933,513 and the bank balance was \$20,119,632. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$1,050,308 was covered by federal depository insurance, and \$19,069,324 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

(4) CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 4,209,661	\$ -	\$ -	\$ 4,209,661
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>4,209,661</u>	<u>-</u>	<u>-</u>	<u>4,209,661</u>
Capital assets being depreciated				
Buildings and improvements	161,790,302	1,308,273	-	163,098,575
Furniture and equipment	25,668,292	233,291	-	25,901,583
Textbooks	<u>2,262,802</u>	<u>-</u>	<u>-</u>	<u>2,262,802</u>
Total capital assets being depreciated	<u>189,721,396</u>	<u>1,541,564</u>	<u>-</u>	<u>191,262,960</u>
Less accumulated depreciation for				
Buildings and improvements	(80,444,456)	(5,159,733)	-	(85,604,189)
Furniture and equipment	(23,822,547)	(579,874)	-	(24,402,421)
Textbooks	<u>(2,127,041)</u>	<u>(45,269)</u>	<u>-</u>	<u>(2,172,310)</u>
Total accumulated depreciation	<u>(106,394,044)</u>	<u>(5,784,876)</u>	<u>-</u>	<u>(112,178,920)</u>
Total capital assets being depreciated, net	<u>83,327,353</u>	<u>(4,243,312)</u>	<u>-</u>	<u>79,084,040</u>
Governmental activities, net	<u>\$ 87,537,014</u>	<u>\$(4,243,312)</u>	<u>\$ -</u>	<u>\$ 83,293,701</u>
Business-type activities				
Furniture and equipment	\$ 1,495,757	\$ 50,647	\$ -	\$ 1,546,404
Less accumulated depreciation	<u>(1,024,469)</u>	<u>(77,299)</u>	<u>-</u>	<u>(1,101,768)</u>
Business-type activities, net	<u>\$ 471,289</u>	<u>\$(26,652)</u>	<u>\$ -</u>	<u>\$ 444,636</u>

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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

Governmental activities	
Instruction	\$5,080,354
Instructional student support	308,473
Administrative and financial support services	62,249
Operation and maintenance of plant services	84,365
Student activities	<u>249,435</u>
Total depreciation expense – governmental activities	<u>\$5,784,876</u>
Business-type activities	
Food service	\$ 73,773
Memorial stadium	<u>3,526</u>
Total depreciation expense – business-type activities	<u>\$ 77,299</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2019 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$2,135,050	General Fund	\$2,135,050
Food Service Fund	1,144,722	General Fund	1,144,722
General Fund	73,000	Memorial Stadium Fund	73,000
General Fund	<u>24,000</u>	Food Service Fund	<u>24,000</u>
	<u>\$3,376,722</u>		<u>\$3,376,772</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended December 31, 2019 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Internal Service Fund	<u>\$ 723,264</u>	General Fund	<u>\$ 723,264</u>

Transfers from the General Fund represent transfer to subsidize costs associated with workers' compensation premiums and claims.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended December 31, 2019:

	<u>Balance January 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2019</u>	<u>Amount Due Within One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$138,230,000	\$21,835,000	\$26,550,000	\$133,515,000	\$ 7,345,000
Notes payable	63,115,000	5,615,000	7,635,000	61,095,000	1,420,000
Tax revenue anticipation note	-	<u>14,000,000</u>	<u>14,000,000</u>	-	-
Total general obligation debt	<u>201,345,000</u>	<u>41,450,000</u>	<u>48,185,000</u>	<u>194,610,000</u>	<u>8,765,000</u>

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Other noncurrent liabilities					
Compensated absences	20,074,919	-	920,847	19,154,072	3,830,814
Net pension liability - PSERS	238,009,000	-	24,773,873	213,235,127	-
Net OPEB liability - PSERS	10,337,000	-	642,854	9,694,146	-
Retirement incentives	7,319,000	-	796,192	6,522,808	1,514,676
Derivative instrument liability - interest rate swap	<u>6,088,308</u>	<u>539,759</u>	<u>-</u>	<u>6,628,067</u>	<u>-</u>
Total other noncurrent liabilities	<u>281,828,227</u>	<u>539,759</u>	<u>27,133,766</u>	<u>255,234,220</u>	<u>5,345,490</u>
Total governmental activities	<u>\$483,173,227</u>	<u>\$41,989,759</u>	<u>\$75,318,766</u>	<u>\$449,844,220</u>	<u>\$14,110,490</u>

Noncurrent liabilities of governmental activities are generally liquidated by the General Fund.

(7) GENERAL OBLIGATION DEBT

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted resources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of December 31, 2019 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2011C	0.580% - 5.20%	\$24,095,000	04/01/2021	3,065,000
Series of 2015B	2.00% - 4.00%	\$14,985,000	06/15/2031	11,775,000
Series of 2016B	3.15%	\$2,830,000	06/15/2034	2,830,000
Series of 2017A	3.00% - 5.00%	\$29,105,000	06/01/2025	20,860,000
Series of 2017B	3.00% - 5.00%	\$7,510,000	06/01/2025	5,380,000
Series of 2017C	2.00% - 5.00%	\$2,675,000	06/01/2031	2,660,000
Series of 2017E	2.00% - 5.00%	\$58,435,000	12/01/2037	58,425,000
Series of 2018A	2.25% - 5.00%	\$9,525,000	06/31/2037	9,515,000
Series of 2019	2.372% - 3.154%	\$19,005,000	04/01/2031	<u>19,005,000</u>
Total general obligation bonds				<u>133,515,000</u>
General obligation notes				
Series of 2014	Variable	\$30,540,000	04/01/2031	29,295,000
Series of 2015A	1.00% - 3.800%	\$6,565,000	06/15/2034	4,420,000
Series of 2016A	3.15%	\$5,615,000	06/15/2034	5,615,000
Series of 2017D	2.00% - 5.00%	\$21,795,000	06/01/2037	<u>21,765,000</u>
Total general obligation notes				<u>61,095,000</u>
Total general obligation debt				<u>\$194,610,000</u>

Variable rate debt bears interest at a rate equal to the 30-day LIBOR index as of the date of determination.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending December 31,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total</u>
2020	\$ 8,765,000	\$ 7,431,698	\$ 16,196,698
2021	9,125,000	7,113,983	16,238,983
2022	8,850,000	6,772,705	15,622,705
2023	9,245,000	6,430,515	15,675,515
2024	9,685,000	6,079,146	15,764,146
2025-2029	48,415,000	25,417,294	73,832,294
2030-2034	58,485,000	16,446,515	74,931,515
2035-2037	42,040,000	3,284,406	45,324,406
	<u>\$194,610,000</u>	<u>\$78,976,262</u>	<u>\$273,586,262</u>

General Obligation Bonds, Series of 2019

In October 2019, the District issued \$19,005,000 of general obligation bonds, Series of 2019, the proceeds from which were used to (1) advance refund a portion of the District's outstanding general obligation bonds, Series of 2011C; and (2) to pay for the costs of issuance. The District advance refunded a portion of the general obligation bonds, Series of 2011C, to reduce future debt service payments by \$831,171.

In-Substance Defeasance – Prior Years

In prior years, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of December 31, 2019, the amount of defeased outstanding debt was as follows:

	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Series of 2011C	04/01/2021	<u>\$17,495,000</u>

Tax Revenue Anticipation Note

On January 4, 2019, the District issued a \$14,000,000 Tax Revenue Anticipation Note ("**TRAN**") with an interest rate of 5.27% which matured on December 31, 2019. The TRAN was issued as a short-term borrowing for cash flow purposes in the General Fund in anticipation of future tax revenues. The TRAN was repaid on December 31, 2019.

(8) DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swap Agreement

The District uses a swap contract that has fixed interest payments made in exchange for variable interest payments received based on an underlying interest rate index. Hedging derivatives instruments are used to reduce financial risks, such as offsetting increases in variable interest rate costs of the hedged item. These derivative instruments are evaluated to determine if they are effective in significantly reducing the identified financial risk at year end. If the derivative is determined to be an effective hedge, its fair value is an asset or liability with a corresponding offset to deferred outflows or inflows of resources on the statement of net position. Deferred outflows or inflows of resources constitute changes in fair values of effectively-hedged derivative instruments. If the derivative instruments are determined to be ineffective, they are considered investment derivatives in which their fair values are recognized against investment income in the statement of activities.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

At December 31, 2019, the District had the following derivative financial instrument outstanding:

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31, 2019</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Governmental Activities					
Cash flow hedge					
Pay fixed interest rate swaps	Deferred outflows of resources	\$539,759	Debt	\$6,628,067	\$29,295,000

The District currently has one interest rate swap agreement. The District utilized a regression method analysis to evaluate the hedge effectiveness for its interest rate swap. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the interest rate swap and the item it is hedged against. The analysis confirmed that the changes in cash flows of the interest rate swap instrument substantially offsets the changes in cash flows of the item hedged against and met within reason all required criteria.

Fair Value

The fair value of the interest rate swap was derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions. The interest rate swaps were valued based upon Level 2 inputs.

Objective and Terms of Hedging Derivative Instrument

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay fixed interest rate swaps	Hedge changes in cash flows on the GOB Series of 2014	\$29,295,000	12/29/2014	04/01/2031	Pay 4.738%; receives 68% of 1 month LIBOR	A

Credit Risk

As of December 31, 2019, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A by Standard & Poor's as of December 31, 2019.

Interest Rate Risk

The District is exposed to interest rate risk on its swap agreement. On the District's pay-fixed interest rate swap, as the London Inter-Bank Offered Rate (LIBOR) index decreases, the District's net payment on the swap increases.

Basis Risk

The District is exposed to basis risk on its pay-fixed interest rate swap because the variable rate payments received by the District on this hedging derivative instrument are based on a rate or index other than interest rates the District pays on its hedged variable rate debt, which is remarketed every week.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination 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.

Swap Payments and Associated Debt

Using rates as of December 31, 2019, debt service requirements for the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

<u>Year ending December 30,</u>	<u>Variable Rate Bonds</u>		<u>Interest Rate Swaps, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2020	\$ 1,400,000	\$ 598,875	\$1,024,094	\$ 3,022,969
2021	1,540,000	566,492	971,438	3,077,930
2022	1,700,000	532,652	913,410	3,146,062
2023	1,865,000	495,417	849,561	3,209,978
2024	2,035,000	455,987	779,712	3,270,699
2025-2029	13,570,000	1,511,173	2,590,144	17,671,317
2030-2031	7,185,000	154,091	264,352	7,603,443
	<u>\$29,295,000</u>	<u>\$4,314,687</u>	<u>\$7,392,711</u>	<u>\$41,002,398</u>

(9) OTHER POST-EMPLOYMENT BENEFITS

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

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

Plan Description

PSERS provides health insurance premium assistance which, is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the PSERS' health options program or employer-sponsored health insurance program.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of December 31, 2019, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The District's contractually required contribution rate for the period July 1, 2019 to December 31, 2019 was 0.83% 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 OPEB plan from the District were \$249,492 for the period July 1, 2019 to December 31, 2019.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019, the District reported a liability of \$9,694,146 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB 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, 2019, the District's proportion was 0.4558 percent, which was a decrease of 0.0400 percent from its proportion measured as of June 30, 2018. As of December 31, 2019, the OPEB liability of \$9,694,146 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

For the year ended December 31, 2019, the District recognized OPEB expense of \$245,000. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual experience	\$ 55,000	\$ -
Changes in assumptions	321,000	288,000
Net difference between projected and actual investment earnings	16,000	-
Changes in proportions	-	1,247,000
Contributions subsequent to the measurement date	<u>249,492</u>	<u>-</u>
	<u>\$641,492</u>	<u>\$1,535,000</u>

\$249,492 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31,

2020	\$ (228,000)
2021	(228,000)
2022	(230,000)
2023	(232,000)
2024	(138,000)
Thereafter	<u>(87,000)</u>
	<u>\$ (1,143,000)</u>

Actuarial Assumptions

The net OPEB liability as of December 31, 2019, was determined by rolling forward the PSERS' net OPEB liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal - level % of pay
- Investment return - 2.79% - Standard & Poor's 20-year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at \$1,200 per year.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

- Eligible retirees will elect to participate pre age 65 at 50%
- Eligible retirees will elect to participate post age 65 at 70%

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study that was performed for the five-year period June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019.
- Cost method - amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 combined disabled tables with age set back 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the OPEB plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year.

<u>OPEB – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	13.20%	0.20%
US Core Fixed Income	83.10%	1.00%
Non-US Developed Fixed	3.70%	0.00%
	<u>100.00%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Discount Rate

The discount rate used to measure the OPEB liability was 2.79%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 2.79% which represents the Standard & Poor's 20 year municipal bond rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual health insurance premium assistance. As of June 30, 2019, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the net OPEB liability for December 31, 2019, calculated using current healthcare cost trends as well as what net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	<u>\$9,692,655</u>	<u>\$9,694,146</u>	<u>\$9,695,349</u>

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>1.79%</u>	<u>2.79%</u>	<u>3.79%</u>
District's proportionate share of the net OPEB liability	<u>\$11,043,742</u>	<u>\$9,694,146</u>	<u>\$8,575,667</u>

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS's website at www.psers.pa.gov.

(10) PENSION PLAN

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

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member Contributions

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

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

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

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The District's contractually required contribution rate for the period July 1, 2019 to December 31, 2019 was 33.43% 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 \$9,935,147 for the period July 1, 2019 to December 31, 2019.

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

At December 31, 2019, the District reported a liability of \$213,235,127 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2018 to June 30, 2019. 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, 2019, the District's proportion was 0.4558 percent, which was a decrease of 0.0400 percent from its proportion measured as of June 30, 2018. As of December 31, 2019, the net pension liability of \$213,235,127 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

For the year ended December 31, 2019, the District recognized pension expense of \$18,501,000. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual experience	\$ 1,174,000	\$ 7,068,000
Changes in assumptions	2,038,000	-
Net difference between projected and actual investment earnings	-	611,000
Changes in proportions	619,000	22,123,000
Contributions subsequent to the measurement date	<u>9,935,147</u>	<u>-</u>
	<u>\$13,766,147</u>	<u>\$29,802,000</u>

\$9,935,147 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 December 31, 2019. 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 December 31,

2020	\$ (7,059,000)
2021	(12,420,000)
2022	(6,867,000)
2023	<u>375,000</u>
	<u>\$ (25,971,000)</u>

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Actuarial Assumptions

The total pension liability as of December 31, 2019 was determined by rolling forward PSERS' total pension liability at June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – entry age normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial valuation experience study that was performed for the five-year period ending June 30, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0 %	5.6%
Fixed income	36.0 %	1.9%
Commodities	8.0 %	2.7%
Absolute return	10.0 %	3.4%
Risk parity	10.0 %	4.1%
Infrastructure/MLPs	8.0 %	5.5%
Real estate	10.0 %	4.1%
Alternative investments	15.0 %	7.4%
Cash	3.0 %	0.3%
Financing (LIBOR)	<u>(20.0)%</u>	0.7%
	<u>100.0 %</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current Discount Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	<u>\$265,607,773</u>	<u>\$213,235,127</u>	<u>\$168,888,358</u>

Pension Plan Fiduciary Net Position

Detailed information about the 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.

(11) RETIREMENT INCENTIVES

Eligible employees of the District are entitled to receive a retirement incentive in accordance with a collective bargaining agreement. The incentive for teachers with 20 years of service within PSERS is \$10,000 per year for seven years to be paid beginning in March following the year of retirement. Teachers who have attained an age of 62 with 10 to 20 years of service within PSERS is \$2,000 per year for five years. The same incentive is offered to District Administrators covered by an ACT 93 agreement. The incentive for paraprofessional with 15 years of service is a single lump sum payment of \$6,000 to be paid beginning in March following the year of retirement. The incentive for maintenance and clerical employees is as follows, \$6,500 per year for three years and co-pay health insurance with 30 years of service, \$6,500 for three years no health insurance with 20 years of service and \$2,000 for three years no health insurance with 10 years of service. At certain times beginning in 2015 the District had entered into Memorandum of Understanding enhancing the benefit to encourage retirements. The incentives varied depending on the bargaining unit however the largest incentive was \$15,000 per year for 10 years for Teachers and Administrators. As of December 31, 2019, this liability is recorded in the accompanying governmental-wide statement of net position (deficit) and totaled \$6,522,808.

(12) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Career Technology Center of Lackawanna County

The District and seven other Lackawanna County school districts participate in the Career Technology Center of Lackawanna County (the "CTCLC"). The CTCLC provides vocational-technical training and education to students of the participating school districts. The CTCLC is controlled by a Joint Operating Committee (the "JOC") comprised of representative School Board members of the participating school districts. District oversight of the CTCLC operations is the responsibility of the JOC. The District's share of operating costs for the CTCLC fluctuates based on the District's percentage of enrollment. During 2019, the District's share of operating costs was \$2,020,385. The CTCLC prepares financial statements that are available to the public from their administrative offices located at 3201 Rockwell Avenue, Scranton, PA 18508.

Scranton Single Tax Office

The District and the City of Scranton share the payroll and benefit costs of the Scranton Single Tax Office (the "Office") which collects current real estate, local services and business privilege/mercantile taxes for the District, the City of Scranton, and Lackawanna County. The Office's management is appointed by the District and City and has decision making authority and the ability to significantly influence operations and primary accountability for fiscal matters. During 2019, the District's share of payroll and benefit cost was \$627,450. The Center prepares financial statements that are available to the public from their administrative offices located at 123 Wyoming Avenue, Scranton, PA 18503.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Northeastern Educational Intermediate Unit

The District and 19 other school districts from Lackawanna, Wayne and Susquehanna counties are participating members of the Northeastern Educational Intermediate Unit (the "**NEIU**"). The NEIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the NEIU but the participating districts have no ongoing fiduciary interest or responsibility to the NEIU. The NEIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services. During 2019, the District contracted with the NEIU for services which totaled \$1,281,404.

(13) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(14) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs, including workers compensation and employee health accident insurance. For insured programs, there were no significant reductions in insurance coverages during the 2019 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance, workers compensation, unemployment and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a liability for claims incurred through December 31, 2019 and are typically satisfied shortly after year end.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2020, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since December 31, 2019 that required recognition or disclosure in the financial statements.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

In December 2019, an outbreak of a novel strain of coronavirus ("**COVID-19**") was identified and has since spread worldwide including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 14, 2020, Pennsylvania Governor Tom Wolf ordered the closure of the physical location of every "non-essential business" in Lackawanna County, Pennsylvania for what was an extended period of time. Future potential impacts may include the continued disruption of District programs and services and impairment of the ability to generate revenues. The future effects of these issues are unknown.

(16) PRIOR PERIOD ADJUSTMENT

During 2019, it was discovered that the prior year deferred outflow of resources for the deferred charges on proportionate share of pension – PSERS and the deferred outflow of resources for deferred charges on proportionate share of OPEB – PSERS were overstated. This prior period adjustment and its effect on net position at December 31, 2018 are summarized in the following table:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
Net position (deficit) at December 31, 2018, as previously stated	\$(357,940,604)	\$4,878,776	\$(353,061,828)
Prior period adjustment to			
To adjust deferred outflows of resources and deferred inflows of resources related to pension and OPEB - PSERS	<u>(11,181,741)</u>	<u>-</u>	<u>(11,181,741)</u>
Net position (deficit) at December 31, 2018, as restated	<u>\$(369,122,345)</u>	<u>\$4,878,776</u>	<u>\$(364,243,569)</u>

REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 66,975,768	\$ 66,975,768	\$ 67,725,643	\$ 749,875
State sources	84,507,002	84,507,002	86,565,658	2,058,656
Federal sources	9,132,000	9,132,000	9,233,808	101,808
Total revenues	<u>160,614,770</u>	<u>160,614,770</u>	<u>163,525,109</u>	<u>2,910,339</u>
EXPENDITURES				
Instruction				
Regular programs	75,900,504	75,900,504	73,596,374	2,304,130
Special programs	25,598,163	25,598,413	25,084,234	514,179
Vocational education	2,078,617	2,078,617	2,029,508	49,109
Other instructional programs	2,914,929	2,914,929	2,041,129	873,800
Total instruction	<u>106,492,213</u>	<u>106,492,463</u>	<u>102,751,245</u>	<u>3,741,218</u>
Support services				
Pupil personnel services	5,186,699	5,202,199	5,165,465	36,734
Instructional staff services	1,680,955	1,680,705	1,904,766	(224,061)
Administrative services	7,976,850	7,976,850	8,209,028	(232,178)
Pupil health	2,041,139	2,041,139	2,036,931	4,208
Business services	1,322,491	1,322,491	1,101,560	220,931
Operation and maintenance of plant services	13,415,604	13,415,604	13,596,464	(180,860)
Student transportation services	4,941,722	4,941,722	5,284,915	(343,193)
Support services - central	2,765,081	2,765,081	2,706,810	58,271
Other support services	107,100	91,600	70,622	20,978
Total support services	<u>39,437,641</u>	<u>39,437,391</u>	<u>40,076,561</u>	<u>(639,170)</u>
Operation of noninstructional services				
Student activities	1,353,313	1,353,313	1,336,969	16,344
Community services	198,065	198,065	172,893	25,172
Total operation of noninstructional services	<u>1,551,378</u>	<u>1,551,378</u>	<u>1,509,862</u>	<u>41,516</u>
Debt service				
	<u>16,780,090</u>	<u>16,780,090</u>	<u>16,264,633</u>	<u>515,457</u>
Total expenditures	<u>164,261,322</u>	<u>164,261,322</u>	<u>160,602,301</u>	<u>3,659,021</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,646,552)</u>	<u>(3,646,552)</u>	<u>2,922,808</u>	<u>6,569,360</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	(295,572)	(295,572)
Proceeds from long-term debt	3,646,552	3,646,552	-	(3,646,552)
Transfers out	-	-	(723,264)	(723,264)
Total other financing sources (uses)	<u>3,646,552.00</u>	<u>3,646,552.00</u>	<u>(1,018,836)</u>	<u>(4,665,388)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>1,903,972</u>	<u>\$ 1,903,972</u>
FUND BALANCE				
Beginning of year			(468,711)	
End of year			<u>\$ 1,435,261</u>	

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PSERS

Year ended June 30

	Measurement Date				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.4558%	0.4958%	0.5238%	0.5316%	0.5245%
District's proportionate share of the net pension liability	\$ 213,235,127	\$ 238,009,000	\$ 258,696,000	\$ 263,444,000	\$ 227,189,000
District's covered-employee payroll	\$ 62,860,310	\$ 66,772,877	\$ 69,731,951	\$ 68,843,258	\$ 67,489,351
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	339.22%	356.45%	370.99%	382.67%	336.63%
Plan fiduciary net position as a percentage of the total pension liability	55.66%	54.00%	51.84%	50.14%	54.36%
					310.18%
					57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	Measurement Date				
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 20,411,800	\$ 21,038,000	\$ 20,035,000	\$ 16,913,000	\$ 13,543,000
Contributions in relation to the contractually required contribution	<u>\$ 20,411,800</u>	<u>\$ 21,038,000</u>	<u>\$ 20,035,000</u>	<u>\$ 16,913,000</u>	<u>\$ 13,543,000</u>
Contribution deficiency (excess)	-	-	-	-	-
District's covered-employee payroll	\$ 62,860,310	\$ 66,772,877	\$ 69,731,951	\$ 68,843,258	\$ 67,489,351
Contributions as a percentage of covered-employee payroll	32.47%	31.51%	28.73%	24.57%	20.07%
					15.61%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OPEB LIABILITY -PSERS

Year ended June 30

	Measurement Date		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.4558%	0.4958%	0.5238%
District's proportionate share of the net OPEB liability	\$ 9,694,146	\$ 10,337,000	\$ 10,672,000
District's covered-employee payroll	\$ 62,860,310	\$ 66,772,877	\$ 69,731,951
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.42%	15.48%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.56%	5.73%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	Measurement Date		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 552,215	\$ 554,000	\$ 579,000
Contributions in relation to the contractually required contribution	<u>\$ 552,215</u>	<u>\$ 554,000</u>	<u>\$ 579,000</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 62,860,310	\$ 66,772,877	\$ 69,731,951
Contributions as a percentage of covered-employee payroll	0.83%	0.83%	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BUDGETARY COMPARISON SCHEDULE - REVENUES - GENERAL FUND

December 31, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Local sources			
Current real estate taxes	\$ 41,058,768	\$ 40,781,030	\$ (277,738)
Public utility realty tax	65,000	57,592	(7,408)
Payment in lieu of current taxes	65,000	65,914	914
Occupational taxes	180,000	165,970	(14,030)
Earned Income taxes	11,000,000	11,395,455	395,455
Real estate transfer taxes	650,000	593,635	(56,365)
Business privilege taxes	6,000,000	6,075,521	75,521
Mercantile taxes	1,300,000	1,253,460	(46,540)
Delinquent real estate taxes	4,450,000	4,630,289	180,289
Earnings on investments	200,000	377,479	177,479
Rentals	65,000	90,464	25,464
Summer school tuition	80,000	98,702	18,702
Receipts other LEAs	742,000	501,627	(240,373)
Other miscellaneous revenue	<u>1,120,000</u>	<u>1,638,505</u>	<u>518,505</u>
Total local sources	<u>66,975,768</u>	<u>67,725,643</u>	<u>749,875</u>
State sources			
Basic Instructional subsidy	\$ 43,838,817	\$ 44,217,781	\$ 378,964
Tuition for orphans and children placed in private homes	-	107,284	107,284
School improvement grant	-	500,000	500,000
Special education funding for school aged pupils	6,280,085	6,618,235	338,150
Pupil transportation subsidy	1,056,000	1,086,379	30,379
Nonpublic and charter school pupil transportation subsidy	144,000	160,930	16,930
Rental and sinking fund payments	430,000	766,972	336,972
Health services	200,000	202,935	2,935
State property tax reduction allocation	4,372,425	4,370,540	(1,885)
Ready to learn block grant	7,836,814	9,636,814	1,800,000
PAsmarts grants	-	14,412	14,412
Other state revenue	100,000	-	(100,000)
State share of social security and medicare taxes	3,682,397	3,357,480	(324,917)
State share of retirement contributions	<u>16,566,464</u>	<u>15,525,896</u>	<u>(1,040,568)</u>
Total state sources	<u>84,507,002</u>	<u>86,565,658</u>	<u>2,058,656</u>
Federal sources			
Federal IDEA revenue received as passthrough	2,150,000	2,193,569	43,569
Title I - Improving the academic achievement of disadvantaged	4,900,000	4,534,112	(365,888)
Title II - Preparing, training and recruiting high quality teachers and principals	550,000	538,233	(11,767)
Title III - Language instruction for limited english proficient and immigrant students	223,000	216,853	(6,147)
Title IV	359,000	389,628	30,628
Other restricted federal grants-in-aid through the Commonwealth of PA	200,000	247,827	47,827
School based access medical reimbursement program reimbursements (ACCESS)	<u>750,000</u>	<u>1,113,586</u>	<u>363,586</u>
Total federal sources	<u>9,132,000</u>	<u>9,233,808</u>	<u>101,808</u>
Total revenues	<u>\$ 160,614,770</u>	<u>\$ 163,525,109</u>	<u>\$ 2,910,339</u>

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES - GENERAL FUND

Year ended December 31, 2019

EXPENDITURES	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Instruction			
Regular programs			
Salaries	\$ 39,660,576	\$ 38,265,497	\$ 1,395,079
Employee benefits	28,824,451	27,911,521	912,930
Purchased professional and technical services	1,086,040	970,135	115,905
Purchased property services	187,491	207,601	(20,110)
Other purchased services	4,710,831	4,996,551	(285,720)
Supplies	1,346,901	1,169,112	177,789
Equipment	45,951	47,025	(1,074)
Other	38,263	28,932	9,331
Total regular programs	75,900,504	73,596,374	2,304,130
Special programs			
Salaries	10,629,969	10,235,329	394,640
Employee benefits	8,228,950	8,139,660	89,290
Purchased professional and technical services	2,936,000	2,624,950	311,050
Other purchased services	3,639,750	3,953,140	(313,390)
Supplies	127,924	70,446	57,478
Equipment	32,820	57,990	(25,170)
Other	3,000	2,719	281
Total special programs	25,598,413	25,084,234	514,179
Vocational education			
Other purchased services	2,060,376	2,020,385	39,991
Supplies	16,241	7,423	8,818
Equipment	2,000	1,700	300
Total vocational education	2,078,617	2,029,508	49,109
Other instructional programs			
Salaries	1,555,355	977,196	578,159
Employee benefits	1,145,104	897,025	248,079
Purchased professional and technical services	153,793	117,403	36,390
Other purchased services	18,900	13,517	5,383
Supplies	41,777	19,408	22,369
Equipment	-	16,580	(16,580)
Total other instructional programs	2,914,929	2,041,129	873,800
Support services			
Pupil personnel services			
Salaries	2,817,377	3,022,861	(205,484)
Employee benefits	2,204,173	2,075,613	128,560
Purchased professional and technical services	84,042	40,525	43,517

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES - GENERAL FUND

Year ended December 31, 2019

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Purchased property services	2,045	50	1,995
Other purchased services	3,045	1,606	1,439
Supplies	91,517	18,895	72,622
Equipment	-	5,915	(5,915)
Total pupil personnel services	<u>5,202,199</u>	<u>5,165,465</u>	<u>36,734</u>
Instructional staff services			
Salaries	721,503	916,503	(195,000)
Employee benefits	801,744	862,554	(60,810)
Purchased professional and technical services	-	78,118	(78,118)
Purchased property services	5,800	1,500	4,300
Other purchased services	9,750	14,049	(4,299)
Supplies	110,028	31,344	78,684
Equipment	31,380	698	30,682
Other	500	-	500
Total instructional staff services	<u>1,680,705</u>	<u>1,904,766</u>	<u>(224,061)</u>
Administrative services			
Salaries	4,238,717	4,262,222	(23,505)
Employee benefits	3,312,209	3,204,216	107,993
Purchased professional and technical services	279,000	478,033	(199,033)
Purchased property services	11,830	3,930	7,900
Other purchased services	55,615	29,395	26,220
Supplies	19,779	13,491	6,288
Equipment	2,800	800	2,000
Other	56,900	216,941	(160,041)
Total administrative services	<u>7,976,850</u>	<u>8,209,028</u>	<u>(232,178)</u>
Pupil health			
Salaries	1,129,317	1,122,831	6,486
Employee benefits	860,272	843,400	16,872
Purchased professional and technical services	-	52,446	(52,446)
Purchased property services	15,000	450	14,550
Other purchased services	1,500	1,156	344
Supplies	35,050	16,648	18,402
Total pupil health	<u>2,041,139</u>	<u>2,036,931</u>	<u>4,208</u>
Business services			
Salaries	573,597	490,455	83,142
Employee benefits	408,444	356,723	51,721
Purchased professional and technical services	123,600	176,347	(52,747)
Purchased property services	121,000	26,682	94,318
Other purchased services	23,000	8,046	14,954
Supplies	71,150	42,404	28,746
Other	1,700	903	797
Total business services	<u>1,322,491</u>	<u>1,101,560</u>	<u>220,931</u>

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES - GENERAL FUND

Year ended December 31, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operation and maintenance of plant services			
Salaries	4,958,625	5,053,085	(94,460)
Employee benefits	3,559,233	3,619,730	(60,497)
Purchased professional and technical services	250,000	262,930	(12,930)
Purchased property services	2,623,100	2,491,030	132,070
Other purchased services	849,146	770,843	78,303
Supplies	1,115,000	1,362,397	(247,397)
Equipment	60,500	36,449	24,051
Total operation and maintenance of plant services	<u>13,415,604</u>	<u>13,596,464</u>	<u>(180,860)</u>
Student transportation services			
Salaries	65,339	73,724	(8,385)
Employee benefits	48,591	48,722	(131)
Other purchased services	4,827,792	5,162,469	(334,677)
Total student transportation services	<u>4,941,722</u>	<u>5,284,915</u>	<u>(343,193)</u>
Support services - central			
Salaries	1,052,630	1,049,271	3,359
Employee benefits	780,851	775,323	5,528
Purchased professional and technical services	531,500	728,191	(196,691)
Other purchased services	8,000	3,952	4,048
Supplies	71,100	25,164	45,936
Equipment	320,000	123,469	196,531
Other	1,000	1,440	(440)
Total support services - central	<u>2,765,081</u>	<u>2,706,810</u>	<u>58,271</u>
Other support services			
Other purchased services	91,600	70,622	20,978
Operation of noninstructional services			
Student activities			
Salaries	546,663	535,266	11,397
Employee benefits	376,698	329,266	47,432
Purchased professional and technical services	75,000	134,180	(59,180)
Purchased property services	11,815	13,399	(1,584)
Other purchased services	176,173	113,351	62,822
Supplies	29,980	91,531	(61,551)
Equipment	82,132	18,384	63,748
Other	54,852	101,592	(46,740)
Total student activities	<u>1,353,313</u>	<u>1,336,969</u>	<u>16,344</u>

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES - GENERAL FUND

Year ended December 31, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Community services			
Salaries	130,000	126,749	3,251
Employee benefits	12,175	12,281	(106)
Purchased professional and technical services	-	1,736	(1,736)
Other purchased services	-	-	-
Supplies	55,890	30,668	25,222
Equipment	-	1,171	(1,171)
Other	-	288	(288)
Total community services	<u>198,065</u>	<u>172,893</u>	<u>25,172</u>
Debt service	<u>16,780,090</u>	<u>16,264,633</u>	<u>515,457</u>
Total expenditures	<u>\$ 164,261,322</u>	<u>\$ 160,602,301</u>	<u>\$ 3,659,021</u>

SINGLE AUDIT

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue January 1, 2019	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2019	Passed Through to Subrecipients
U.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-200376	07/01/2019 - 09/30/2020	\$ 4,847,529	\$ 969,599	\$ -	\$ 994,305	\$ 994,305	\$ 24,706	\$ -
Title I - Improving Basic Programs	I	84.010	013-190376	07/01/2018 - 09/30/2019	4,938,708	4,938,708	1,428,398	3,510,310	3,510,310	-	-
Title I - Delinquent	I	84.010	107-200376	07/01/2019 - 09/30/2020	8,122	1,624	-	6,914	6,914	5,290	-
Title I - Delinquent	I	84.010	107-190376	07/01/2018 - 09/30/2020	13,286	11,514	-	11,514	11,514	-	-
Title I - Delinquent	I	84.010	107-180376	07/01/2017 - 09/30/2019	23,720	11,069	-	11,069	11,069	-	-
Total CFDA #84.010						5,932,514	1,428,398	4,534,112	4,534,112	29,996	-
Title II - Improving Teacher Quality											
Title II - Improving Teacher Quality	I	84.367	020-200376	07/01/2019 - 09/30/2020	602,386	121,275	-	130,291	130,291	9,016	-
Title II - Improving Teacher Quality	I	84.367	020-190376	07/01/2018 - 09/30/2019	547,325	547,325	139,383	407,942	407,942	-	-
Total CFDA #84.367						668,600	139,383	538,233	538,233	9,016	-
Title III - Language Instruction LEP/ Immigrant Students											
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-200376	07/01/2019 - 09/30/2020	180,173	36,035	-	79,020	79,020	42,985	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-190376	07/01/2018 - 09/30/2019	222,754	222,754	84,921	137,833	137,833	-	-
Total CFDA #84.365						258,789	84,921	216,853	216,853	42,985	-
Title IV - Student Support and Academic Achievement											
Title IV - Student Support and Academic Achievement	I	84.424	144-200376	07/01/2019 - 09/30/2020	369,632	73,926	-	70,867	70,867	(3,059)	-
Title IV - Student Support and Academic Achievement	I	84.424	144-190376	07/01/2018 - 09/30/2019	359,221	359,221	40,460	318,761	318,761	-	-
Total CFDA #84.424						433,147	40,460	389,628	389,628	(3,059)	-
Temporary Emergency Impact Aid for Displaced Students	I	84.938	S938C180022	08/15/2018 - 12/31/2018	552,493	552,493	552,493	-	-	-	-
Passed-Through the Northeastern Educational Intermediate Unit 19											
I.D.E.A. - Part B, Section 611	I	84.027	062-130019	07/01/2018 - 09/30/2019	2,175,905	2,175,905	-	2,175,905	2,175,905	-	-
I.D.E.A. - Part B, Section 619	I	84.173	131-180019	07/01/2018 - 06/30/2019	17,664	17,664	-	17,664	17,664	-	-
Total U.S. Department of Education						10,039,112	2,245,655	7,872,395	7,872,395	78,938	-

Continued on next page

Federal Grantor/Pass-Through Grantor/Protect Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue January 1, 2019	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2019	Passed Through to Subrecipients
U.S. Department of Health and Human Services											
Passed-Through Pennsylvania Department of Human Services											
Temporary Assistance for Needy Families	I	93.558	4100081186	07/01/2018 - 06/30/2019	199,000	199,000	93,764	105,236	105,236	-	-
Temporary Assistance for Needy Families	I	93.558	4100081187	07/01/2019 - 06/30/2020	199,000	45,305	-	132,511	132,511	87,206	-
Total CFDA #93.558						244,305	93,764	237,747	237,747	87,206	-
Passed-Through Pennsylvania Department of Education											
Medical assistance program reimbursement for administration	I	93.778	N/A	01/01/2019 - 12/31/2019	N/A	105,831	-	105,831	105,831	-	-
Total U.S. Department of Health and Human Services						350,136	93,764	343,578	343,578	87,206	-
Passed-Through Pennsylvania Lackawanna County Head Start											
Head Start	I	93.600	N/A	01/01/2019 - 12/31/2019	10,080	10,080	-	10,080	10,080	-	-
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
Breakfast Program	I	10.553	N/A	01/01/2019 - 12/31/2019	N/A	2,261,344	-	2,417,163	2,417,163	155,819	-
Summer Food Service Program	I	10.559	N/A	01/01/2019 - 12/31/2019	N/A	98,780	-	98,780	98,780	-	-
Fresh Fruit and Vegetable Program	I	10.582	N/A	01/01/2019 - 12/31/2019	N/A	260,579	-	276,863	276,863	16,284	-
National School Lunch Program	I	10.555	N/A	01/01/2019 - 12/31/2019	N/A	4,442,215	-	4,753,792	4,753,792	311,577	-
National School Lunch Program	S	N/A	N/A	01/01/2019 - 12/31/2019	N/A	282,798	-	302,116	302,116	19,318	-
Total U.S. Department of Agriculture						7,345,716	-	7,848,714	7,848,714	502,998	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	01/01/2019 - 12/31/2019	N/A	368,920	(2,595)	368,257	368,257	(3,258)	-
Total U.S. Department of Agriculture						7,714,636	(2,595)	8,216,971	8,216,971	499,740	-

Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue January 1, 2019	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2019	Passed Through to Subrecipients
Total Federal Awards and Certain State Grants						\$18,113,964	\$ 2,336,824	\$16,443,024	\$16,443,024	\$ 665,884	\$ -
Total Federal Awards						\$17,831,166	\$ 2,336,824	\$16,140,908	\$16,140,908	\$ 646,566	\$ -
Total State Awards						282,798	-	302,116	302,116	19,318	-
Total Federal Awards and Certain State Grants						\$18,113,964	\$ 2,336,824	\$16,443,024	\$16,443,024	\$ 665,884	\$ -
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						\$ 2,193,569	\$ -	\$ 2,193,569	\$ 2,193,569	\$ -	\$ -
Child Nutrition Cluster (CFDA's #10.553, #10.555 and #10.559)						\$ 7,171,259	\$ (2,595)	\$ 7,637,992	\$ 7,637,992	\$ 464,138	\$ -

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Share

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

December 31, 2019

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 National School Lunch Program and passed through the Pennsylvania Department of Agriculture represent federal surplus food consumed by the District during the 2019 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended December 31, 2019 was \$1,007,755.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended December 31, 2019.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended December 31, 2019

Finding 2018-2 Data Collection Form

Condition: The data collection form ("**Form SF-SAC**") for fiscal year 2017 was not completed and submitted to the Federal Audit Clearinghouse by the appropriate due date as required by the audit requirements of the Uniform Guidance. Form SF-SAC for the year ended December 31, 2017 was filed with the Bureau of Census after the required due date of September 30, 2018.

Criteria: As required by the Uniform Guidance, the audit shall be completed and Form SF-SAC and reporting packages shall be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

Cause and Effect: Controls were not in place within the District's business office to ensure the timely filing of Form SF-SAC with the Federal Audit Clearinghouse as required by the Uniform Guidance. In accordance with the Uniform Guidance, the District did not meet the criteria for a low-risk auditee because Form SF-SAC was not filed by the due date.

Recommendation: Implement procedures within the District's business office to ensure the timely filing of Form SF-SAC with the Federal Audit Clearinghouse as required by the Uniform Guidance.

Current Status: This finding is still applicable.

Finding 2018-03 Federal agency: U.S. Department of Education Pass-through entity: Pennsylvania Department of Education Title I – Improving Basic Programs – CFDA 84.010 Noncompliance and Significant Deficiency in Internal Control

Condition: Preschool enrollment procedures not in compliance with Title I regulations.

Criteria: Title I regulations require a Title I school to determine participation in the Program based on eligibility requirements.

Cause and Effect: Management oversight by the District Title I staff and noncompliance with Title I regulations.

Recommendation: The District management should implement procedures recommended by the Pennsylvania Department of Education, Division of Federal Programs.

Current Status: Beginning in 2019 school year, selection criteria were applied for all new students enrolled in the Title I preschool. This criterion is established by the District's preschool registration procedure. This finding is no longer applicable.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Directors
The School District of the City of Scranton
Scranton, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Scranton, Scranton, Pennsylvania, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the School District of the City of Scranton's basic financial statements, and have issued our report thereon dated November 9, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
November 9, 2020**



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
The School District of the City of Scranton
Scranton, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited The School District of the City of Scranton's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District of the City of Scranton's major federal programs for the year ended December 31, 2019. The School District of the City of Scranton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The School District of the City of Scranton's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("**Uniform Guidance**"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Scranton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Scranton, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs (**See Finding 2019-1**). Our opinion on each major federal program is not modified with respect to this matter.

The School District of the City of Scranton's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District of the City of Scranton's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs (**See Finding 2019-1**), that we consider to be a significant deficiency.

The School District of the City of Scranton's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District of the City of Scranton's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

BBD, LLP

Philadelphia, Pennsylvania
November 9, 2020

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2019

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of The School District of the City of Scranton were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of the School District of Scranton are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the School District of the City of Scranton, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. One significant deficiency and no material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the School District of the City of Scranton expresses an unmodified opinion on all major federal programs.
6. One audit finding that is required to be reported in accordance with 2 CFR Section 200.516(a).
7. The programs tested as major programs were:
 - Title I – CFDA Number 84.010
 - Child Nutrition Cluster:
 - School Breakfast Program – CFDA Number 10.553
 - National School Lunch Program – CFDA Number 10.555
 - Summer Food Service Program – CFDA Number 10.559
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The School District of the City of Scranton did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2018-2 Data Collection Form

Condition: The data collection form ("**Form SF-SAC**") for fiscal year 2018 was not completed and submitted to the Federal Audit Clearinghouse by the appropriate due date as required by the audit requirements of the Uniform Guidance. Form SF-SAC for the year ended December 31, 2018 was filed with the Bureau of Census after the required due date of September 30, 2019.

THE SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2019

Criteria: As required by the Uniform Guidance, the audit shall be completed and Form SF-SAC and reporting packages shall be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

Cause and Effect: Controls were not in place within the District's business office to ensure the timely filing of Form SF-SAC with the Federal Audit Clearinghouse as required by the Uniform Guidance. In accordance with the Uniform Guidance, the District did not meet the criteria for a low-risk auditee because Form SF-SAC was not filed by the due date.

Recommendation: Implement procedures within the District's business office to ensure the timely filing of Form SF-SAC with the Federal Audit Clearinghouse as required by the Uniform Guidance.

Views of Responsible Officials: Form SF-SAC for fiscal year 2019 will be completed and submitted to the Federal Audit Clearinghouse by the appropriate due date as required by the Uniform Guidance and business office management has implemented controls with respect to ensuring that future Form SF-SAC's are filed in a timely fashion.