

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2018
AND
INDEPENDENT AUDITORS' REPORT**

SCHOOL DISTRICT OF THE CITY OF SCRANTON

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SCHOOL DISTRICT OF THE CITY OF SCRANTON

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SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

(UNAUDITED)

The School District of the City of Scranton's (the "District") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges) (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- The District's total net position decreased by \$5,954,291 over the course of this year's operations. The governmental net position decreased by \$6,473,935 and the business – type net position increased by \$519,644.
- The District's general fund balance in the governmental funds financial statements decreased by \$891,398 over the course of this year's operations.

Overview of the Financial Statements

The annual report consists of four parts- management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

(UNAUDITED)

Overview of the Financial Statements (Continued)

- The remaining statements are the fund financial statements that focus on individual parts of the District's government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how the District's basic service, including instruction, instructional support, administration, and transportation were financed in the short term as well as what remains for future spending.
- Proprietary funds statements offer short and long-term financial information about the activities the District operates like businesses, such as food service operations.
- Fiduciary funds statements provide information about financial relationships in which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. The statements are followed by required supplementary information and other supplementary information that further explains and supports the information in the financial statements.

Governmental-wide financial statements

The governmental-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net Position—the difference between the District's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources is one way to measure the District's financial health, or position.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

(UNAUDITED)

Overview of the Financial Statements (Continued)

Governmental-wide financial statements (Continued)

Over time, the increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base.

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 instruction, instructional support, administration, and transportation. Property taxes and state and federal grants finance most of these activities.
- Business-type activities - the District business-type activities reflect private sector type operations (Food Service), where the fee for service typically covers all or most of the cost of operation including depreciation.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending on particular programs.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

(UNAUDITED)

The District has three kinds of funds:

- Governmental funds - the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- Proprietary funds - Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. In fact, the District's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but they provide more detail and additional information, such as cash flows. We use an internal service fund (the other kind of proprietary fund) to report workers' compensation activity.
- Fiduciary funds - The District is the trustee or fiduciary, for student activities, and scholarship activities. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. We exclude these activities from the District's governmental wide financial statements because the District cannot use these assets to finance its operations.

(GASB #68) Accounting and Financial Reporting for Pensions-An amendment of GASB Statement No. 27

The District has adopted Governmental Accounting Standards Board (GASB) #68 *Accounting and Financial Reporting for Pensions-An amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and Local Governments for pensions.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

As of year-end, the District had \$88,008,303 invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$2,262,056 from the end of last year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements. (See Note 5)

Debt outstanding

As of year-end, the District had \$201,345,000 in debt (bonds) outstanding compared to \$199,545,000 last year. This represents a net increase of \$1,800,000. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements. (See Note 6 and Note 26)

Factors expected to have an effect on future operations

At the time these financial statements were prepared the District was aware of the following circumstances that could have an effect on future operations:

- a. The District is in the process of selling its real estate tax receivable to a third party in effort to collect taxes receivable.
- b. The projected increase in PSERS employer contribution rate for future years could also result in a significant increase in expenditures.
- c. On February 1, 2019, the PA Department of Education declared the School District to be in moderate recovery status. Additionally, on February 5, 2019 the PA Department of Education appointed a Chief Recovery Officer for the District. The Chief Recovery Officer with the assistance of PFM Consulting LLC 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 is currently in the process of implementing the "Recovery Plan".

(concluded)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
School District of the City of Scranton

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School District of the City of Scranton as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 as of December 31, 2018, and the respective changes in financial position and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 25 to the financial statements, the District changed its method of accounting for its other postemployment benefits as a result of implementing GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". Our opinions are not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedules of the District's proportionate share of the net pension liability and pension contributions-PSERS, and schedules of the District's proportionate share of the net OPEB liability and OPEB plan contributions-PSERS 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 text. 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 supplementary information – general fund revenue and expenditure schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information – general fund revenue and expenditure schedules 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 supplementary information- general fund revenue and expenditure schedules 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 12, 2019, 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. That report is included in a separately bound Single Audit Report.

Michael A. Bulech, LLC

Dunmore, Pennsylvania
November 12, 2019

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities	Business -type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 17,308,670	\$ 3,200,849	\$ 20,509,519
Property taxes receivable	6,781,027	-	6,781,027
Due from other governments	10,319,595	-	10,319,595
Internal balances	(1,162,969)	1,162,969	-
Inventories	-	43,669	43,669
Nondepreciated capital assets	4,209,661	-	4,209,661
Depreciated capital assets	189,721,397	1,495,758	191,217,155
Less: Accumulated depreciation	(106,394,044)	(1,024,469)	(107,418,513)
Total Assets	<u>120,783,337</u>	<u>4,878,776</u>	<u>125,662,113</u>
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivative	6,088,308	-	6,088,308
Deferred amount on bond refunding	231,382	-	231,382
Deferred outflows of resources:			
Pension Plan - PSERS	32,885,034	-	32,885,034
Deferred outflows of resources:			
OPEB - PSERS	765,703	-	765,703
Total deferred outflows of resources	<u>39,970,427</u>	<u>-</u>	<u>39,970,427</u>
LIABILITIES:			
Accounts payable and accrued liabilities	9,550,461	-	9,550,461
Payroll payable and withholding	2,458,852	-	2,458,852
Construction costs payable	39,303	-	39,303
Derivative instrument liability- interest rate swap	6,088,308	-	6,088,308
Long-term obligations			
Due within one year			
Bonds	8,245,000	-	8,245,000
Accrued interest	1,258,181	-	1,258,181
Retirement Incentives	1,674,000	-	1,674,000
Compensated Absences	3,991,000	-	3,991,000
Due beyond one year			
Net Pension Liability - PSERS	238,009,000	-	238,009,000
Net OPEB Liability - PSERS	10,337,000	-	10,337,000
Bonds	193,100,000	-	193,100,000
Retirement Incentives	5,645,000	-	5,645,000
Compensated Absences	16,083,919	-	16,083,919
Total Liabilities	<u>496,480,024</u>	<u>-</u>	<u>496,480,024</u>

(continued)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
Instruction	\$ 107,124,015	\$ 94,140	\$ 82,185,955	\$ -	\$ (24,843,920)	\$ (24,843,920)
Instruction-student support	9,806,542	-	1,575,574	-	(8,230,968)	(8,230,968)
Administrative and financial support services	12,322,281	-	1,589,816	-	(10,732,465)	(10,732,465)
Operation and maintenance and plant services	12,969,917	-	1,712,110	-	(11,257,807)	(11,257,807)
Pupil transportation	4,848,670	-	1,442,139	-	(3,406,531)	(3,406,531)
Student activities	1,789,036	84,680	112,886	-	(1,591,470)	(1,591,470)
Community services	226,698	-	50,800	-	(175,898)	(175,898)
Interest on long-term debt	10,259,809	-	-	-	(10,259,809)	(10,259,809)
Refund of prior years revenues	407,990	-	-	-	(407,990)	(407,990)
Bond issuance costs	818,256	-	-	-	(818,256)	(818,256)
Total Governmental Activities	160,573,214	178,820	88,669,280	-	(71,725,114)	(71,725,114)
BUSINESS-TYPE ACTIVITIES:						
Food service	6,052,856	221,649	6,262,988	-	-	431,781
Other enterprise funds	25,439	94,741	-	-	-	69,302
Total Business-Type Activities	6,078,295	316,390	6,262,988	-	-	501,083
TOTAL SCHOOL DISTRICT	\$ 166,651,509	\$ 495,210	\$ 94,932,268	\$ -	(71,725,114)	(71,224,031)
General Revenues:						
Taxes:						
Property taxes, levied for general purposes					39,285,344	39,285,344
Other taxes levied					23,678,272	23,678,272
Investment earnings					496,804	515,365
Insurance stop loss					458,680	458,680
Health insurance audit refund					805,404	805,404
Bond premiums					1,003,998	1,003,998
Miscellaneous income					308,008	308,008
Special item-special education lawsuit settlements					(785,331)	(785,331)
Total General Revenues and Special Item					65,251,179	65,269,740
Change in net position					(6,473,935)	(5,954,291)
Net Position, Beginning of Year, as Restated					(351,466,669)	(347,107,537)
Net Position, End of Year					\$ (357,940,604)	\$ (353,061,828)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,096,369	\$ 4,581,572	\$ 2,077,514	\$ 16,755,455
Property taxes receivable	6,781,027	-	-	6,781,027
Due from other governments	10,319,595	-	-	10,319,595
Due from general fund	-	2,135,050	-	2,135,050
Due from other funds	97,000	-	-	97,000
Total Assets	<u>\$ 27,293,991</u>	<u>\$ 6,716,622</u>	<u>\$ 2,077,514</u>	<u>\$ 36,088,127</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 9,550,461	\$ -	\$ -	\$ 9,550,461
Payroll payable and withholding	2,458,851	-	-	2,458,851
Due to enterprise fund - food service	1,259,969	-	-	1,259,969
Construction costs payable	-	39,303	-	39,303
Due to capital projects fund	2,135,050	-	-	2,135,050
Total Liabilities	<u>15,404,331</u>	<u>39,303</u>	<u>-</u>	<u>15,443,634</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	<u>12,358,371</u>	<u>-</u>	<u>-</u>	<u>12,358,371</u>
FUND BALANCES				
Restricted for debt service	22,236,705	-	-	22,236,705
Assigned	-	6,677,319	2,077,514	8,754,833
Unassigned	<u>(22,705,416)</u>	<u>-</u>	<u>-</u>	<u>(22,705,416)</u>
Total Fund Balances	<u>(468,711)</u>	<u>6,677,319</u>	<u>2,077,514</u>	<u>8,286,122</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 27,293,991</u>	<u>\$ 6,716,622</u>	<u>\$ 2,077,514</u>	<u>\$ 36,088,127</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2018

Total Governmental Fund Balances	\$	8,286,122
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Amounts reported for governmental activities in the
statement of net position are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in government funds.
The cost of the assets is \$193,931,057 and the accumulated
depreciation is \$106,394,044

87,537,013

Property taxes receivable 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 funds.

6,781,027

An Internal Service Fund is used by the District's management to charge the costs
of the workers' compensation insurance program to individual funds. The assets
and liabilities of the internal service fund are included with governmental activities.

553,215

Deferred swap termination fees net of deferred bond premiums, are reported
as a deferred outflow of resources in government activities and amortized; this
amount was reported as other financing uses in the year incurred on the fund
financial statements.

231,382

Long-term liabilities, including bonds payable, are not due and payable in the current
period and therefore are not reported as liabilities in the funds.

Long term liabilities at year end consist of:

Bonds payable	(201,345,000)	
Net Pension liability - PSERS	(238,009,000)	
Net OPEB liability - PSERS	(10,337,000)	
Accrued interest on the bonds	(1,258,181)	
Compensated absences	(20,074,919)	
Retirement Incentives	(7,319,000)	

Deferred outflows and inflows of resources related to pensions
and other post retirement benefits are applicable to future periods
and therefore are not reported in the fund statements:

Deferred Outflows of Resources-Pension Plan PSERS	32,885,034	
Deferred Inflows of Resources-Pension Plan PSERS	<u>(15,614,000)</u>	17,271,034

Deferred Outflows of Resources-OPEB PSERS	765,703	
Deferred Inflows of Resources-OPEB PSERS	<u>(1,023,000)</u>	(257,297)

Total Net Position- Governmental Activities	\$	<u>(357,940,604)</u>
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See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 64,969,160	\$ 46,837	\$ 31,477	\$ 65,047,474
State sources	80,161,102	-	-	80,161,102
Federal sources	8,508,178	-	-	8,508,178
Total Revenues	<u>153,638,440</u>	<u>46,837</u>	<u>31,477</u>	<u>153,716,754</u>
EXPENDITURES				
Instruction	100,747,100	-	-	100,747,100
Support Services	39,208,086	-	-	39,208,086
Noninstructional services	1,542,397	232,383	7,300	1,782,080
Capital outlay	-	3,740,852	-	3,740,852
Debt service:				
Principal	6,205,000	129,053	1,520,000	7,854,053
Interest and other charges	4,716,799	6,005	5,310,891	10,033,695
Total Expenditures	<u>152,419,382</u>	<u>4,108,293</u>	<u>6,838,191</u>	<u>163,365,866</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,219,058</u>	<u>(4,061,456)</u>	<u>(6,806,714)</u>	<u>(9,649,112)</u>

See accompanying notes.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	-	-	40,065,000	40,065,000
Bond premiums	-	-	1,003,998	1,003,998
Refunding of 2014 Series bonds	-	-	(30,540,000)	(30,540,000)
Bond issuance costs	-	-	(818,256)	(818,256)
Refund of prior years revenues	(407,990)	-	-	(407,990)
Special education lawsuit settlements	(785,331)	-	-	(785,331)
Operating transfers (out) in	(917,135)	4,404,473	(4,202,338)	(715,000)
Total	(2,110,456)	4,404,473	5,508,404	7,802,421
Net change in fund balances	(891,398)	343,017	(1,298,310)	(1,846,691)
Fund Balances, Beginning of year	422,687	6,334,302	3,375,824	10,132,813
Fund Balances, End of year	\$ (468,711)	\$ 6,677,319	\$ 2,077,514	\$ 8,286,122

(concluded)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
WITH DISTRICT-WIDE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

Net change in fund balances- Total Governmental funds \$ (1,846,691)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$	3,740,852	
Depreciation		<u>(5,960,647)</u>	(2,219,795)

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 and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

158,270

In the statement of activities, certain operating expenses- compensated absences and retirement incentives are measured by the amounts earned during the year. In the governmental funds, however expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). Vacation, sick leave and retirement incentives used were more than the amounts earned.

3,353,843

(continued)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
WITH DISTRICT-WIDE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2018

Repayment and refunding of bond principal is an expenditure and an other financing use, respectively in the governmental funds, but it reduces long term liabilities in the statement of net position and does not affect the statement of activities.	38,265,000
Bond issuance proceeds provide current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	(40,065,000)
Capital lease payments is a use of current resources in governmental funds, but the capital lease principal payment decreases long-term liabilities in the statement of net position.	129,053
Interest on long term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(78,313)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The change in net position of the internal service fund is reported with governmental activities.	51,762
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds:	
Change in Net Pension Liability-PSERS and related deferred inflows and outflows	(4,227,966)
Change in OPEB-PSERS and related deferred inflows and outflows	153,703
Amortization of deferred swap termination fees, net of deferred bond premiums	(147,801)
Change in net position of governmental activities	<u>\$ (6,473,935)</u>
	(concluded)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

DECEMBER 31, 2018

	Enterprise Funds			Internal Service Fund
	Other			
	Food Service	Enterprise Funds	Total	
ASSETS:				
Cash and cash equivalents	\$ 2,678,647	\$ 522,202	\$3,200,849	\$ 553,215
Due from other funds	1,259,969	-	1,259,969	-
Inventories	43,669	-	43,669	-
Depreciated capital assets	1,343,653	152,105	1,495,758	-
Less: Accumulated depreciation	(898,688)	(125,781)	(1,024,469)	-
Total Assets	<u>\$ 4,427,250</u>	<u>\$ 548,526</u>	<u>\$4,975,776</u>	<u>\$ 553,215</u>
LIABILITIES:				
Due to other funds	\$ 24,000	\$ 73,000	\$ 97,000	\$ -
NET POSITION:				
Net investment in capital assets	444,965	26,324	471,289	-
Unrestricted	3,958,285	449,202	4,407,487	553,215
Total net position	<u>4,403,250</u>	<u>475,526</u>	<u>4,878,776</u>	<u>553,215</u>
Total Liabilities and Net Position	<u>\$ 4,427,250</u>	<u>\$ 548,526</u>	<u>\$4,975,776</u>	<u>\$ 553,215</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds			Internal Service Fund
	Food Service	Other Enterprise Funds	Total	
OPERATING REVENUES:				
Charges for services	\$ 221,649	\$ 8,641	\$ 230,290	\$ -
Rental income	-	86,100	86,100	-
TOTAL	221,649	94,741	316,390	-
OPERATING EXPENSES:				
Contracted services	5,983,975	21,913	6,005,888	-
Depreciation	68,881	3,526	72,407	-
Claims and judgments	-	-	-	668,826
TOTAL	6,052,856	25,439	6,078,295	668,826
OPERATING INCOME (LOSS)	(5,831,207)	69,302	(5,761,905)	(668,826)
NON-OPERATING REVENUES (EXPENSES)				
Grant reimbursement	6,000	-	6,000	-
Earnings from investments	14,160	4,401	18,561	5,588
State sources	244,244	-	244,244	-
Federal sources	6,012,744	-	6,012,744	-
TOTAL	6,277,148	4,401	6,281,549	5,588
INCOME (LOSS) BEFORE OPERATING TRANSFERS	445,941	73,703	519,644	(663,238)
OPERATING TRANSFERS:				
Operating transfers in	-	-	-	715,000
CHANGE IN NET POSITION	445,941	73,703	519,644	51,762
NET POSITION, BEGINNING	3,957,309	401,823	4,359,132	501,453
NET POSITION, ENDING	\$ 4,403,250	\$ 475,526	\$ 4,878,776	\$ 553,215
See accompanying notes.				

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Enterprise Funds			
	Food Service	Other Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 221,649	\$ 94,741	\$ 316,390	\$ -
Cash paid to suppliers	(6,013,287)	(21,913)	(6,035,200)	-
Cash paid for insurance claims	-	-	-	(668,826)
Net cash (used) provided by operating activities	<u>(5,791,638)</u>	<u>72,828</u>	<u>(5,718,810)</u>	<u>(668,826)</u>
CASH FLOWS FROM NONCAPITAL FINANCING				
ACTIVITIES:				
Grant reimbursement	6,000	-	6,000	-
State sources	244,244	-	244,244	-
Federal Sources	6,012,744	-	6,012,744	-
Operating transfers in	-	-	-	715,000
Net cash provided by noncapital financing activities:	<u>6,262,988</u>	<u>-</u>	<u>6,262,988</u>	<u>715,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of capital assets	(30,146)	-	(30,146)	-
Earnings on investments	14,161	4,401	18,562	5,588
Net cash (used) provided by investing activities	<u>(15,985)</u>	<u>4,401</u>	<u>(11,584)</u>	<u>5,588</u>
NET INCREASE IN CASH	455,365	77,229	532,594	51,762
CASH AND CASH EQUIVALENTS - BEGINNING	2,223,282	444,973	2,668,255	501,453
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,678,647	\$ 522,202	\$ 3,200,849	\$ 553,215

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Enterprise Funds			
	Food Service	Enterprise Funds	Total	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (5,831,207)	\$ 69,302	\$ (5,761,905)	\$ (668,826)
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Depreciation	68,881	3,526	72,407	-
Changes in assets and liabilities:				
Due from general fund	(29,059)	-	(29,059)	-
Inventories	(253)	-	(253)	-
Net cash (used) provided by operating activities	<u>\$ (5,791,638)</u>	<u>\$ 72,828</u>	<u>\$ (5,718,810)</u>	<u>\$ (668,826)</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

DECEMBER 31, 2018

	<u>Fiduciary Funds</u>		
	<u>Agency</u>	<u>Private Purpose Trust</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 468,534	\$ 4,497	\$ 473,031
Investments	19,261	-	19,261
Total Assets	<u>\$ 487,795</u>	<u>\$ 4,497</u>	<u>\$ 492,292</u>
LIABILITIES:			
Due to student groups	\$ 487,795	\$ -	\$ 487,795
NET POSITION:			
Unrestricted	<u>-</u>	<u>4,497</u>	<u>4,497</u>
 Total Liabilities and Net Position	 <u>\$ 487,795</u>	 <u>\$ 4,497</u>	 <u>\$ 492,292</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Private Purpose Trust
ADDITIONS:	
Private Donations	\$ 144
Investment earnings	<u>492</u>
Total additions	<u>636</u>
 DEDUCTIONS:	
Scholarships awarded	<u>50,000</u>
 Change in net position	(49,364)
 Net Position- Beginning	<u>53,861</u>
 Net Position- Ending	<u>\$ 4,497</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District of the City of Scranton ("School District") is located in Scranton, Pennsylvania.

The School District of the City of Scranton is a unit established, organized and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the school law code of the same (Article II; Act 150, July 8, 1968).

A board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term, governs the School District of the City of Scranton.

The Board of School Directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary and secondary schools necessary to educate eligible students residing in such district who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any schools, or pay any school indebtedness which the District is required to pay, the Board of School Directors is vested with all necessary authority and power annually to levy and collect the taxes required and granted by the legislature, in addition to the annual state appropriation, and is vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949, as amended.

The most significant of the District's accounting policies are described below:

Reporting entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14 and No. 39, the District is financially accountable if it appoints a voting majority of the organization governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting entity (Continued)

Based upon the application of these criteria, the District has no component units. The District participates in a joint venture (see Note 9).

Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, deferred outflows / inflows, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (Continued)

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

Measurement focus, basis of accounting, and financial statement presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are prepared using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual are tax revenues. Revenue from federal, state, and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

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

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting, and financial statement presentation (Continued)

The Capital Project Fund was established to provide funds for certain capital projects, which consist of the acquisition, improvements, and additions to District buildings and facilities.

The District reports the following major proprietary funds:

The Food Service Fund is used to account for the activities of the District's food service program.

Additionally, the District reports the following fund types:

The Debt Service Fund is used to account for and report financial resources restricted, committed, or assigned to pay debt principal and interest. The Debt Service Fund is reported as other governmental funds in the accompanying financial statements.

The Memorial Stadium Fund was established to account for activities at the District's stadium. This fund is reported as Other Enterprise funds in the accompanying fund financial statements.

The Internal Service Fund was established to record the activities arising from the District being self-insured for workers' compensation.

The Private-Purpose Trust Fund is used to account for resources of the various scholarships, whose sole purpose is to provide annual scholarships to particular students as prescribed by donor stipulations.

The Agency Fund accounts for the assets held as an agent for the various student activities.

Deferred Outflow of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. The deferred outflow of resources reported in this year's financial statements is a deferred amount arising from an interest rate swap, a deferred amount on bond refunding and a deferred amount for its pension and other post-employment (OPEB) benefit plans.

Use of resources

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

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Capital assets

Capital assets, which include property, plant, equipment, and textbooks, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial individual cost equal to or greater than \$1,000 or purchased with debt proceeds and having an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, equipment and textbooks of the District are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Site improvements	15-20
Buildings and building improvements	20-50
Furniture and equipment	5-20
Textbooks	7

Cash and cash equivalents

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments, with maturity of three months or less when purchased, to be cash equivalents.

GASB No. 68 Accounting and Financial Reporting for Pensions-An amendment of GASB No.27

The District has adopted Government Accounting Standard Board Statement No. 68. *Accounting and Financial Reporting for Pensions-An amendment of GASB Statement No. 27.*

Deferred Inflows of Resources

The District's governmental wide and governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period. The District will not recognize the related revenues until a future event occurs.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and investments

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

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

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

Inventories

Inventory in the Food Service Fund consists of government donated commodities, which were valued at the U.S. Department of Agriculture's approximate cost and purchased commodities and supplies, both valued at cost using the first-in, first out method.

Compensated Absences

Under the system of financial accounting and reporting for Pennsylvania School Systems, the School District accrues for certain accumulated employee benefits, such as unpaid vacation, personal days and sick pay.

Calculation of this amount is determined by appropriate vacation, personal, sick and retirement lump sum payments which would be available to employees if they would leave or retire from the School District. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a liability in the accompanying government-wide financial statements. Compensated absences are generally liquidated by the General Fund.

Estimates

The preparation of financial statements in conformity with U.S. 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.

Allowance for doubtful accounts

The District believes that all receivables are collectible. Therefore, an allowance for doubtful accounts has not been recorded.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type, or Proprietary Fund Type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issue costs are expensed as incurred.

In the fund financial statements, governmental funds 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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

Deferred revenue

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Such is the case in the General Fund, where deferred revenue has been established to offset real estate tax receivables. Deferred revenue also arises when the District received resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liabilities for deferred revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position is divided into three components:

Net Investment in Capital Assets – Consists of the historical cost of capital assets less accumulated depreciation and less debt that remains outstanding that was used to finance those assets.

Restricted – Consists of the capital projects fund–fund balance that is restricted by the District for capital outlays and an amount restricted for debt service.

Unrestricted– Consists of all other net position reported in this category.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances

The District accounts for its governmental fund balances in accordance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The intention of the statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The statement establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable- Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted- Amounts that can be used only for specific purposes because of state or federal laws, or externally imposed by grantors or creditors.

Committed- Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors resolution.

Assigned- Amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned- Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Directors establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. The District's policy is to first apply expenditure toward restricted fund balances followed by committed fund balances and then assigned fund balances before using unassigned fund balances.

Implementation of New Accounting Pronouncement

Effective January 1, 2018, the District adopted the provisions of GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncement (Continued)

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (“RSI”) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government’s actual OPEB contributions to its contribution requirements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits- At year end, the total carrying amount of the School District’s checking, savings, and money market deposits was \$20,982,550 and the corresponding bank balance was \$23,194,986.

Custodial Credit Risk- Deposits- Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy for custodial credit risk requires that all deposits to be purchased in the name of the District. The District maintains cash balances at several financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to the insured maximum. The accounts at these financial institutions are collateralized on a pooled basis under the provisions of Pennsylvania Act 72 of 1971.

Investments- Statues authorize the District to invest in certificates of deposit and U.S. Treasury investments.

Custodial Credit Risk – Investments- The District’s certificate of deposits are insured by the Federal Deposit Insurance Corporation up to the insured maximum.

The District’s investments at December 31, 2018 consisted of the following:

<u>Other Investments:</u>	<u>Credit Rating</u>	<u>Fair Value</u>
Certificate of Deposits:		
Agency Fund Accounts	Not Applicable	<u>\$19,261.</u>

Derivative Instruments

The fair value balance and notional amount of derivative instruments outstanding at December 31, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2018 financial statements is as follows:

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)
Derivative Instruments (Continued)

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31, 2018</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental activities:					
Cash flow hedges:	Deferred				
Pay-fixed interest rate swap	outflow of resources	\$ 1,331,520	Debt	\$ (6,088,308)	\$ 30,540,000

Fair Value- The fair value of the interest rate swap is derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

Hedging Derivatives

Objective and Terms of Hedging Derivative Instruments- The following table displays the objective and terms of the District's hedging derivative instruments outstanding as of December 31, 2018 along with the credit rating of the associated counterparty.

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2014 bonds	\$ 30,540,000	12/29/2014	4/1/2031	Pay 4.738%; receives 68% of 1-month LIBOR

Risks that could give rise to financial loss for hedging derivatives held at the end of the year include:

Credit risk- As of December 31, 2018, 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 become 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.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Derivative Instruments (Continued)

Interest Rate Risk- On the District's pay-fixed interest rate swap, as the London Inter-Bank Offered Rate (LIBOR) 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 the hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable rate debt, which is remarketed every month.

NOTE 3 - RECEIVABLES:

Property Taxes Receivable

The property tax receivable recorded in the accompanying financial statements at December 31, 2018 is \$6,781,027.

Due from Other Governments (Intergovernmental Receivables) at December 31, 2018:

Local Tax Receivable

Real Estate Tax	\$ 1,414,953
Business Privilege Tax	80,191
Earned Income Tax	497,177
Local Services Tax	1,820
Real Estate Transfer tax	45,527
SFT Receivable	123,606

State Subsidies Receivable

Retirement	4,107,249
Social Security	902,478
Transportation	392,950

Federal Subsidies Receivable

Title I	1,428,398
Title II	139,383
Title III	84,921
Title IV	40,460
Emergency Impact Initiative	552,493
Medical Assistance	152,475

Other Grants- Comcast

290,514

- Wells Fargo

65,000

Total Receivable (Other governments)

\$ 10,319,595

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at December 31, 2018:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 97,000	\$ 3,395,019
Capital Projects Fund	2,135,050	-
Enterprise Fund, Other	-	73,000
Enterprise Fund, Food Service Fund	1,259,969	24,000
	<u>\$ 3,492,019</u>	<u>\$ 3,492,019</u>

Interfund transfers are summarized as follows:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ -	\$ 917,135
Debt Service Fund	-	4,202,338
Internal Service Fund	715,000	-
Capital Projects Fund	4,404,473	-
	<u>\$ 5,119,473</u>	<u>\$ 5,119,473</u>

NOTE 5 - CAPITAL ASSETS

The net book value of each capital asset category for Governmental Activities is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Capital assets not being depreciated:			
Land	\$ 4,209,661	\$ -	\$ 4,209,661
Capital assets being depreciated:			
Buildings and building improvements	161,790,302	80,444,456	81,345,846
Furniture and equipment	25,668,292	23,822,547	1,845,745
Textbooks	2,262,803	2,127,041	135,762
Total	<u>\$ 193,931,058</u>	<u>\$ 106,394,044</u>	<u>\$ 87,537,014</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 - CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>1/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2018</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 4,209,661	\$ -	\$ -	\$ 4,209,661
Construction in Progress	8,933,502	-	8,933,502	-
Governmental Activities				
Capital assets being depreciated:				
Buildings and building improvements	149,515,132	12,275,170	-	161,790,302
Furniture and equipment	25,269,108	399,184	-	25,668,292
Textbooks	2,262,803	-	-	2,262,803
Subtotals	190,190,206	12,674,354	8,933,502	193,931,058
Accumulated Depreciation	(100,433,397)	(5,960,647)	-	(106,394,044)
Total Governmental Activities	<u>89,756,809</u>	<u>6,713,707</u>	<u>8,933,502</u>	<u>87,537,014</u>
Business Type Activities				
Capital assets being depreciated:				
Furniture and equipment	1,465,612	30,146	-	1,495,758
Accumulated Depreciation	(952,062)	(72,407)	-	(1,024,469)
Total Business Type Activities	<u>513,550</u>	<u>(42,261)</u>	<u>-</u>	<u>471,289</u>
Total for Reporting Entity	<u>\$ 90,270,359</u>	<u>\$ 6,671,446</u>	<u>\$ 8,933,502</u>	<u>\$ 88,008,303</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 5,234,718
Instructional- Student Support	317,846
Administrative and	
Financial support services	64,141
Operation and maintenance of	
Plant Services	86,928
Student Activities	257,014
Total	<u>\$ 5,960,647</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - LONG TERM DEBT

On May 31, 2018, the School District issued General Obligation Bonds, Series A of 2018 in aggregate principal amount of \$9,525,000. Interest is payable, June 1st, and December 1st of each year, beginning December 1, 2018. Proceeds of the bonds will be used to fund various capital improvements, pay the cost of issuance and refund a portion of various series of the School District's General Obligation Bonds and Notes as follows:

- (a) Pay a portion of the June 15, 2018, principal maturity due on the School District's General Obligation Notes, Series A of 2015.
- (b) Pay the June 15, 2018 principal maturity and June 15, 2018 and December 15, 2018 interest payments due on the School District's General Obligation Bonds Series B of 2015.
- (c) Pay the June 1, 2018 principal maturity and June 1, 2018 and December 1, 2018 interest payments due on the School District's General Obligation Notes Series D of 2017.
- (d) Pay December 1, 2018 principal maturity and June 1, 2018 and December 1, 2018 interest payments due on the School District's General Obligation Bonds Series E of 2017.

The 2018 Bonds are general obligations of the School District payable from tax and other general revenues.

On April 2, 2018, the School District issued remarketed General Obligation Notes, Series of 2014, in aggregate principal amount of \$30,540,000. Proceeds of the remarketing together with funds contributed by the School District were used to pay the purchase price including accrued interest of the outstanding purchased notes on their April 2, 2018 mandatory tender date and pay the costs of remarketing the notes. The notes accrue interest at a variable per annum interest rate equal to the sum of (1) the product of the 30-day LIBOR index as of the day of determination multiplied by the applicable factor plus (2) the applicable spread. All calculations of interest on the notes shall be computed on the basis of a 360-day year, for the actual number of days elapsed. Interest is payable on the first business day of each April and October beginning October 1, 2018. The remarketed 2014 notes are General Obligations of the School District payable from tax and other general revenues.

On November 22, 2017, the School District issued General Obligation Bonds Series E of 2017 in aggregate principal amount of \$58,435,000. Interest is payable June 1, and December 1 each year to the maturity date. The proceeds of the General Obligation Bonds Series E of 2017 were used to currently refund the District's outstanding General Obligation Bonds, Series A, B, and C of 2007 and pay the cost of issuance.

On March 17, 2017, the School District issued General Obligation Bonds, Series A of 2017 \$29,105,000, General Obligation Bonds, Series B of 2017 \$7,510,000, General Obligation Bonds, Series C of 2017 \$2,675,000 and General Obligation Notes, Series D of 2017 \$21,795,000. Interest is payable on June 1 and December 1 each year to the maturity date.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - LONG TERM DEBT (CONTINUED)

The proceeds of the General Obligation Bonds, Series A of 2017 were used to currently refund the District's outstanding Federally Taxable General Obligation Bonds, Series C of 2015, consisting of \$30,045,000 aggregate principal amount and pay the cost of issuance.

The proceeds of the General Obligation Bonds, Series B of 2017 were used to currently refund the District's outstanding Federally Taxable General Obligation Notes, Series D of 2015, consisting of \$7,755,000 aggregate principal amount and pay cost of issuance.

The proceeds of the General Obligation Bonds, Series C of 2017 were used to (a) refund a portion of the District's General Obligation Notes, Series of 2014, consisting of the April 1, 2017 sinking fund installment of the 2014 notes in the aggregate principal amount of \$210,000 and the interest due on the 2014 notes on the first business day of April and October 2017, (b) refund a portion of the District's outstanding General Obligation Notes, Series A of 2015, consisting of the June 15, 2017 maturity of the 2015A Notes in the aggregate principal amount of \$505,000 and interest due on the 2015A Notes on June 15, 2017 and December 15, 2017 and pay the cost of issuance.

The proceeds of the General Obligation Notes, Series D of 2017 were used to (a) provide refunding of a portion of the District's outstanding General Obligation Bonds, Series A of 2007, consisting of the July 15, 2017 maturity of the 2007 A Bonds in the aggregate principal amount of \$15,000 and the interest due on the 2007 A Bonds on July 15, 2017 and reimbursement to the District of the interest paid on the 2007A Bonds on January 15, 2017, (b) refund a portion of the School District's outstanding General Obligation Bonds, Series B of 2007, consisting of the July 15, 2017 maturity of the 2007 B bonds in the aggregate principal amount of \$5,000 and the interest due on the 2007 B Bonds on July 15, 2017 and reimbursement to the District of the interest paid on the 2007 B bonds on January 15, 2017, (c) refund a portion of the District's outstanding General Obligation Bonds, Series C of 2007, consisting of the July 15, 2017 maturity of the 2007 C Bonds in the aggregate principal amount of \$10,000 and the interest due on the 2007 C Bonds on July 15, 2017 and reimbursement to the District of the interest paid on the 2007 C Bonds on January 15, 2017, (d) refund a portion of the District's outstanding General Obligation Bonds Series A of 2011 consisting of the April 1, 2017 maturity of the 2011A Bonds in aggregate principal amount of \$1,280,000 and the interest due on the 2011 A Bonds on April 1, 2017 and October 1, 2017 and (e) refund a portion of the District's outstanding General Obligation Bonds, Series C of 2011, consisting of the April 1, 2017 maturity of the 2011 C Bonds in aggregate principal amount of \$320,000 and the interest due on the 2011 C bonds on April 1, 2017 and October 1, 2017, (f) refund a portion of the District's outstanding Federally Taxable General Obligation Bonds, Series D of 2011, consisting of the April 1, 2017 maturity of the 2011 D Bonds in the aggregate principal amount of \$655,000 and the interest due on the 2011 D Bonds on April 1, 2017 and October 1, 2017, (g) refund a portion of the District's outstanding General Obligation Bonds, Series B of 2015, consisting of the June 15, 2017 maturity of the 2015B bonds in the aggregate principal

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - LONG TERM DEBT (CONTINUED)

certain fixed payer swap with PNC Bank, National Association related to the prior debt and payment of the costs of issuing and insuring the 2011 A Bonds.

The proceeds derived from the 2011 B Bonds were applied toward the payment of a portion of the termination payment for a certain fixed payer swap with PNC Bank, National Association related to prior debt and payment of the costs of issuing and insuring the 2011 B Bonds. The 2011 B Bonds matured during the year ended December 31, 2011.

On April 15, 2011, the School District of the City of Scranton issued General Obligation Bonds Series C of 2011 ("2011 C Bonds") and Federally Taxable General Obligation Bonds Series D of 2011 ("Series D Bonds"). Interest on each of the Bonds is payable semi annually on April 1 and October 1 of each year until maturity date of such Bond or if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for. Proceeds derived by the School District from the issuance and sale of the 2011 C Bonds were used to partially current refund the School District's General Obligation Refunding Notes, Series of 2001, payment of a portion of the termination payment for the termination of a portion of a certain fixed payer swapation with PNC Bank, National Association related to the 2001 Notes and payment of the costs of issuing and insuring the 2011C Bonds. Proceeds derived by the School District from the issuance and sale of the 2011 D Bonds were applied to the payment of a portion of the termination payment for the termination payment of a fixed payer swapation with PNC Bank, National Association related to the 2001 notes and the payment of the costs of issuing and insuring the 2011 D Bonds.

The following is a summary of governmental long-term liability activity of the District for the year ended December 31, 2018:

<u>Debt Obligation</u>	<u>Interest Rate</u>	<u>Balance 1/1/2018</u>	<u>Additions 2018</u>	(Refinancing) <u>Maturities 2018</u>	<u>Balance 12/31/2018</u>	<u>Due Within One Year</u>
2018 Series:						
Series A	2.250-5.00%	\$ -	\$ 9,525,000	\$ -	\$ 9,525,000	\$ 10,000
2017 Series:						
Series A	3.00%-5.00%	26,540,000	-	2,770,000	23,770,000	2,910,000
Series B	3.00%-5.00%	6,845,000	-	715,000	6,130,000	750,000
Series C	2.00%-5.00%	2,670,000	-	5,000	2,665,000	5,000
Series D	2.00%-5.00%	21,785,000	-	10,000	21,775,000	10,000
Series E	2.00%-5.00%	58,435,000	-	5,000	58,430,000	5,000
		<u>116,275,000</u>	<u>9,525,000</u>	<u>3,505,000</u>	<u>122,295,000</u>	<u>3,690,000</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The following is a continued summary of governmental long-term liability activity of the District for the year ended December 31, 2018:

<u>Debt Obligation</u>	<u>Interest Rate</u>	<u>Balance 1/1/2018</u>	<u>Additions 2018</u>	<u>(Refinancing) Maturities 2018</u>	<u>Balance 12/31/2018</u>	<u>Due Within One Year</u>
2016 Series:						
Series A	4.125%	5,625,000	-	5,000	5,620,000	5,000
Series B	4.125%	2,830,000	-	-	2,830,000	-
2015 Series:						
Series A	1.00%-3.800%	5,810,000	-	630,000	5,180,000	760,000
Series B	2.00%-3.625%	13,840,000	-	1,010,000	12,830,000	1,055,000
2014 Series	Variable	30,795,000	-	30,795,000	-	-
2014 Series: (Remarketed)	Variable	-	30,540,000	-	30,540,000	1,245,000
2011 Series:						
Series A	1.150%-4.00%	1,320,000	-	1,320,000	-	-
Series C	0.580%-5.20%	22,365,000	-	315,000	22,050,000	1,490,000
Series D	0.890%-5.552%	685,000	-	685,000	-	-
Totals		<u>\$ 199,545,000</u>	<u>\$ 40,065,000</u>	<u>\$ 38,265,000</u>	<u>\$ 201,345,000</u>	<u>\$ 8,245,000</u>

* General Obligation Notes 2014 Series remarketed on April 2, 2018

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all debts outstanding as of December 31, 2018 are as follows:

<u>Year Ended</u> <u>12/31/2018</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 8,245,000	\$ 9,298,906	\$ 17,543,906
2020	8,475,000	8,921,117	17,396,117
2021	8,885,000	8,506,556	17,391,556
2022	8,615,000	8,083,678	16,698,678
2023	9,035,000	7,654,183	16,689,183
2024-2028	47,280,000	31,515,602	78,795,602
2029-2033	55,990,000	19,564,769	75,554,769
2034-2037	<u>54,820,000</u>	<u>5,613,304</u>	<u>60,433,304</u>
Totals	<u>\$ 201,345,000</u>	<u>\$ 99,158,115</u>	<u>\$ 300,503,115</u>

Swap Payments and Associated Debt

As part of the current refunding of the School District's General Obligation Bond, Series E of 2011; the related 2011 pay-fixed interest rate swap was amended and restated. The amendment provides for a 2014 pay-fixed interest rate interest rate swap related to General Obligation Notes of 2014. See Note 2 for information on derivative instruments.

Hedging derivative instrument payments and hedged debt- As of December 31, 2018, aggregate debt service requirements of the District's debt and net receipts / payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts / payments on the hedging derivative instruments will vary. Refer to Note 2 for information on derivative instruments.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - LONG-TERM DEBT (CONTINUED)
Swap Payments and Associated Debt (Continued)

Year Ended December 31	<u>Bonds with Associated Derivatives</u>		<u>Interest Rate</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	<u>Total</u>
2019	\$ 1,245,000	\$ 769,164	\$ 923,572	\$ 2,937,736
2020	1,400,000	735,164	882,746	3,017,910
2021	1,540,000	697,371	837,367	3,074,738
2022	1,700,000	655,721	787,356	3,143,077
2023	1,865,000	609,894	732,329	3,207,223
2024-2028	12,375,000	2,193,215	2,633,497	17,201,712
2029-2031	<u>10,415,000</u>	<u>416,173</u>	<u>499,719</u>	<u>11,330,892</u>
Totals	<u>\$ 30,540,000</u>	<u>\$ 6,076,702</u>	<u>\$ 7,296,586</u>	<u>\$ 43,913,288</u>

NOTE 7 - SHORT-TERM DEBT

The District issued a tax revenue anticipation note (TRAN) with a bank to assist in the cash flow needs of the District while it awaits revenue from its taxpayers and the Commonwealth of Pennsylvania. The 2018 Note was for \$19,500,000 and bore interest at a rate of 3.98%. The maturity date of the note was December 31, 2018. The following schedule shows the changes in short-term debt:

	<u>Balance</u> <u>1/1/2018</u>	<u>Note</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2018</u>
2018 TRAN	<u>\$ -</u>	<u>\$ 19,500,000</u>	<u>\$ 19,500,000</u>	<u>\$ -</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 - DEFERRED REVENUE

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred revenue until such time as it becomes available. At December 31, 2018, deferred revenue of \$12,358,371 consisted of delinquent taxes receivable of \$6,781,027, property tax relief revenue of \$4,349,535, Ready to Learn grant \$918,407, Moses Taylor grant \$299,360 and other deferred revenue of \$10,042.

Governmental Activities

At December 31, 2018, deferred revenue of \$5,577,344, consisted of \$4,349,535 property tax relief funding, Ready to Learn grant \$918,407, Moses Taylor grant \$299,360 and other deferred revenue \$10,042.

NOTE 9 - JOINT VENTURE

The District is a participating member of the Career Technology Center of Lackawanna County ("Center"). A joint board consisting of school directors from each member district runs the Center. The board of directors of each member district must approve the Center's annual operating budget. Each member pays a proportional share of the operating costs of the Center based on the number of students from each district. For the year ended December 31, 2018, the School District of the City of Scranton's share was \$1,959,671. The Center prepares financial statements, which are available to the public.

NOTE 10- INVENTORIES

The inventories on hand in the Food Service Fund at December 31, 2018, consist of the following:

Supplies	\$ 11,162
Purchased food	29,912
Donated commodities	<u>2,595</u>
	<u>\$ 43,669</u>

NOTE 11- GROSS STATE REVENUE

A portion of the School District's gross State revenue is paid directly to the vendor and not deposited in the School District's bank accounts. During the year 2018, \$15,306,935 was allocated to the School District in this manner. Therefore, the School District's basic instructional subsidy, special education, tuitions-orphans, and transportation revenue accounts were increased, and certain expenditure accounts were increased by the same amount. The \$15,306,935 consists of \$12,364,901 basic instructional subsidy, \$2,684,620 special education revenue, \$44,220 tuition-orphans and \$213,194 transportation revenue.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

PSERS provides health insurance premium assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for health care premium assistance are established to provide reserves in the health insurance account that are sufficient for 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, 2018, 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 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 June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 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 OPEB plan from the District were \$521,703. for the year ended June 30, 2019.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

As of June 30, 2019, the District reported a liability of \$10,337,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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 covered payroll. At June 30, 2019, the District's proportion was .4958 percent, which was a decrease of .0280 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$153,703. At June 30, 2019, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 64,000	\$ -
Changes in assumptions	163,000	392,000
Net difference between projected and actual investment earnings	17,000	-
Changes in proportions	-	631,000
Contributions subsequent to measurement date	521,703	-
	<u>\$ 765,703</u>	<u>\$ 1,023,000</u>

\$521,703. reported as deferred outflow 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 June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB expense as follows:

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Year ended June 30:

2019	\$ (145,000)
2020	(145,000)
2021	(145,000)
2022	(147,000)
2023	(150,000)
Thereafter	<u>(47,000)</u>
	<u>\$ (779,000)</u>

Actuarial Assumptions

The OPEB liability as of June 30, 2018, was determined by rolling forward the PSERS' OPEB liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method-entry age normal-level % of pay
- Investment return- 2.98%-Standard & Poor's 20 year municipal bond rate
- Salary growth-Effective average of 5.00%, comprising 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.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on 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 65 at 50%
- Eligible retirees will elect to participate post 65 at 70%

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- 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 years 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 for disabled annuitants. (A unisex table based on RP-2000 combined annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and a 75% female 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	5.90%	0.03%
US Core Fixed Income	92.80%	1.2%
Non-US Developed Fixed	1.30%	0.4%
	<u>100.0%</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, 2018

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the OPEB liability was 2.98%. 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 in the 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 2.98% which represents the Standard & Poor's 20 year municipal bond rate at June 30, 2018, 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, 2018, 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 June 30, 2018, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if it 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 OPEB liability	<u>\$ 10,335,000</u>	<u>\$ 10,337,000</u>	<u>\$ 10,339,000</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

**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 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or 1-percentage point higher (3.98%) than the current rate:

	1% Decrease <u>1.98%</u>	Current Discount Rate <u>2.98%</u>	1% Increase <u>3.98%</u>
District's proportionate share of the OPEB liability	<u>\$ 11,756,000</u>	<u>\$ 10,337,000</u>	<u>\$ 9,159,000</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

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13- PENSIONS (CONTINUED)

Year ending June 30:

2019	\$ 5,186,000
2020	(824,000)
2021	(6,601,000)
2022	(909,000)
Total	<u>\$ (3,148,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018 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%, comprising 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 long- term expected rate of return on pension 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.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13- PENSIONS (CONTINUED)

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.

Asset Class	Target Allocation	Long-Term Expected Real Rate
		Rate of Return
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8%	3.2%
Absolute return	10%	3.5%
Risk parity	10%	3.9%
Infrastructure/MLPs	8%	5.2%
Real estate	10%	4.2%
Alternative investments	15%	6.7%
Cash	3%	0.4%
Financing (LIBOR)	-20%	0.9%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

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 assumption, 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 benefits payments to determine the total pension liability.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13- PENSIONS (CONTINUED)

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

The following presents 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:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's Proportionate Share of the Net Pension Liability	<u>\$ 295,029,000</u>	<u>\$ 238,009,000</u>	<u>\$ 189,796,000</u>

Pension Plan Fiduciary Net Position

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

NOTE 14- CHANGES IN COMPENSATED ABSENCES

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018
Accrued Vacation	\$ 58,126	\$ -	\$ 1,080	\$ 57,046
Accrued Sick Pays	19,080,103	-	1,557,331	17,522,772
Accrued Personal Days	2,440,033	55,068	-	2,495,101
Total	<u>\$ 21,578,262</u>	<u>\$ 55,068</u>	<u>\$ 1,558,411</u>	<u>\$ 20,074,919</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 15- RETIREMENT INCENTIVES

Certain employees of the District may elect to receive a retirement incentive. The following provisions apply prior to January 1, 2015 and after December 31, 2015. The incentive for teachers with 35 years of service is \$10,000 per year for seven years to be paid beginning in March following the year of retirement. The incentive for non-teachers with 30 years of service is \$5,000 per year for three years to be paid beginning in March following the year of retirement. The incentive for administrators is \$15,000 per year for seven years. The only exception to these incentive provisions is that for employees who elect the retirement incentive during the year ended December 31, 2015, the following provisions apply to them. The incentive for teachers is \$15,000 per year for ten years. The incentive for Paraprofessionals is \$5,000 per year for two years. The incentive for clerical employees is \$6,500 per year for three years. The incentive for maintenance employees is \$10,000 per year for seven years. As of December 31, 2018, this liability is recorded in the accompanying governmental -wide financial statements and totaled \$7,319,000.

NOTE 16- COMMITMENTS AND CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 17- RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of; damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Health Care Coverage - The District's employees are covered by a health insurance plan provided by Highmark, Commonwealth Health and Guardian. The health insurance claims are paid by the District. Additionally, employee contributions are deducted from their compensation to fund healthcare costs.

NOTE 18- COLLECTIVE BARGAINING AGREEMENTS

Approximately 95% of the District's workforce is unionized. The District's labor contracts cover teaching, clerical and custodial employees.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 19- DEFERRED AMOUNT ON BOND REFUNDING

The District amortizes its interest rate swap termination fee related to the refunding of its 2008 and 2001 bond issues in the accompanying government wide financial statements. At December 31, 2018 the deferred amount on bond refunding of \$231,382, is the District's deferred interest rate swap termination fee.

NOTE 20-PROPERTY TAX

Property taxes attach as enforceable lien on property as of December 31, 2018. Taxes are levied on January 1 and payable in the following periods:

Discount Period- January 1 to February 28- 2.5% of Gross Levy
 March 1 to April 30- 2.0% of Gross Levy

Face Period- May 1 to June 30

Penalty Period- July 1 to August 31- 5% of Gross Levy
 September 1 to October 31 -7.5% of Gross Levy
 November 1 to December 31- 10% of Gross Levy

The following is a detail analysis of current year tax revenues:

Assessed Valuation, Adjusted by Authorized Revisions	\$ 388,662,584
Approved Tax Rate in Mills	<u>128.47</u>
Gross Levy	49,931,482
Plus: Penalties Applied	222,455
Deductions:	
Homestead exemption	4,337,262
Discounts	719,005
Credits	330,715
Other	12,128
Taxes Receivable-Current Year	<u>5,627,753</u>
Net Current Year Property Tax Revenue	<u>\$ 39,127,074</u>

NOTE 21- FUND BALANCES- GENERAL FUND

The Unassigned Fund Balance-General Fund at December 31, 2018 is a fund deficit of \$22,705,416.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 22- CAPITAL LEASES-EQUIPMENT

The School District has entered into lease agreements as lessee for financing the acquisition of equipment used in general government activities. The lease agreements qualify as capital leases for accounting purposes as either title transfers at the end of the lease terms or the leases include bargain purchase options and, therefore have been recorded at the present values of the future minimum lease payments as of the date of their inception. Lease payments are due in either annual or semi-annual installments based on the lease terms.

The original cost of the School District's assets under capital lease arrangements at December 31, 2018 is \$793,056 and there has been \$634,444 of accumulated depreciation as of year-end. Annual depreciation of these assets is included in depreciation expense. The lease agreements related to this equipment were satisfied during the year ended December 31, 2018.

NOTE 23- GOING CONCERN

The School District's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations.

The School District's general fund has an unassigned fund deficit of \$22,705,416 at December 31, 2018. This resulted from general fund expenditures exceeding general fund revenue during the years ended December 31, 2018, 2017, 2016, 2015, 2014, and 2013.

The School District's general fund has borrowed funds from its Capital Project Fund to meet operating expenditures. Additionally, the School District has refinanced its long-term debt to meet debt service expenditures.

On February 1, 2019, the PA Department of Education declared the School District to be in moderate recovery status.

Additionally, on February 5, 2019 the PA Department of Education appointed a Chief Recovery Officer for the School District. The Chief Recovery Officer with the assistance of PFM Consulting LLC prepared a "Recovery Plan" for the School District dated July 25, 2019. The Recovery Plan was approved by the School District's Board of Directors in August 2019. The School District's ability to continue as a going concern is dependent upon the success of the School District in implementing and executing the Recovery Plan. The School District's ability to continue as a going concern is also dependent on its success to refinance current debt and to fund expenditures with available revenue

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 23- GOING CONCERN (CONTINUED)

Also, the School District would not continue operations under the current "municipality" governance, unless the Recovery Plan is implemented and successful, but would rather be under the "receivership" management by the Commonwealth of Pennsylvania Department of Education.

The School District's Statement of Net Position and Fund Balance Sheet does not include any adjustments related to recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the School District be unable to continue as a going concern.

NOTE 24- CONSTRUCTION COMMITMENTS

The School District has active construction and improvement projects as of December 31, 2018. The projects include building improvements and equipment acquisitions. These projects are funded through the Capital Project Fund.

NOTE 25- PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the District made a prior period adjustment to record its OPEB liability and deferred outflows and inflows of resources related to OPEB contributions. Additionally, the District made a prior period adjustment to adjust the net pension liability-PSERS and related deferred outflows and inflows of resources to reflect the use of the June 30, 2017 measurement date in accordance with GASB Statement No. 68. This prior period adjustments and its effect on net position at December 31, 2017 are summarized in the following table:

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 26- SUBSEQUENT EVENTS (CONTINUED)

On June 17, 2019, the School District remarketed its Federally Taxable General Obligation Notes, Series A of 2016, in original aggregate principal amount of \$5,625,000 and remarketed its Federally Taxable General Obligation Bonds, Series B of 2016 in original aggregate principal, of \$2,830,000. The proceeds of the remarketing of the Notes and Bonds together with funds contributed by the School District, will be used to pay the purchase price, including accrued interest of the outstanding purchased Notes and Bonds on their June 17, 2019 mandatory tender date and pay the cost of remarketing the Notes and Bonds.

On November 7, 2019, the School District issued of the Federally Taxable General Obligation Bonds, Series of 2019. The proceeds of the Bonds will be used to refund the District's General Obligation Bonds Series C of 2011.

(concluded)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		GAAP	Variance With
	Original	Final	Basis Actual	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 64,246,526	\$ 64,246,526	\$ 64,969,160	722,634
State sources	79,370,843	79,370,843	80,161,102	790,259
Federal sources	8,786,000	8,786,000	8,508,178	(277,822)
Total Revenues	152,403,369	152,403,369	153,638,440	1,235,071
EXPENDITURES				
Regular programs	74,593,092	74,593,092	72,659,106	1,933,986
Special programs	24,750,332	24,750,332	23,557,052	1,193,280
Vocational programs	1,930,021	1,930,021	1,968,979	(38,958)
Other instructional programs	2,565,495	2,565,495	2,561,963	3,532
Pupil personnel services	4,049,708	4,049,708	5,011,198	(961,490)
Instructional staff services	2,499,266	2,499,266	2,411,778	87,488
Administrative services	8,578,954	8,578,954	8,166,593	412,361
Pupil health	1,972,127	1,972,127	2,017,271	(45,144)
Business services	1,364,361	1,364,361	1,136,309	228,052
Operation and maintenance of plant services	12,893,228	12,893,228	12,801,014	92,214
Student transportation services	4,089,293	4,089,293	4,848,670	(759,377)
Central	2,784,805	2,784,805	2,743,850	40,955
Other support services	107,090	107,090	71,403	35,687
Student activities	1,312,573	1,312,573	1,308,449	4,124
Community services	261,396	261,396	233,948	27,448
Debt service	18,022,322	18,022,322	10,921,799	7,100,523
Total Expenditures	161,774,063	161,774,063	152,419,382	9,354,681
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,370,694)	(9,370,694)	1,219,058	10,589,752
OTHER FINANCING SOURCES (USES)				
Healthcare trust funds utilized	3,300,000	3,300,000	-	(3,300,000)
Transfers in	6,070,694	6,070,694	-	(6,070,694)
Transfers out	-	-	(917,135)	(917,135)
Refund of prior years revenues	-	-	(407,990)	(407,990)
Lawsuit settlements- special education	-	-	(785,331)	(785,331)
Total Other Financing Sources (Uses)	9,370,694	9,370,694	(2,110,456)	(11,481,150)
NET CHANGE IN FUND BALANCE	-	-	(891,398)	(891,398)
FUND BALANCE, BEGINNING OF YEAR	-	-	422,687	422,687
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ (468,711)	(468,711)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
BUDGET COMPARISON**

DECEMBER 31, 2018

NOTE 1 – BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at year-end.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and amended budget (which have been adjusted for legally authorized revisions to the annual budget during the year).

On or before the first of October on each year, all school principals submit requests to the District's Business Manager so that the General Fund budget may be prepared. The budget is prepared by function and activity and is based on the modified accrual basis of accounting. Before November 15, the proposed budget is presented to the School Board for review. The School Board holds public hearings and may add to, subtract from, or change appropriations. Upon approval, the approved budget is submitted to the Pennsylvania Department of Education.

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, the School Board authorized several budgetary transfers.

The School District reports its General Fund budget and actual amounts based on Gross State Revenue received from the Pennsylvania Department of Education. See Note 11 in the notes to the financial statements.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

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

FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Year Ended</u>	<u>District's Proportion of the Net Pension Liability (Asset)</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>District's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>
June 30, 2014	0.4819%	\$ 190,740,000	\$ 61,492,613	310.18%	57.24%
June 30, 2015	0.5245%	227,189,000	67,489,351	336.65%	54.36%
June 30, 2016	0.5316%	263,444,000	68,843,258	382.67%	50.14%
June 30, 2017	0.5238%	258,696,000	69,731,951	370.99%	51.84%
June 30, 2018	0.4958%	238,009,000	66,772,877	356.45%	54.00%

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS-PSERS

FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Excess/ (Deficiency)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2014	\$ 9,600,000	\$ (9,600,000)	\$ -	\$ 61,492,613	15.61%
June 30, 2015	13,543,000	(13,543,000)	-	67,489,351	20.07%
June 30, 2016	16,913,000	(16,913,000)	-	68,843,258	25.00%
June 30, 2017	20,035,000	(20,035,000)	-	69,731,951	29.20%
June 30, 2018	21,038,000	(21,038,000)	-	66,772,877	31.74%

SCHOOL DISTRICT OF THE CITY OF SCRANTON

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

FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Year Ended</u>	District's Proportion of the Net OPEB <u>Liability</u>	District's Proportionate Share of the Net OPEB <u>Liability</u>	District's Covered <u>Payroll</u>	Net OPEB Liability as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total <u>OPEB Liability</u>
June 30, 2017	0.5238%	\$ 10,672,000	\$ 69,731,951	15.30%	5.47%
June 30, 2018	0.4958%	10,337,000	66,772,877	15.48%	5.56%

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>*Budget</u>	<u>Actual</u>
SUPPORT SERVICES - ADMINISTRATION:		
Salaries	\$ 4,654,121	\$ 4,516,001
Employee benefits	3,441,084	3,255,865
Purchased professional and technical services	222,000	237,299
Purchased property services	23,705	4,132
Other purchased services	69,144	33,138
Supplies	20,400	9,447
Property	5,100	250
Other	143,400	110,461
Total	<u>\$ 8,578,954</u>	<u>\$ 8,166,593</u>
SUPPORT SERVICES - PUPIL HEALTH:		
Salaries	\$ 1,099,691	\$ 1,132,697
Employee benefits	794,686	821,448
Purchased professional and technical services	38,000	42,328
Purchased property services	10,000	1,510
Other purchased services	1,500	14
Supplies	28,250	19,274
Total	<u>\$ 1,972,127</u>	<u>\$ 2,017,271</u>
SUPPORT SERVICES - BUSINESS:		
Salaries	\$ 570,808	\$ 465,462
Employee benefits	446,203	367,356
Purchased professional and technical services	1,000	219
Purchased property services	228,000	201,062
Other purchased services	24,500	8,960
Supplies	92,150	93,025
Other	1,700	225
Total	<u>\$ 1,364,361</u>	<u>\$ 1,136,309</u>
SUPPORT SERVICES - OPERATION AND MAINTENANCE OF PLANT:		
Salaries	\$ 4,805,706	\$ 5,085,622
Employee benefits	3,473,122	3,529,325
Purchased property services	2,760,600	2,429,612
Other purchased services	718,800	594,655
Supplies	1,075,000	1,153,891
Property	60,000	7,909
Total	<u>\$ 12,893,228</u>	<u>\$ 12,801,014</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>*Budget</u>	<u>Actual</u>
SUPPORT SERVICES - STUDENT TRANSPORTATION:		
Salaries	\$ -	\$ 65,590
Employee benefits	-	26,443
Other purchased services	4,089,293	4,756,637
Total	<u>\$ 4,089,293</u>	<u>\$ 4,848,670</u>
SUPPORT SERVICES - CENTRAL:		
Salaries	\$ 1,022,675	\$ 1,045,968
Employee benefits	739,030	744,628
Purchased professional and technical services	480,000	479,610
Other purchased services	2,000	355
Supplies	63,100	44,599
Property	477,000	428,232
Other	1,000	458
Total	<u>\$ 2,784,805</u>	<u>\$ 2,743,850</u>
SUPPORT SERVICES - OTHER:		
Other purchased services	<u>\$ 107,090</u>	<u>\$ 71,403</u>
OPERATION OF NON-INSTRUCTION SERVICES - STUDENT ACTIVITIES:		
Salaries	\$ 546,663	\$ 552,879
Employee benefits	400,968	371,214
Purchased property services	11,815	-
Other purchased services	187,173	191,355
Supplies	28,970	189,323
Property	82,132	2,008
Other	54,852	1,670
Total	<u>\$ 1,312,573</u>	<u>\$ 1,308,449</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>*Budget</u>	<u>Actual</u>
OPERATION OF NON-INSTRUCTION SERVICES - COMMUNITY SERVICES		
Salaries	\$ 150,000	\$ 141,380
Employee benefits	108,396	62,545
Purchased professional and technical services	1,000	770
Other purchased services	1,000	-
Supplies	1,000	29,253
Total	<u>\$ 261,396</u>	<u>\$ 233,948</u>
 DEBT SERVICE	 <u>\$ 18,022,322</u>	 <u>\$ 10,921,799</u>
 OTHER FINANCING SOURCES (USES):		
Healthcare trust funds utilized	\$ 3,300,000	\$ -
Operating transfers in	6,070,694	-
Operating transfers out	-	(917,135)
Refund of prior years revenues	-	(407,990)
Lawsuit settlements-special education	-	(785,331)
Total	<u>\$ 9,370,694</u>	<u>\$ (2,110,456)</u>

*Budget per final revision.

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

**SINGLE AUDIT ACT
SUPPLEMENTAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2018**

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

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**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
School District of the City of Scranton

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 Scranton, as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the School District of the City of Scranton's basic financial statements and issued our report thereon dated November 12, 2019.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. Deficiency 2018-1.

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*.

School District of the City of Scranton's Response to Findings

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

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.

Michael A. Bartlett, LLC

Dunmore, Pennsylvania
November 12, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
School District of the City of Scranton

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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 on 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, 2018.

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 are described in the accompanying schedule of findings and questioned costs as items 2018-2 and 2018-3. Our opinion on each major federal program is not modified with respect to these matters.

School District of the City of Scranton's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Scranton as of, and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the School District of the City of Scranton's basic financial statements. We issued our report thereon dated November 12, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Michael A. Ambrose, LLC

Dunmore, Pennsylvania
November 12, 2019

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2018

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unmodified opinion on the financial statements of the School District of the City of Scranton.
2. One significant deficiency was disclosed during the audit of the financial statements is reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. No material weaknesses are reported.
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. No significant deficiencies in internal control over major federal award programs were disclosed during the audit and are reported in the report on compliance for each major federal program and report on internal control over compliance and report on the schedule of expenditures of federal awards required by with Uniform Guidance. No material weaknesses are reported.
5. The auditors' 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. Audit findings that are required to be reported in accordance with 2 CFR section 200.516 (a) are reported in this schedule.
7. The Programs tested as major programs included: CFDA #84.010 Title 1, CFDA #10.553, 10.555, 10.559 Child Nutrition Cluster (School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children), CFDA #84.027 Special Education Grants to States and CFDA #84.367, Title II Improving Teacher Quality.
8. The threshold for distinguishing 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.

(continued)

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2018

B. FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2018-1 Budgeting Process

Condition: The School District's 2018 General Fund Budget was balanced by using proceeds of Series A of 2018 bond issue to make certain debt service payments, which are reflected on the debt service fund in the December 31, 2018 financial statements.

Criteria: A balanced budget is a budget where revenues equal expenditures. The bond proceeds are not considered revenue.

Cause of Condition: Budgeted Expenditures were greater than Budgeted Revenues, therefore bond proceeds from the Debt Service Fund were used to balance the budget.

Effect of Condition: Use of long-term debt obligations to fund operations.

Recommendation: School District's management prepare a balanced budget whereby, revenues equal expenditures. Also, bond proceeds should not be used for operations, since additional long-term debt is incurred by the School District.

Views of Responsible Officials and Planned Corrective Actions:

The Scranton School District is currently in the process of developing a comprehensive fiscal plan that will address yearly budgeting shortfalls. The Scranton School District is working with The PFM Group at the request of the Department of Education to develop a plan. The Scranton School District is looking at its healthcare plan, collective bargaining agreements and has also curtailed and eliminated programs for the 2018-2019 school year all in an effort to reduce its annual costs moving forward. In addition to efforts to reduce costs the Scranton School District is working with the PA Department of Education, State and Local Representatives for additional funding. The Scranton School District is currently addressing these issues to avoid the borrowing of long-term debt to meet expenditures. The Scranton School District is taking the necessary steps ensure that the revenues equal expenditures for a balanced budget based upon the best estimates at the time of budget adoption.

(continued)

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2018

**C. FINDING AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT (CONTINUED)**

2018-3 ESSA Title I -CFDA # 84.010, Grant # 013-18-0376 (continued)

Cause of Condition: An oversight by the School District's Title I staff.

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

Views of Responsible Officials and Planned Corrective Actions: Federal Monitors visited each elementary school and found that all schools were out of compliance regarding preschool enrollment. Beginning in the 2019-2020 school year, selection criteria were applied for all new students enrolled in the Title I preschool. This criteria is established by the School District's preschool registration procedure.

(concluded)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor	Source Code	Federal CFDA #	Grantor Number	Grant Beginning Date	Grant Ending Date	Award Amount	Total Received for year	Accrued (Deferred) 1/1/2018	Revenue Recognized	Federal Expenditures	Accrued (Deferred) 12/31/2018
US Department of Education											
Passed through the PA Department Education:											
ESSA Title I	I	84.010	013-18-0376	7/1/2017	9/30/2018	4,965,451	3,622,926	683,838	2,939,088	2,939,088	-
ESSA Title I	I	84.010	013-19-0376	7/1/2018	9/30/2019	4,938,708	-	-	1,428,398	1,428,398	1,428,398
ESSA Title I (Part D)	I	84.010	107-18-0376	7/1/2017	9/30/2018	23,720	6,325	(5,125)	22,520	22,520	11,070
ESSA Title I (Part D)	I	84.010	107-19-0376	7/1/2018	9/30/2019	13,285	-	-	-	-	-
Title II Improving Teacher Quality	I	84.367	020-19-0376	7/1/2018	9/30/2019	547,325	-	-	353,507	353,507	353,507
Title II Improving Teacher Quality	I	84.367	020-18-0376	7/1/2017	9/30/2018	660,068	483,205	(12,460)	495,665	495,665	-
Title III Language Inst.	I	84.365	010-18-0376	7/1/2017	9/30/2018	256,960	188,437	3,364	185,073	185,073	-
Title III Language Inst.	I	84.365	010-19-0376	7/1/2018	9/30/2019	222,754	-	-	84,921	84,921	84,921
ESSA Title IV Student Support and Academic Enrichment Grants	I	84.424	144-18-0376	7/1/2017	6/30/2018	113,058	82,909	(29,418)	112,327	112,327	-
ESSA Title IV Student Support and Academic Enrichment Grants	I	84.424	144-19-0376	7/1/2018	6/30/2019	359,221	-	-	40,460	40,460	40,460
Emergency Impact Initiative-Homeless Student Supports	I	84.938	S938C180022	8/15/2018	12/31/2018	552,493	-	-	552,493	552,493	552,493
Passed through the Northeastern Educational Intermediate Unit 19:											
Special Education Grants to States	I	84.027	062-130019	7/1/2017	6/30/2018	2,143,585	2,143,585	-	2,143,585	2,143,585	-
Fund for the Improvement of Education	D	84.215	S215E140359	8/22/2014	7/6/2018	1,188,000	185,115	53,474	131,641	131,641	-
Total US Department of Education							6,712,502	693,673	8,489,678	8,489,678	2,470,849
US Department of Health and Human Services											
Passed through PA Department of Education											
Temporary Assistance for Needy Families	I	93.558	4100071413	7/1/2017	6/30/2018	199,000	199,000	67,911	131,089	131,089	-
Temporary Assistance for Needy Families	I	93.558	4100081187	7/1/2018	6/30/2019	199,000	-	-	93,764	93,764	93,764

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor Pass-through Grantor/Program Title	Source Code	Federal CFDA #	Grantor Number	Grant Beginning Date	Grant Ending Date	Award Amount	Total Received for year	Accrued (Deferred) 1/1/2018	Revenue Recognized	Federal Expenditures	Accrued (Deferred) 12/31/2018
US Department of Health and Human Services (Continued)											
Passed through PA											
Department of Human Services:											
Medical Assistance Program											
(Administrative Claiming Program)	I	93.778	-	1/1/2018	12/31/2018	90,427	90,427	-	90,427	90,427	-
Total US Department of Health and Human Services							289,427	67,911	315,280	315,280	93,764
US Department of Agriculture											
Passed through the PA											
Department of Agriculture:											
National School Lunch Program:											
Value of USDA Donated											
Commodities	I	10.555	2-03-35-740	1/1/2018	12/31/2018	-	443,231	(8,410)	449,046	449,046	(2,595)
Passed through the PA											
Dept. of Education:											
National School Lunch Program	F	10.555	1-19-35-740-2	1/1/2018	12/31/2018	-	3,839,903	-	3,839,903	3,839,903	-
	S	N/A	N/A	1/1/2018	12/31/2018	-	244,244	-	244,244	244,244	-
National School Breakfast Program	I	10.553	1-19-35-740-2	1/1/2018	12/31/2018	-	1,836,238	-	1,836,238	1,836,238	-
Summer Food Service Program	I	10.559	1-19-35-740-2	1/1/2018	12/31/2018	-	99,521	-	99,521	99,521	-
Fresh Fruit and Vegetable Program	I	10.582	1-19-35-740-2	1/1/2018	12/31/2018	-	237,082	-	237,082	237,082	-
Total US Department of Agriculture							6,700,219	(8,410)	6,706,034	6,706,034	(2,595)
Total							\$ 13,702,148	\$ 753,174	\$ 15,510,992	\$ 15,510,992	\$ 2,562,018

See accompanying notes to schedule of expenditures of federal awards.

(concluded)

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Scope

The School District of the City of Scranton's federally funded grants has been audited in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes all significant federally funded grant programs of the School District of the City of Scranton and has been prepared on the modified accrual basis of accounting.

Accrued and Deferred Reimbursement

Various reimbursement procedures are used for Federal Awards received by the School District of the City of Scranton. Timing differences may occur between expenditures and reimbursements during a year. Accrued revenues at year-end represent an excess of expenditures over cash reimbursements received. Deferred Revenues at year end represent an excess of cash received over eligible program expenditures. Generally, accrued and deferred amounts caused by timing differences will be reversed in the subsequent year.

Source Code:

D- Direct funding

I – Indirect funding

F - Federal Share

S – State Share

NOTE 2 – USDA COMMODITIES

The School District of the City of Scranton received USDA Commodities (non-cash assistance) valued at \$443,231 during the year ended December 31, 2018. The amount received is reflected in the accompanying Schedule of Expenditures of Federal Awards.

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2018

2017-1 Budgeting Process

Condition: The School District's 2017 General Fund Budget was balanced by using proceeds of 2017 bond issues to make certain debt service payments, which is reflected on the debt service fund in the December 31, 2017 financial statements.

Recommendation: School District's management prepare a balanced budget whereby, revenues equal expenditures. Also, bond proceeds should not be used for operations, since additional long-term debt is incurred by the School District

Current Status: The School District issued debt in 2018 to balance its 2018 General Fund Budget. See current year significant deficiency 2018-1 in the schedule of findings and questioned costs.

2017-2 Activity Fund – West Scranton Intermediate School

Condition: The School District's treasurer at West Scranton Intermediate School did not prepare bank reconciliations of the activity fund accounts. This is a deviation from the School District's activity fund policy.

Recommendation: The School District's treasurer follow the established activity fund policy.

Current Status: The school's treasurer corrected the significant deficiency.

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2018

2017-3 Federal Programs Uniform Guidance

Condition: The Data Collection Form and Reporting Package for the year ended December 31, 2016 was filed with the Bureau of Census after the required due date of September 30, 2017.

Recommendation: The School District's management file the School District's Data Collection Form and Reporting Package by the required due date.

Current Status: See current year finding 2018-2 in the Schedule of findings and questioned costs.