

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2017
AND
INDEPENDENT AUDITORS' REPORT**

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, 2017

(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 \$32,916,752 over the course of this year's operations. The governmental net position decreased by \$33,885,272 and the business – type net position increased by \$968,520.
- The District's general fund balance in the governmental funds financial statements decreased by \$9,885,251 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, 2017

(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, 2017

(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, 2017

(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, 2017

(UNAUDITED)

Financial analysis of the District whole

1. Governmental Activities

The net position of the governmental activities decreased by \$33,885,272, which primarily resulted from an increase in salaries and benefits, and pension obligation rate increase. Also, Instruction, Administrative and financial support and Operation of Maintenance and Plant expenditures increased due to salary and benefit increases.

Local revenue increased for earned income tax, business privilege and mercantile tax and realty transfer tax. This increase resulted from more collections during the year ended December 31, 2017. Property Tax revenue decreased during the year ended December 31, 2017 due to fewer collections. Also, 2017 property tax rate was the same as 2016 123.77 mills.

Miscellaneous Local revenue decreased due to lower stop loss revenue received during the year ended December 31, 2017 as compared to the year ended December 31, 2016.

During the year ended December 31, 2017, State revenue decreased from the previous year in the rent subsidy line item. Basic Instructional Subsidy and Retirement revenue increased.

Salary expenditures increased from the previous year due to employee contract requirements.

As disclosed in the condensed Statements of Revenue and Expenses in the Management's Discussion and Analysis, a Special Item- Special Education lawsuits settlements are reported during the year ended December 31, 2017.

GASB # 68 Accounting and Financial Reporting for Pensions- An amendment of GASB Statement #27 requires the District to recognize its portion of PSERS pension obligation as a liability. Also, deferred outflows and inflows determined by PSERS are recognized in the accompanying financial statements.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2017

(UNAUDITED)

The following comparative condensed financial statements provides key financial data for the District's net position and changes in net position of the District's Governmental and Business-type activities.

Condensed Statements of Net Position
(In Thousands of Dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 36,288	\$ 40,454	\$ 3,846	\$ 2,822	\$ 40,134	\$ 43,276
Capital Assets	<u>89,757</u>	<u>85,850</u>	<u>513</u>	<u>569</u>	<u>90,270</u>	<u>86,419</u>
Total Assets	<u>126,045</u>	<u>126,304</u>	<u>4,359</u>	<u>3,391</u>	<u>130,404</u>	<u>129,695</u>
Deferred Outflows of Resources	<u>67,365</u>	<u>42,766</u>	<u>-</u>	<u>-</u>	<u>67,365</u>	<u>42,766</u>
Other Liabilities	315,588	276,208	-	-	315,588	276,208
Long-term debt	<u>199,545</u>	<u>183,500</u>	<u>-</u>	<u>-</u>	<u>199,545</u>	<u>183,500</u>
Total Liabilities	<u>515,133</u>	<u>459,708</u>	<u>-</u>	<u>-</u>	<u>515,133</u>	<u>459,708</u>
Deferred Inflows of Resources	<u>8,557</u>	<u>5,757</u>	<u>-</u>	<u>-</u>	<u>8,557</u>	<u>5,757</u>
Net Position	<u>\$ (330,280)</u>	<u>\$ (296,395)</u>	<u>\$ 4,359</u>	<u>\$ 3,391</u>	<u>\$ (325,921)</u>	<u>\$ (293,004)</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2017

(UNAUDITED)

Condensed Statements of Revenue and Expenses

(In Thousands of Dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program revenues:						
Charges for Services	\$ 113	\$ 125	\$ 284	\$ 471	\$ 397	\$ 596
Federal grants	8,122	8,242	6,111	6,045	14,233	14,287
State grants and entitlements	75,741	75,840	264	272	76,005	76,112
General Revenues:						
Property taxes	37,535	37,973	-	-	37,535	37,973
Other taxes	23,880	22,628	-	-	23,880	22,628
Other general revenues	9,009	1,251	18	166	9,027	1,417
Total Revenues	<u>154,400</u>	<u>146,059</u>	<u>6,677</u>	<u>6,954</u>	<u>161,077</u>	<u>153,013</u>
Program expenses:						
Instruction	122,226	110,620	-	-	122,226	110,620
Instruction- student support	11,815	8,460	-	-	11,815	8,460
Administrative and financial support services	14,846	12,926	-	-	14,846	12,926
Operation and maintenance and plant services	15,265	14,667	-	-	15,265	14,667
Pupil transportation	4,368	4,776	-	-	4,368	4,776
Student Activities	2,005	1,917	-	-	2,005	1,917
Community services	251	266	-	-	251	266
Interest on long - term debt	11,330	9,594	-	-	11,330	9,594
Bond issuance costs	5,678	441	-	-	5,678	441
Food Service	-	-	5,688	5,841	5,688	5,841
Other enterprise funds	-	-	20	30	20	30
Total expenses	<u>187,784</u>	<u>163,667</u>	<u>5,708</u>	<u>5,871</u>	<u>193,492</u>	<u>169,538</u>
Excess (Deficiency) before special items	(33,384)	(17,608)	969	1,083	(32,415)	(16,525)
Special Items	<u>(501)</u>	<u>(724)</u>	<u>-</u>	<u>-</u>	<u>(501)</u>	<u>(724)</u>
Change in net position	<u>\$ (33,885)</u>	<u>\$ (18,332)</u>	<u>\$ 969</u>	<u>\$ 1,083</u>	<u>\$ (32,916)</u>	<u>\$ (17,249)</u>

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, 2017, 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

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 schedule of the District's proportionate share of the net pension liability and the schedule of the District's pension contributions 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 September 12, 2018, 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. Smith, LLC

Dunmore, Pennsylvania
September 12, 2018

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Governmental Activities	Business -type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 16,677,279	\$ 2,668,255	\$ 19,345,534
Cash-restricted	3,319,762	-	3,319,762
Property taxes receivable	6,622,757	-	6,622,757
Due from other governments	10,802,578	-	10,802,578
Internal balances	(1,133,911)	1,133,911	-
Inventories	-	43,416	43,416
Nondepreciated capital assets	4,209,661	-	4,209,661
Depreciated capital assets	185,980,545	1,465,612	187,446,157
Less: Accumulated depreciation	(100,433,397)	(952,062)	(101,385,459)
Total Assets	<u>126,045,274</u>	<u>4,359,132</u>	<u>130,404,406</u>
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivative	7,419,828	-	7,419,828
Deferred amount on bond refunding	379,183	-	379,183
Deferred outflows of resources:			
Pension plan	<u>59,566,249</u>	<u>-</u>	<u>59,566,249</u>
Total deferred outflows of resources	<u>67,365,260</u>	<u>-</u>	<u>67,365,260</u>
LIABILITIES:			
Accounts payable and accrued liabilities	8,965,209	-	8,965,209
Payroll payable and withholding	2,555,118	-	2,555,118
Construction costs payable	1,147,555	-	1,147,555
Deferred instrument liability- interest rate swap	7,419,828	-	7,419,828
Long-term obligations			
Due within one year			
Capital leases	129,053	-	129,053
Bonds	7,725,000	-	7,725,000
Accrued interest	1,179,868	-	1,179,868
Retirement Incentives	2,360,000	-	2,360,000
Compensated Absences	3,825,000	-	3,825,000
Due beyond one year			
Net pension liability	263,444,000	-	263,444,000
Bonds	191,820,000	-	191,820,000
Retirement Incentives	6,809,500	-	6,809,500
Compensated Absences	<u>17,753,262</u>	<u>-</u>	<u>17,753,262</u>
Total Liabilities	<u>515,133,393</u>	<u>-</u>	<u>515,133,393</u>

(continued)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities	Business -type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	6,363,560	-	6,363,560
Deferred inflow of resources:			
Pension plan	2,194,000	-	2,194,000
Total deferred inflows of resources	8,557,560	-	8,557,560
NET POSITION:			
Net Investment in Capital Assets	(89,756,809)	513,550	(89,243,259)
Restricted for:			
Debt service	25,721,705	-	25,721,705
Healthcare benefits	3,319,762	-	3,319,762
Capital Projects	7,481,857	-	7,481,857
Unrestricted	(277,046,934)	3,845,582	(273,201,352)
Total Net Position	<u>\$(330,280,419)</u>	<u>\$ 4,359,132</u>	<u>\$(325,921,287)</u>

(concluded)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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	Total
Governmental Activities:							
Instruction	\$ 122,225,911	\$ 60,549	\$ 77,419,307	\$ -	\$ (44,746,055)		\$ (44,746,055)
Instruction-student support	11,814,877	-	1,591,276	-	(10,223,601)		(10,223,601)
Administrative and financial support services	14,846,414	-	1,609,363	-	(13,237,051)		(13,237,051)
Operation and maintenance and plant services	15,264,843	-	1,733,160	-	(13,531,683)		(13,531,683)
Pupil transportation	4,368,450	-	1,344,334	-	(3,024,116)		(3,024,116)
Student activities	2,005,341	52,300	114,274	-	(1,838,767)		(1,838,767)
Community services	251,164	-	51,423	-	(199,741)		(199,741)
Interest on long-term debt	11,329,287	-	-	-	(11,329,287)		(11,329,287)
Bond issuance costs	5,678,482	-	-	-	(5,678,482)		(5,678,482)
Total Governmental Activities	187,784,769	112,849	83,863,137	-	(103,808,783)		(103,808,783)
BUSINESS-TYPE ACTIVITIES:							
Food service	5,687,599	236,017	6,375,032	-	-	\$ 923,450	923,450
Other enterprise funds	20,318	47,787	-	-	-	27,469	27,469
Total Business-Type Activities	5,707,917	283,804	6,375,032	-	-	950,919	950,919
TOTAL SCHOOL DISTRICT	\$ 193,492,686	\$ 396,653	\$ 90,238,169	\$ -	(103,808,783)	950,919	(102,857,864)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					37,535,352	-	37,535,352
Other taxes levied					23,879,603	-	23,879,603
Investment earnings					379,159	17,601	396,760
Insurance stop loss					419,256	-	419,256
Bond premiums					7,994,195	-	7,994,195
Miscellaneous income					216,687	-	216,687
Special item-special education lawsuit settlements					(500,741)	-	(500,741)
Total General Revenues and Special Item					69,923,511	17,601	69,941,112
Change in net position					(33,885,272)	968,520	(32,916,752)
Net Position, Beginning					(296,395,147)	3,390,612	(293,004,535)
Net Position, Ending					\$ (330,280,419)	\$ 4,359,132	\$ (325,921,287)

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,453,195	\$ 5,346,807	\$ 3,375,824	\$ 16,175,826
Cash-restricted	3,319,762	-	-	3,319,762
Property taxes receivable	6,622,757	-	-	6,622,757
Due from other governments	10,802,578	-	-	10,802,578
Due from general fund	-	2,135,050	-	2,135,050
Due from other funds	97,000	-	-	97,000
Total Assets	<u>\$ 28,295,292</u>	<u>\$ 7,481,857</u>	<u>\$ 3,375,824</u>	<u>\$ 39,152,973</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 8,965,209	\$ -	\$ -	\$ 8,965,209
Payroll payable and withholding	2,555,118	-	-	2,555,118
Due to enterprise fund - food service	1,230,911	-	-	1,230,911
Construction costs payable	-	1,147,555	-	1,147,555
Due to capital projects fund	2,135,050	-	-	2,135,050
Total Liabilities	<u>14,886,288</u>	<u>1,147,555</u>	<u>-</u>	<u>16,033,843</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	<u>12,986,317</u>	<u>-</u>	<u>-</u>	<u>12,986,317</u>
Fund Balances:				
Restricted for debt service	25,721,705	-	-	25,721,705
Restricted for healthcare benefits	3,319,762	-	-	3,319,762
Assigned	-	6,334,302	3,375,824	9,710,126
Unassigned	(28,618,780)	-	-	(28,618,780)
Total Fund Balances	<u>422,687</u>	<u>6,334,302</u>	<u>3,375,824</u>	<u>10,132,813</u>
Total Liabilities and Fund Balances	<u>\$ 28,295,292</u>	<u>\$ 7,481,857</u>	<u>\$ 3,375,824</u>	<u>\$ 39,152,973</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, 2017

Total Governmental Fund Balances	\$	10,132,813
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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 \$190,190,206 and the accumulated depreciation is \$100,433,397		89,756,809
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		6,622,757
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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.		501,453
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Deferred swapation 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.		379,183
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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		(199,545,000)
Capital lease payable		(129,053)
Net pension liability		(263,444,000)
Accrued interest on the bonds		(1,179,868)
Compensated absences		(21,578,262)
Retirement Incentives		(9,169,500)

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

Deferred Outflows of Resources-Pension Plan	59,566,249	
Deferred Inflows of Resources-Pension Plan	<u>(2,194,000)</u>	57,372,249

Total Net Position- Governmental Activities	\$	(330,280,419)
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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, 2017**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 62,333,432	\$ 24,507	\$ 16,188	\$ 62,374,127
State sources	75,730,813	-	-	75,730,813
Federal sources	8,122,323	-	-	8,122,323
Total Revenues	146,186,568	24,507	16,188	146,227,263
EXPENDITURES				
Instruction	104,340,117	-	-	104,340,117
Support Services	41,537,011	-	-	41,537,011
Noninstructional services	1,693,529	236,505	7,800	1,937,834
Capital outlay	-	9,390,158	-	9,390,158
Debt service:				
Principal	3,245,000	289,313	3,715,000	7,249,313
Interest and other charges	3,828,568	12,075	5,883,350	9,723,993
Total Expenditures	154,644,225	9,928,051	9,606,150	174,178,426
Deficiency of revenues over expenditures	(8,457,657)	(9,903,544)	(9,589,962)	(27,951,163)

(continued)

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, 2017

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	-	-	119,520,000	119,520,000
Bond premiums	-	-	7,994,195	7,994,195
Payment to bond escrow agent	-	-	(60,182,875)	(60,182,875)
Refunding of 2015 Series C & D bonds	-	-	(37,800,000)	(37,800,000)
Bond issuance costs	-	-	(5,678,482)	(5,678,482)
Refund of prior years revenues	(67,484)	-	-	(67,484)
Special education lawsuit settlements	(500,741)	-	-	(500,741)
Operating transfers (out) in	(859,369)	12,213,718	(12,579,368)	(1,225,019)
Total	(1,427,594)	12,213,718	11,273,470	22,059,594
Net change in fund balances	(9,885,251)	2,310,174	1,683,508	(5,891,569)
Fund Balance, Beginning	10,307,938	4,024,128	1,692,316	16,024,382
Fund Balance, Ending	\$ 422,687	\$ 6,334,302	\$ 3,375,824	\$ 10,132,813

See accompanying notes.

(concluded)

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, 2017

Net change in fund balances- Total Governmental funds \$ (5,891,569)

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	\$	9,390,608	
Depreciation		<u>(5,484,090)</u>	3,906,518

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.

164,840

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 earned were more than the amounts used.

(6,087,792)

See accompanying notes.

(continued)

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, 2017

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.	103,475,000
Bond issuance proceeds provide current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	(119,520,000)
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.	289,313
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.	243,570
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.	229,732
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 and related deferred inflows and outflows	<u>(10,694,884)</u>
Change in net position of governmental activities	<u>\$ (33,885,272)</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

DECEMBER 31, 2017

	Enterprise Funds			
	Other		Total	Internal
	Food	Enterprise		Service Fund
	Service	Funds		
ASSETS:				
Cash and cash equivalents	\$ 2,223,282	\$ 444,973	\$2,668,255	\$ 501,453
Due from other funds	1,230,911	-	1,230,911	-
Inventories	43,416	-	43,416	-
Depreciated capital assets	1,313,507	152,105	1,465,612	-
Less: Accumulated depreciation	(829,807)	(122,255)	(952,062)	-
Total Assets	\$ 3,981,309	\$ 474,823	\$4,456,132	\$ 501,453
LIABILITIES:				
Due to other funds	\$ 24,000	\$ 73,000	\$ 97,000	\$ -
NET POSITION:				
Net investment in capital assets	483,700	29,850	513,550	-
Unrestricted	3,473,609	371,973	3,845,582	501,453
Total net position	3,957,309	401,823	4,359,132	501,453
Total Liabilities and Net Position	\$ 3,981,309	\$ 474,823	\$4,456,132	\$ 501,453

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, 2017

	Enterprise Funds			Internal Service Fund
	Food Service	Other Enterprise Funds	Total	
OPERATING REVENUES:				
Charges for services	\$ 236,017	\$ 14,637	\$ 250,654	\$ -
Rental income	-	33,150	33,150	-
TOTAL	<u>236,017</u>	<u>47,787</u>	<u>283,804</u>	<u>-</u>
OPERATING EXPENSES:				
Contracted services	5,620,744	16,785	5,637,529	-
Depreciation	66,855	3,533	70,388	-
Claims and judgments	-	-	-	999,226
TOTAL	<u>5,687,599</u>	<u>20,318</u>	<u>5,707,917</u>	<u>999,226</u>
OPERATING INCOME (LOSS)	<u>(5,451,582)</u>	<u>27,469</u>	<u>(5,424,113)</u>	<u>(999,226)</u>
NON-OPERATING REVENUES (EXPENSES)				
Grant reimbursement	4,000	-	4,000	-
Earnings from investments	13,821	3,780	17,601	3,939
State sources	259,683	-	259,683	-
Federal sources	<u>6,111,349</u>	<u>-</u>	<u>6,111,349</u>	<u>-</u>
TOTAL	<u>6,388,853</u>	<u>3,780</u>	<u>6,392,633</u>	<u>3,939</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	937,271	31,249	968,520	(995,287)
OPERATING TRANSFERS:				
Operating transfers in	-	-	-	1,225,019
CHANGE IN NET POSITION	937,271	31,249	968,520	229,732
NET POSITION, BEGINNING	<u>3,020,038</u>	<u>370,574</u>	<u>3,390,612</u>	<u>271,721</u>
NET POSITION, ENDING	<u>\$ 3,957,309</u>	<u>\$ 401,823</u>	<u>\$ 4,359,132</u>	<u>\$ 501,453</u>
See accompanying notes.				

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Enterprise Funds			
	Food Service	Other Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 236,017	\$ 47,787	\$ 283,804	\$ -
Cash paid to suppliers	(5,360,781)	(16,785)	(5,377,566)	-
Cash paid for insurance claims	-	-	-	(999,226)
Net cash (used) provided by operating activities	(5,124,764)	31,002	(5,093,762)	(999,226)
CASH FLOWS FROM NONCAPITAL FINANCING				
ACTIVITIES:				
Grant reimbursement	4,000	-	4,000	-
State sources	259,683	-	259,683	-
Federal Sources	5,290,115	-	5,290,115	-
Operating transfers in	-	-	-	1,225,019
Net cash provided by noncapital financing activities:	5,553,798	-	5,553,798	1,225,019
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of capital assets	-	(14,995)	(14,995)	-
Earnings on investments	13,821	3,780	17,601	3,939
Net cash (used) provided by investing activities	13,821	(11,215)	2,606	3,939
Net increase in cash	442,855	19,787	462,642	229,732
CASH AND CASH EQUIVALENTS - BEGINNING	1,780,427	425,186	2,205,613	271,721
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,223,282	\$ 444,973	\$ 2,668,255	\$ 501,453

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Enterprise Funds			
	Food Service	Other Enterprise Funds	Total	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (5,451,582)	\$ 27,469	\$ (5,424,113)	\$ (999,226)
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Depreciation	66,855	3,533	70,388	-
Changes in assets and liabilities:				
Due from general fund	251,836	-	251,836	-
Inventories	8,127	-	8,127	-
Net cash (used) provided by operating activities	<u>\$ (5,124,764)</u>	<u>\$ 31,002</u>	<u>\$ (5,093,762)</u>	<u>\$ (999,226)</u>

See accompanying notes.

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 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, 2017

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, 2017

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 plan.

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, 2017

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, 2017

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, 2017

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 debt service expenditures.

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 Capital Projects – Consists of the capital projects fund–fund balance that is restricted by the District for capital outlays.

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, 2017

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.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 \$19,814,713 and the corresponding bank balance was \$24,664,434.

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, 2017 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>\$22,244.</u>
Cash:		
General Fund Cash Restricted	Not Applicable	\$174,969.
Certificate of Deposits:		
General Fund Cash Restricted	Not Applicable	1,713,980.
U.S. Treasury Investments:		
General Fund Cash Restricted	Not Applicable	<u>1,430,813</u>
Total General Fund Cash Restricted		<u>\$3,319,762</u>

Derivative Instruments

The fair value balance and notional amount of derivative instruments outstanding at December 31, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2017 financial statements is as follows:

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31, 2017</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	\$ 1,075,900	Debt	\$ (7,419,828)	\$ 30,795,000

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, 2017 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	\$ 30,795,000	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, 2017, 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, 2017

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 is \$6,622,757.

Due from Other Governments (Intergovernmental Receivables)

Local Tax Receivable

Real Estate Tax	\$ 1,286,511
Business Privilege Tax	29,144
Earned Income Tax	445,930
Local Services Tax	9,034
Real Estate Transfer tax	33,721
SFT Receivable	120,947

State Subsidies Receivable

Retirement	4,257,552
Rent Subsidy	2,395,934
Social Work	90,320
Social Security	970,327
Transportation	383,741
Other	2,484

Federal Subsidies Receivable

Title I	686,702
Project Elect	70,006
Access	<u>20,225</u>

Total Receivable (Other governments) \$ 10,802,578

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at December 31, 2017:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 97,000	\$ 3,365,961
Capital Projects Fund	2,135,050	-
Enterprise Fund, Other	-	73,000
Enterprise Fund, Food Service Fund	1,230,911	24,000
	<u>\$ 3,462,961</u>	<u>\$ 3,462,961</u>

Interfund transfers are summarized as follows:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ -	\$ 859,369
Debt Service Fund	-	12,579,368
Internal Service Fund	1,225,019	-
Capital Projects Fund	12,213,718	-
	<u>\$ 13,438,737</u>	<u>\$ 13,438,737</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
Construction in progress	8,933,502	-	8,933,502
Capital assets being depreciated:			
Buildings and building improvements	149,515,132	75,149,876	74,365,256
Furniture and equipment	25,269,108	23,201,736	2,067,372
Textbooks	2,262,803	2,081,785	181,018
Total	<u>\$ 190,190,206</u>	<u>\$ 100,433,397</u>	<u>\$ 89,756,809</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 - CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</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	149,164,965	350,167	-	149,515,132
Furniture and equipment	25,162,169	106,939	-	25,269,108
Textbooks	2,262,803	-	-	2,262,803
Subtotals	180,799,598	9,390,608	-	190,190,206
Accumulated Depreciation	(94,949,307)	(5,484,090)	-	(100,433,397)
Total Governmental Activities	<u>85,850,291</u>	<u>3,906,518</u>	<u>-</u>	<u>89,756,809</u>
Business Type Activities				
Capital assets being depreciated:				
Furniture and equipment	1,450,617	14,995	-	1,465,612
Accumulated Depreciation	(881,674)	(70,388)	-	(952,062)
Total Business Type Activities	<u>568,943</u>	<u>(55,393)</u>	<u>-</u>	<u>513,550</u>
Total for Reporting Entity	<u>\$ 86,419,234</u>	<u>\$ 3,851,125</u>	<u>\$ -</u>	<u>\$ 90,270,359</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 4,796,689
Instructional- Student Support	306,453
Administrative and	
Financial support services	39,206
Operation and maintenance of	
Plant Services	84,728
Student Activities	257,014
Total	<u>\$ 5,484,090</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - LONG TERM DEBT

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.

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

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - LONG TERM DEBT (CONTINUED)

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 amount of \$715,000 and the interest due on the 2015B Bonds on June 15, 2017 and December 15, 2017, (h) planning, designing and constructing improvements to District's facilities, (i) purchasing capital equipment for use by the District, (j) funding of additional capital projects within the District as approved by the Board of School Directors and (k) pay the cost of issuance.

On March 22, 2016, the School District of the City of Scranton issued Federally Taxable General Obligation Notes, Series A of 2016 and Federally Taxable General Obligation Bonds, Series B of 2016. Interest is payable on June 15 and December 15 each year to the maturity date. Proceeds of the Series A notes were used to provide funds to (a) refund a portion of District's General Obligation Bonds, Series A of 2007, consisting of the July 15, 2016 maturity of the 2007A Bonds in the aggregate principal amount of \$15,000 and the interest due on the 2007A bonds on July 15, 2016, (b) refund a portion of the District's General Obligation Bonds, Series B of 2007, consisting of the July 15, 2016 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, 2016, (c) refund a portion of the School District's General Obligation Bonds, Series C of 2007, consisting of the July 15, 2016 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, 2016 (d) refund a portion of the District's General Obligation Bonds, Series A of 2011, consisting of the April 1, 2016 maturity of the 2011 A Bonds in the aggregate principal amount of \$1,245,000 and the interest due on the 2011 A Bonds on April 1, 2016 and October 1, 2016, (e) refund a portion of the District's General Obligation Bonds, Series C of 2011, consisting of the April 1, 2016 maturity of the 2011 C Bonds in the aggregate principal amount of \$340,000 and the interest due on the 2011C Bonds due on April 1, 2016 and October 1, 2016 (f) refund a portion of the District's Federally Taxable General Obligation Bonds, Series D of 2011, consisting of the April 1, 2016 maturity of the 2011 D Bonds in the aggregate principal amount of \$620,000 and the interest due on the 2011 D Bonds due on April 1, 2016 and October 1, 2016 (g) refund a portion of the District's General Obligation Bonds, Series B of 2015, consisting of the June 15, 2016 maturity of the 2015 B Bonds in the aggregate principal amount of \$430,000 and the interest due on the 2015 B bonds on June 15, 2016 and December 15, 2016 and pay related costs of issuing the Series A notes.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - LONG TERM DEBT (CONTINUED)

Proceeds of the Series B bonds were used to provide funds to (a) refund a portion of the District's General Obligation Notes, Series of 2014, consisting of the April 1, 2016 maturity of the 2014 notes in the aggregate principal amount of \$5,000 and the interest due on the 2014 notes on the first day of April and October of 2016 (b) refund a portion of the District's General Obligation Notes, Series A of 2015, consisting of the June 15, 2016 maturity of the 2015A Notes in the aggregate principal amount of \$250,000 and the interest due on the 2015 A notes on June 15, 2016 and December 15, 2016 and pay the related costs, including the costs of issuing the Series B Bonds.

On February 27, 2015, the School District of the City of Scranton issued General Obligation Notes, Series A of 2015. Interest on the Notes is payable semi annually in June 15 and December 15 each year to maturity date of such notes. Proceeds from the notes were used to advance refund the outstanding Series of 2006 Bonds, deposit in Sinking Fund for the School District's General Obligation Series A of 2007, deposit in the Sinking Fund for the School District's General Obligation Series B of 2007, deposit in the Sinking Fund for the School District's General Obligation Series C of 2007, deposit in the Sinking Fund for the School District's General Obligation Bonds 2011 A Bonds, deposit in the Sinking Fund for the School District's General Obligation Series C of 2011, deposit in the Sinking Fund for the School District's General Obligation Bonds Series D of 2011, deposit in the Sinking Fund for 2015A notes and pay the cost of issuance.

On February 27, 2015, the School District of the City of Scranton issued General Obligation Bonds, Series B of 2015. Interest on the Notes is payable semi annually in June 15 and December 15 each year to maturity date of such bonds. Proceeds from the Bonds were used to advance refund the outstanding Series of 2006 Bonds, used for capital projects and pay the cost of issuance.

On December 29, 2015, the School District of the City of Scranton issued Federally Taxable General Obligation Bonds, Series C of 2015 and Federally Taxable General Obligation Notes Series D of 2015.

Proceeds of the Series C Bonds were used to fund unfunded working capital expenses of the School District and to be applied to among other things, repay the School District's outstanding tax and revenue anticipation notes incurred in 2015. Proceeds of the Series D notes for the funding a reserve related to self-insurance which has been established by School District, deposit in the Sinking Fund for the School District's 2007 A, deposit in the sinking fund for the School District's 2007 B, deposit in the sinking fund for the School District's 2007 C and pay the cost of issuance.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - LONG TERM DEBT (CONTINUED)

On November 30, 2016, the District remarketed its Federally Taxable General Obligation Bonds, Series C of 2015 and Federal Taxable General Obligation Notes, Series D of 2015. Interest on the remarketed bonds and notes is payable each June 1 and December 1, beginning June 1, 2017. Additionally, on March 17, 2017 the Series C of 2015 and the Series D of 2015 were currently refunded.

On December 29, 2014, the School District of the City of Scranton issued General Obligation Notes, Series of 2014. The Notes will accrue interest at a variable rate per annum interest rate equal to the sum of the product of the 30-day LIBOR index as of the day of determination multiplied by the applicable factor plus 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 days elapsed. In no event may any Note bear interest at an interest rate of higher than the maximum rate, which shall mean a rate of interest of 10% per annum while in the LIBOR Index Rate Mode. Interest on the Notes is payable on the first business day of each April and October, beginning April 1, 2015 and accruing from the last interest payment date on which interest was paid to the interest payment date in which interest is to be paid, unless no interest has yet been paid, in which case interest will be paid from the issue date, and also on any earlier mandatory tender or redemption date and on the maturity date of the Notes. The proceeds of the Notes were used to currently refund the School District's outstanding General Obligation Bond, Series E of 2011 and pay related costs, including the costs of issuing the Notes.

On April 15, 2011, the School District of the City of Scranton issued General Obligation Bonds Series A of 2011 and Federally Taxable General Obligation Bonds Series B of 2011. 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. The proceeds of the 2011 A Bonds were used to currently refund the School District's General Obligation Note, Series of 2008 and the related Butler County General Authority's outstanding Variable Rate Demand Bonds Series 2008, payment of a portion of the termination payment for 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

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - LONG TERM DEBT (CONTINUED)

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 swaption 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 swaption with PNC Bank, National Association related to the 2001 notes and the payment of the costs of issuing and insuring the 2011 D Bonds.

On December 1, 2007, the School District of the City of Scranton issued a total of \$60,000,000 general obligation bonds, Series of 2007. The bond issue consisted of Series A of 2007 \$27,490,000, Series B of 2007 \$11,810,000 and Series C of 2007 \$20,700,000. The proceeds of the Series A general obligation bonds were used to fund the new West Elementary School project, and pay the cost of issuance. The proceeds of Series B general obligation bonds were used to fund the John F. Kennedy Elementary School project and pay the cost of issuance. The proceeds of the Series C general obligation bonds were used to fund other capital projects of the School District and pay the cost of issuance. On November 22, 2017, Series A, B and C of 2007 were refunded.

The following is a summary of governmental long-term liability activity of the District for the year ended December 31, 2017:

<u>Debt</u>	<u>Interest</u>	<u>Balance</u>	<u>Additions</u>	(Refinancing) <u>Maturities</u>	<u>Balance</u>	<u>Due</u>
<u>Obligation</u>	<u>Rate</u>	<u>1/1/2017</u>	<u>2017</u>	<u>2017</u>	<u>12/31/2017</u>	<u>Within</u>
						<u>One Year</u>
2017 Series:						
Series A	3.00%-5.00%	\$ -	\$ 29,105,000	\$ 2,565,000	\$ 26,540,000	\$ 2,770,000
Series B	3.00%-5.00%	-	7,510,000	665,000	6,845,000	715,000
Series C	2.00%-5.00%	-	2,675,000	5,000	2,670,000	5,000
Series D	2.00%-5.00%	-	21,795,000	10,000	21,785,000	10,000
Series E	2.00%-5.00%	-	58,435,000	-	58,435,000	5,000
		-	119,520,000	3,245,000	116,275,000	3,505,000

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Swap Payments and Associated Debt (Continued)

<u>Year Ended</u> <u>December 31</u>	<u>Bonds with Associated Derivatives</u>		<u>Interest Rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	
2018	\$ 255,000	\$ 660,972	\$ 1,148,957	\$ 2,064,929
2019	1,245,000	644,807	1,120,858	3,010,665
2020	1,400,000	616,304	1,071,311	3,087,615
2021	1,540,000	584,621	1,016,238	3,140,859
2022	1,700,000	549,705	955,544	3,205,249
2023-2027	11,290,000	2,093,643	3,639,348	17,022,991
2028-2031	<u>13,365,000</u>	<u>605,150</u>	<u>1,051,923</u>	<u>15,022,073</u>
Totals	<u>\$ 30,795,000</u>	<u>\$ 5,755,202</u>	<u>\$ 10,004,179</u>	<u>\$ 46,554,381</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 2017 Note was for \$19,000,000 and bore interest at a rate of 2.07%. The maturity date of the note was December 31, 2017. The following schedule shows the changes in short-term debt:

	<u>Balance</u> <u>1/1/2017</u>	<u>Note</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2017</u>
2017 TRAN	<u>\$ -</u>	<u>\$ 19,000,000</u>	<u>\$ 19,000,000</u>	<u>\$ -</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017, deferred revenue of \$12,986,317 consisted of delinquent taxes receivable of \$6,622,757, property tax relief revenue of \$4,349,535, state empowerment grant \$2,000,000 and other deferred revenue of \$14,025.

Governmental Activities

At December 31, 2017, deferred revenue of \$6,363,560, consisted of \$4,349,535 property tax relief funding, State empowerment grant \$2,000,000 and other deferred revenue \$14,025.

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, 2017, the School District of the City of Scranton's share was \$1,866,453. 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, 2017, consist of the following:

Supplies	\$ 10,813
Purchased food	24,193
Donated commodities	8,410
	<u>\$ 43,416</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 2017, \$6,223,076 was allocated to the School District in this manner. Therefore, the School District's basic instructional subsidy, special education, retirement, and transportation revenue accounts were increased, and certain expenditure accounts were increased by the same amount. The \$6,223,076 consists of \$3,964,372 basic instructional subsidy, \$1,849,602 Special Education revenue, \$159,787 Retirement and \$249,315 transportation revenue.

NOTE 12- OTHER EMPLOYEE BENEFITS

Post-Employment Health Care Benefits - The District makes available certain health care benefits for retired employees. The retired employees pay the entire cost of the benefits.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13- PENSIONS

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

Plan Description

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

Benefits provided

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

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

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13- PENSIONS (CONTINUED)

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

Member Contributions

1. Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation.
2. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class TC) or at 7.5% (Membership Class TD) of the member's qualifying compensation.
3. Members who joined the System after June 30, 2001, and before July 1, 2011, contribute at 7.5% (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.
4. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$20,673,249 for the year ended June 30, 2017.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13- PENSIONS (CONTINUED)

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

At June 30, 2017, the District reported a liability of \$263,444,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportionate share of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was .5316 percent, which was an increase of .0071 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$10,694,884. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 2,194,000
Changes in assumptions	9,510,000	-
Net difference between projected and actual investment		
Earnings	14,683,000	-
Changes in proportions	14,700,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	20,673,249	-
	<u>\$ 59,566,249</u>	<u>\$ 2,194,000</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date of \$20,673,249 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13- PENSIONS (CONTINUED)

Year ending June 30:

2017	\$ 9,112,000
2018	9,112,000
2019	12,325,000
2020	6,150,000
Total	<u>\$ 36,699,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the total pension liability beginning June 30, 2016

- The investment rate of return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.00% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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-2000 Combined Health Annuitant Tables (male and female) with age set back 3 years for both males and females to 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 For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 mortality tables for males and females adjusted to reflect PSERS experience and projected using a modified version of the MP-2015 mortality improvement scale..

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five -year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13- PENSIONS (CONTINUED)

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.

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	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8%	2.5%
Absolute return	10%	3.3%
Risk parity	10%	3.9%
Infrastructure/MLPs	5%	4.8%
Real estate	12%	4.0%
Alternative investments	15%	6.6%
Cash	3%	0.2%
Financing (LIBOR)	-14%	0.5%
	<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, 2016.

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 for 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, 2017

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	\$ 322,263,000	\$ 263,444,000	\$ 214,019,000

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, 2017	Additions	Reductions	Balance December 31, 2017
Accrued Vacation	\$ 32,813	\$ 25,313	\$ -	\$ 58,126
Accrued Sick Pays	15,420,987	3,659,116	-	19,080,103
Accrued Personal Days	2,069,670	370,363	-	2,440,033
Total	<u>\$ 17,523,470</u>	<u>\$ 4,054,792</u>	<u>\$ -</u>	<u>\$ 21,578,262</u>

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017, this liability is recorded in the accompanying governmental-wide financial statements and totaled \$9,169,500.

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, 2017

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 and its bond premium in the accompanying government wide financial statements. At December 31, 2017 the deferred amount on bond refunding of \$379,183 consisted of deferred interest rate swap termination of \$948,139 less deferred bond premium of \$568,956.

NOTE 20-PROPERTY TAX

Property taxes attach as enforceable lien on property as of December 31, 2017. 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	\$ 386,878,489
Approved Tax Rate in Mills	<u>123.77</u>
Gross Levy	47,883,951
Plus: Penalties Applied	246,356
Deductions:	
Homestead exemption	4,325,161
Discounts	679,005
Credits	383,079
Other	2,655
Taxes Receivable-Current Year	<u>5,369,894</u>
Net Current Year Property Tax Revenue	<u>\$ 37,370,513</u>

NOTE 21- FUND BALANCES- GENERAL FUND

The Unassigned Fund Balance-General Fund at December 31, 2017 is a fund deficit of \$28,618,780.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 titles 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 inceptions. 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, 2017 is \$793,056 and there has been \$475,833 of accumulated depreciation as of year-end. Annual depreciation of these assets is included in depreciation expense.

The School District's total capital lease debt service requirements to maturity are as follows:

	Governmental <u>Activities</u>
Year Ended December 31, 2018	<u>129,053</u>
Present value of future minimum lease payments	<u><u>129,053</u></u>

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 \$28,618,780 at December 31, 2017. This resulted from general fund expenditures exceeding general fund revenue during the years ended December 31, 2017, 2016, 2015, 2014, and 2013.

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 23- GOING CONCERN (CONTINUED)

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.

The School District's ability to continue as a going concern is dependent on its success to refinance current debt and to fund expenditures with available revenue. The School District's ability to continue as a going concern is also dependent upon the School District implementing a strategic plan to control expenditures.

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- SUBSEQUENT EVENTS

The District has evaluated subsequent events through September 12, 2018, which represents the date the financial statements were available to be issued.

In January 2018, the School District entered into an agreement to sell its tax claims for the year ended December 31, 2017. The proceeds resulting from this sale totaled \$4,472,018. This amount was received in May 2018.

On April 2, 2018, the School District remarketed its General Obligation Notes, Series of 2014 \$30,540,000. Proceeds of the remarketing of the Notes 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 costs of the remarketing the notes.

On May 31, 2018, the School District issued General Obligation Bonds, Series A of 2018, in aggregate principal amount of \$9,525,000. The proceeds of the bonds will be used to (a) refund a portion of the School District's outstanding General Obligation Notes, Series A of 2015 in the principal amount of \$288,393 on June 15, 2018 (b) refund a portion of the School District's outstanding General Obligation Bonds Series B of 2015 in the principal amount of \$1,010,000 on June 15, 2018 and interest thereon June 15, 2018 and December 15, 2018 (c) refunding a portion of the School District's outstanding General Obligation Notes Series D of 2017 in the principal amount of \$10,000 on June 1, 2018 and interest thereon on June 1, 2018 and December 1, 2018

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 24- SUBSEQUENT EVENTS (CONTINUED)

(d) refunding a portion of the School District's outstanding General Obligation Bonds, Series E of 2017 in the principal amount of \$5,000 on December 1, 2018 and interest thereon on June 1, 2018 and December 1, 2018 and (e) fund various capital improvements of School District facilities and (f) pay the cost of issuance.

During 2018, the Pennsylvania Attorney General's Office began investigating the School District, about an alleged wrongdoing by a vendor. At the report date, the financial impact to the School District because of the investigation is uncertain.

(concluded)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		GAAP	Variance With
	Original	Final	Basis Actual	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 75,929,017	\$ 75,929,017	\$ 62,333,432	(13,595,585)
State sources	69,504,000	69,504,000	75,730,813	6,226,813
Federal sources	8,201,100	8,201,100	8,122,323	(78,777)
Total Revenues	153,634,117	153,634,117	146,186,568	(7,447,549)
EXPENDITURES				
Regular programs	70,519,991	70,519,991	77,120,221	(6,600,230)
Special programs	23,328,633	23,328,633	22,511,107	817,526
Vocational programs	1,812,591	1,812,591	1,876,460	(63,869)
Other instructional programs	3,179,622	3,179,622	2,832,329	347,293
Pupil personnel services	4,663,783	4,663,783	5,269,290	(605,507)
Instructional staff services	2,685,266	2,685,266	2,809,787	(124,521)
Administrative services	8,888,400	8,888,400	8,772,448	115,952
Pupil health	2,217,977	2,217,977	2,163,353	54,624
Business services	1,361,833	1,361,833	1,370,231	(8,398)
Operation and maintenance of plant services	13,699,183	13,699,183	13,787,061	(87,878)
Student transportation services	3,401,300	3,401,300	4,368,450	(967,150)
Central	2,803,568	2,803,568	2,890,110	(86,542)
Other support services	-	-	106,281	(106,281)
Student activities	1,319,019	1,319,019	1,461,500	(142,481)
Community services	335,361	335,361	232,029	103,332
Debt service	13,417,590	13,417,590	7,073,568	6,344,022
Total Expenditures	153,634,117	153,634,117	154,644,225	(1,010,108)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(8,457,657)	(8,457,657)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	392,049	392,049
Transfers out	-	-	(1,251,418)	(1,251,418)
Refund of prior years revenues	-	-	(67,484)	(67,484)
Lawsuit settlements- special education	-	-	(500,741)	(500,741)
Total Other Financing Sources (Uses)	-	-	(1,427,594)	(1,427,594)
NET CHANGE IN FUND BALANCE	-	-	(9,885,251)	(9,885,251)
FUND BALANCE, BEGINNING	-	-	10,307,938	10,307,938
FUND BALANCE, ENDING	\$ -	\$ -	\$ 422,687	422,687

SCHOOL DISTRICT OF THE CITY OF SCRANTON

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

DECEMBER 31, 2017

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 based on net instructional subsidy received from the Pennsylvania Department of Education. The School District reports actual amounts based on gross instructional subsidy in accordance with Pennsylvania Department of Education guidelines.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

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

FOR THE YEAR ENDED DECEMBER 31, 2017

<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%

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

<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%

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>*Budget</u>	<u>Actual</u>
REVENUE - LOCAL SOURCES:		
Real estate taxes	\$ 38,000,000	\$ 37,370,513
Act 511 taxes - wages and profit	10,550,000	10,731,365
Realty transfer tax	550,000	782,670
Occupation tax	180,000	176,868
Business privilege and Mercantile tax	6,804,900	7,752,907 ✓
Real estate tax - in lieu of tax	53,000	65,700
Real estate tax - delinquent	4,950,000	4,307,178
Public utility realty tax	67,000	62,915
Tuition	200,000	60,549
Rent	45,000	52,300
Earnings from temporary deposits	200,000	334,524
Insurance stop loss	400,000	419,256
Miscellaneous revenue	13,929,117	216,687
Total	<u>\$ 75,929,017</u>	<u>\$ 62,333,432</u>

REVENUE - STATE SOURCES:		
Basic instructional subsidy	\$ 37,750,000	\$ 42,232,061
Special education	5,878,500	5,954,608
Nursing services	200,000	200,939
Property tax relief	4,349,000	4,371,163
Transportation	1,300,000	1,344,334
Rent subsidy	-	263,865
Social security	3,700,000	3,760,160
Retirement	14,139,700	15,285,548
Other program subsidy	1,836,800	1,836,814
Miscellaneous	350,000	481,321
Total	<u>\$ 69,504,000</u>	<u>\$ 75,730,813</u>

REVENUE - FEDERAL SOURCES:		
Title I - ESEA	\$ 4,400,100	\$ 4,124,912
ESEA Title II	637,000	640,607
IDEA GRANT	2,200,000	2,091,828
Other federal grants	964,000	1,264,976
Total	<u>\$ 8,201,100</u>	<u>\$ 8,122,323</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>*Budget</u>	<u>Actual</u>
INSTRUCTION - REGULAR:		
Salaries	\$ 41,597,400	\$ 41,905,472
Employee benefits	25,644,883	27,768,258
Purchased professional and technical services	125,300	52,498
Purchased property services	207,985	204,347
Other purchased services	527,691	6,032,456
Supplies	2,342,100	1,115,418
Property	40,000	17,091
Other	34,632	24,681
Total	<u>\$ 70,519,991</u>	<u>\$ 77,120,221</u>
INSTRUCTION - SPECIAL:		
Salaries	\$ 11,602,430	\$ 10,814,670
Employee benefits	7,152,875	7,738,993
Purchased professional and technical services	2,610,785	1,954,385
Other purchased services	1,719,500	1,746,928
Supplies	209,543	165,969
Property	28,500	90,162
Other	5,000	-
Total	<u>\$ 23,328,633</u>	<u>\$ 22,511,107</u>
INSTRUCTION - VOCATIONAL EDUCATION:		
Other purchased services	\$ 1,792,000	\$ 1,866,453
Supplies	17,581	8,307
Property	3,010	1,700
Total	<u>\$ 1,812,591</u>	<u>\$ 1,876,460</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>*Budget</u>	<u>Actual</u>
INSTRUCTION - OTHER PROGRAMS:		
Salaries	\$ 1,794,500	\$ 1,606,304
Employee benefits	1,106,222	1,157,906
Purchased professional and technical services	200,000	13,763
Other purchased services	3,900	14,616
Supplies	75,000	39,740
Total	<u>\$ 3,179,622</u>	<u>\$ 2,832,329</u>
SUPPORT SERVICES - PUPIL PERSONNEL:		
Salaries	\$ 2,772,200	\$ 3,169,985
Employee benefits	1,709,068	2,086,358
Purchased professional and technical services	170,000	10,557
Purchased property services	3,000	-
Other purchased services	3,000	1,409
Supplies	6,515	981
Total	<u>\$ 4,663,783</u>	<u>\$ 5,269,290</u>
SUPPORT SERVICES - INSTRUCTIONAL STAFF:		
Salaries	\$ 1,547,570	\$ 1,599,245
Employee benefits	954,081	1,077,072
Purchased professional and technical services	-	21,994
Purchased property services	5,800	2,472
Other purchased services	3,000	32,797
Supplies	160,815	76,152
Property	14,000	55
Total	<u>\$ 2,685,266</u>	<u>\$ 2,809,787</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>*Budget</u>	<u>Actual</u>
SUPPORT SERVICES - ADMINISTRATION:		
Salaries	\$ 5,186,721	\$ 5,000,622
Employee benefits	3,197,624	3,416,026
Purchased professional and technical services	222,000	153,317
Purchased property services	26,455	4,984
Other purchased services	85,900	45,813
Supplies	22,700	16,873
Property	3,600	1,119
Other	143,400	133,694
Total	<u>\$ 8,888,400</u>	<u>\$ 8,772,448</u>
SUPPORT SERVICES - PUPIL HEALTH:		
Salaries	\$ 1,329,400	\$ 1,219,470
Employee benefits	819,577	876,246
Purchased professional and technical services	38,000	38,000
Purchased property services	8,000	11,639
Other purchased services	1,500	-
Supplies	21,500	17,998
Total	<u>\$ 2,217,977</u>	<u>\$ 2,163,353</u>
SUPPORT SERVICES - BUSINESS:		
Salaries	\$ 615,300	\$ 616,166
Employee benefits	379,333	422,945
Purchased professional and technical services	1,000	1,000
Purchased property services	228,000	213,939
Other purchased services	46,500	24,027
Supplies	90,000	90,931
Other	1,700	1,223
Total	<u>\$ 1,361,833</u>	<u>\$ 1,370,231</u>
SUPPORT SERVICES - OPERATION AND MAINTENANCE OF PLANT:		
Salaries	\$ 5,463,450	\$ 5,548,607
Employee benefits	3,368,233	3,779,924
Purchased property services	2,725,500	2,704,481
Other purchased services	762,000	672,806
Supplies	1,335,000	1,031,653
Property	45,000	49,590
Total	<u>\$ 13,699,183</u>	<u>\$ 13,787,061</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>*Budget</u>	<u>Actual</u>
SUPPORT SERVICES - STUDENT TRANSPORTATION:		
Salaries	\$ -	\$ 66,130
Employee benefits	-	25,635
Other purchased services	3,401,300	4,276,685
Total	<u>\$ 3,401,300</u>	<u>\$ 4,368,450</u>
SUPPORT SERVICES - CENTRAL:		
Salaries	\$ 1,019,775	\$ 1,218,037
Employee benefits	628,693	765,018
Purchased professional and technical services	527,500	345,560
Other purchased services	13,000	3,998
Supplies	70,100	96,901
Property	541,500	457,351
Other	3,000	3,245
Total	<u>\$ 2,803,568</u>	<u>\$ 2,890,110</u>
SUPPORT SERVICES - OTHER:		
Other purchased services	<u>\$ -</u>	<u>\$ 106,281</u>
OPERATION OF NON-INSTRUCTION SERVICES - STUDENT ACTIVITIES:		
Salaries	\$ 559,000	\$ 581,029
Employee benefits	344,625	362,181
Purchased property services	30,100	8,280
Other purchased services	210,210	233,144
Supplies	30,300	203,094
Property	86,970	59,915
Other	57,814	13,857
Total	<u>\$ 1,319,019</u>	<u>\$ 1,461,500</u>

*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>*Budget</u>	<u>Actual</u>
OPERATION OF NON-INSTRUCTION SERVICES - COMMUNITY SERVICES		
Salaries	\$ 205,300	\$ 126,301
Employee benefits	126,561	73,992
Purchased professional and technical services	1,000	-
Other purchased services	1,500	-
Supplies	1,000	31,736
Total	<u>\$ 335,361</u>	<u>\$ 232,029</u>
 DEBT SERVICE	 <u>\$ 13,417,590</u>	 <u>\$ 7,073,568</u>
 OTHER FINANCING SOURCES (USES):		
Operating transfers in	\$ -	\$ 392,049
Operating transfers out	-	(1,251,418)
Refund of prior years revenues	-	(67,484)
Lawsuit settlements-special education	-	(500,741)
Total	<u>\$ -</u>	<u>\$ (1,427,594)</u>

*Budget per final revision.

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

**SINGLE AUDIT ACT
SUPPLEMENTAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2017**

**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, 2017 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 September 12, 2018.

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 2017-1 and 2017-2.

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. Randoth, LLC

Dunmore, Pennsylvania
September 12, 2018

**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, 2017. 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, 2017.

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 item 2017-3. 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, 2017, 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 September 12, 2018, 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. Panketh, LLC

Dunmore, Pennsylvania
September 12, 2018

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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. Two significant deficiency were disclosed during the audit of the financial statements are 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), and CFDA #84.027 Special Education Grants to States.
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, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

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 are reflected on the debt service fund in the December 31, 2017 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, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

SIGNIFICANT DEFICIENCY

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 bank accounts. This is a deviation from the School District's activity fund policy.

Criteria: Proper accounting requires an accounting of the activity fund in accordance with the School District's activity fund policy.

Cause of Condition: The cause of the condition is a change in personnel at the treasurer position.

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

Views of Responsible Officials and Planned Corrective Actions:

The Scranton School District's Business Office has reviewed the School Treasurer's policies and procedures with the West Scranton Intermediate School Treasurer. Going forward she will adhere to these policies and procedures.

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

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.

Criteria: Uniform Guidance requires that the Data Collection Form and Reporting Package be filed no later than nine months after the end of the audit period.

(continued)

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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

2017-3 Federal Programs Uniform Guidance (continued)

Cause of Condition: The School District's management was obtaining information to a file complete and accurate Data Collection Form and Reporting Package.

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

Views of Responsible Officials and Planned Corrective Actions: The School District of the City of Scranton in cooperation with the Independent Auditor have taken the necessary steps to ensure that the financial statements are completed by the deadline established by US Department of Education and the Commonwealth of Pennsylvania Office of Budget Comptroller Operations and to have the Data Collection Form and Reporting Package submitted by the deadline.

(concluded)

SCHOOL DISTRICT OF THE CITY OF SCRANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2017

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) 1/1/2017	Revenue Recognized	Federal Expenditures	Accrued (Deferred) 12/31/2017
US Department of Education											
Passed through the P.A. Department Education:											
ESSA Title I	I	84.010	013-18-0376	7/1/2017	9/30/2018	5,034,470	1,342,525	-	2,026,363	2,026,363	683,838
ESSA Title I	I	84.010	013-17-0376	7/1/2016	9/30/2017	4,109,083	2,129,802	53,777	2,076,025	2,076,025	-
ESSA Title I (Part D)	I	84.010	107-18-0376	7/1/2017	9/30/2018	23,720	6,325	-	1,200	1,200	(5,125)
ESSA Title I (Part D)	I	84.010	107-17-0376	7/1/2016	9/30/2017	35,183	21,110	4,411	16,699	16,699	-
Title II Improving Teacher Quality	I	84.367	020-17-0376	7/1/2016	9/30/2017	633,635	463,744	(12,138)	475,882	475,882	-
Title II Improving Teacher Quality	I	84.367	020-18-0376	7/1/2017	9/30/2018	663,237	176,863	-	164,403	164,403	(12,460)
Title III Language Inst.	I	84.365	010-18-0376	7/1/2017	9/30/2018	256,960	68,523	-	71,887	71,887	3,364
Title III Language Inst.	I	84.365	010-17-0376	7/1/2016	9/30/2017	234,021	117,743	7,492	110,251	110,251	-
ESSA Title IV Student Support and Academic Enrichment Grants	I	84.424	144-18-0376	7/1/2017	6/30/2018	113,058	30,149	-	731	731	(29,418)
Passed through the Northeastern Educational Intermediate Unit 19:											
Special Education Grants to States	I	84.027	062-130019	7/1/2015	6/30/2016	2,011,259	2,011,259	2,011,259	-	-	-
Special Education Grants to States	I	84.027	062-130019	7/1/2016	6/30/2017	2,091,828	2,091,828	-	2,091,828	2,091,828	-
Fund for the Improvement of Education	D	84.215	S215E140359	8/22/2014	8/21/2017	1,188,000	294,444	75,223	272,695	272,695	53,474
Total US Department of Education							8,754,315	2,140,024	7,307,964	7,307,964	693,673

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2017

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) 1/1/2017	Revenue Recognized	Federal Expenditures	Accrued (Deferred) 12/31/2017
US Department of Health and Human Services (Continued)											
Passed through PA											
Department of Human Services:											
Medical Assistance Program											
(Administrative Claiming Program)	I	93.778	-	1/1/2017	12/31/2017	96,181	96,181	-	96,181	96,181	-
Total US Department of Health and Human Services							276,181	88,501	255,591	255,591	67,911
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	1/1/2017	12/31/2017	-	402,617	(8,004)	402,211	402,211	(8,410)
Passed through the PA											
Dept. of Education:											
National School Lunch Program	F	10.555	1-19-35-740-2	1/1/2017	12/31/2017	-	3,708,035	-	3,708,035	3,708,035	-
	S	N/A	N/A	1/1/2017	12/31/2017	-	259,683	-	259,683	259,683	-
National School Breakfast Program	I	10.553	1-19-35-740-2	1/1/2017	12/31/2017	-	2,018,907	-	2,018,907	2,018,907	-
Summer Food Service Program	I	10.559	1-19-35-740-2	1/1/2017	12/31/2017	-	104,254	-	104,254	104,254	-
Fresh Fruit and Vegetable Program	I	10.582	1-19-35-740-2	1/1/2017	12/31/2017	-	280,154	-	280,154	280,154	-
Total US Department of Agriculture							6,773,650	(8,004)	6,773,244	6,773,244	(8,410)
Total							\$ 15,804,146	\$ 2,220,521	\$ 14,336,799	\$ 14,336,799	\$ 753,174

See accompanying notes to schedule of expenditures of federal awards.

A B C
A-B-C

**SCHOOL DISTRICT
OF THE CITY OF SCRANTON**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2017

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 \$402,617 during the year ended December 31, 2017. 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, 2017

2016-3 Federal Programs Uniform Guidance

Condition: The Data Collection Form and Reporting Package for the year ended December 31, 2015 was filed with the Bureau of Census after the required due date of September 30, 2016.

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 significant deficiency 2017-3 in the Schedule of findings and questioned costs.