

**SCHOOL DISTRICT  
OF THE CITY OF SCRANTON**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
DECEMBER 31, 2016  
AND  
INDEPENDENT AUDITORS' REPORT**

# SCHOOL DISTRICT OF THE CITY OF SCRANTON

## TABLE OF CONTENTS

|                                                                                                                                                           | <u>PAGE</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| MANAGEMENT'S DISCUSSION AND ANALYSIS .....                                                                                                                | 1-9         |
| INDEPENDENT AUDITORS' REPORT .....                                                                                                                        | 10-12       |
| BASIC FINANCIAL STATEMENTS:                                                                                                                               |             |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS                                                                                                                      |             |
| STATEMENT OF NET POSITION.....                                                                                                                            | 13-14       |
| STATEMENT OF ACTIVITIES.....                                                                                                                              | 15          |
| FUND FINANCIAL STATEMENTS:                                                                                                                                |             |
| BALANCE SHEET – GOVERNMENTAL FUNDS.....                                                                                                                   | 16          |
| RECONCILIATION OF GOVERNMENTAL FUNDS                                                                                                                      |             |
| BALANCE SHEET TO STATEMENT OF NET POSITION –<br>GOVERNMENTAL ACTIVITIES.....                                                                              | 17          |
| STATEMENT OF REVENUES, EXPENDITURES AND<br>CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS.....                                                             | 18-19       |
| RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT<br>OF REVENUES, EXPENDITURES AND CHANGES IN FUND<br>BALANCES WITH DISTRICT-WIDE STATEMENT OF ACTIVITIES... | 20-21       |
| STATEMENT OF NET POSITION – PROPRIETARY FUNDS.....                                                                                                        | 22          |
| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND<br>NET POSITION – PROPRIETARY FUNDS.....                                                              | 23          |
| STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS.....                                                                                                          | 24-25       |
| STATEMENT OF NET POSITION - FIDUCIARY FUNDS.....                                                                                                          | 26          |
| STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS...                                                                                                 | 27          |
| NOTES TO FINANCIAL STATEMENTS.....                                                                                                                        | 28-58       |

SCHOOL DISTRICT OF THE CITY OF SCRANTON

TABLE OF CONTENTS (Continued)

PAGE

REQUIRED SUPPLEMENTARY INFORMATION:

|                                                                                     |    |
|-------------------------------------------------------------------------------------|----|
| BUDGETARY COMPARISON SCHEDULE – GENERAL FUND.....                                   | 59 |
| NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION<br>BUDGET COMPARISON.....           | 60 |
| SCHEDULE OF THE DISTRICT’S PROPORTIONATE SHARE OF<br>THE NET PENSION LIABILITY..... | 61 |
| SCHEDULE OF THE DISTRICT PENSION CONTRIBUTIONS.....                                 | 62 |

OTHER SUPPLEMENTARY INFORMATION:

|                                            |       |
|--------------------------------------------|-------|
| GENERAL FUND - REVENUE SCHEDULES.....      | 63    |
| GENERAL FUND – EXPENDITURE SCHEDULES ..... | 64-68 |

# SCHOOL DISTRICT OF THE CITY OF SCRANTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

(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 \$17,249,222 over the course of this year's operations. The governmental net position decreased by \$18,331,729 and the business – type net position increased by \$1,082,507.
- The District's general fund balance in the governmental funds financial statements decreased by \$3,758,478 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, 2016

(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, 2016**

**(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, 2016

(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

Effective January 1, 2015, the District 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, 2016

(UNAUDITED)

Financial analysis of the District whole

1. Governmental Activities

The net position of the governmental activities decreased by \$18,331,729, 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 delinquent tax. This increase resulted from more collections during the year ended December 31, 2016. Property Tax revenue increased during the year ended December 31, 2016 due to a property tax increase from 120.40 mills to 123.77 mills.

Miscellaneous Local revenue decreased due to lower stop loss revenue received during the year ended December 31, 2016 as compared to the year ended December 31, 2015.

During the year ended December 31, 2016, State revenue increased from the previous year due to an increase in state subsidies (Retirement, Rent Subsidy, and Basic Instructional Subsidy).

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, 2016.

*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, 2016**

**(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)**

|                                   | <b>Governmental<br/>Activities</b> |                     | <b>Business - Type<br/>Activities</b> |                    | <b>Total<br/>Primary<br/>Government</b> |                     |
|-----------------------------------|------------------------------------|---------------------|---------------------------------------|--------------------|-----------------------------------------|---------------------|
|                                   | <b><u>2016</u></b>                 | <b><u>2015</u></b>  | <b><u>2016</u></b>                    | <b><u>2015</u></b> | <b><u>2016</u></b>                      | <b><u>2015</u></b>  |
| Current and other assets          | \$ 40,454                          | \$ 58,824           | \$ 2,822                              | \$ 2,131           | \$ 43,276                               | \$ 60,955           |
| Capital Assets                    | <u>85,850</u>                      | <u>90,955</u>       | <u>569</u>                            | <u>177</u>         | <u>86,419</u>                           | <u>91,132</u>       |
| Total Assets                      | <u>126,304</u>                     | <u>149,779</u>      | <u>3,391</u>                          | <u>2,308</u>       | <u>129,695</u>                          | <u>152,087</u>      |
| Deferred Outflows<br>of Resources | <u>42,766</u>                      | <u>27,432</u>       | <u>-</u>                              | <u>-</u>           | <u>42,766</u>                           | <u>27,432</u>       |
| Other Liabilities                 | 276,208                            | 256,619             | -                                     | -                  | 276,208                                 | 256,619             |
| Long-term debt                    | <u>183,500</u>                     | <u>180,670</u>      | <u>-</u>                              | <u>-</u>           | <u>183,500</u>                          | <u>180,670</u>      |
| Total Liabilities                 | <u>459,708</u>                     | <u>437,289</u>      | <u>-</u>                              | <u>-</u>           | <u>459,708</u>                          | <u>437,289</u>      |
| Deferred Inflows<br>of Resources  | <u>5,757</u>                       | <u>17,985</u>       | <u>-</u>                              | <u>-</u>           | <u>5,757</u>                            | <u>17,985</u>       |
| Net Position                      | <u>\$ (296,395)</u>                | <u>\$ (278,063)</u> | <u>\$ 3,391</u>                       | <u>\$ 2,308</u>    | <u>\$ (293,004)</u>                     | <u>\$ (275,755)</u> |

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

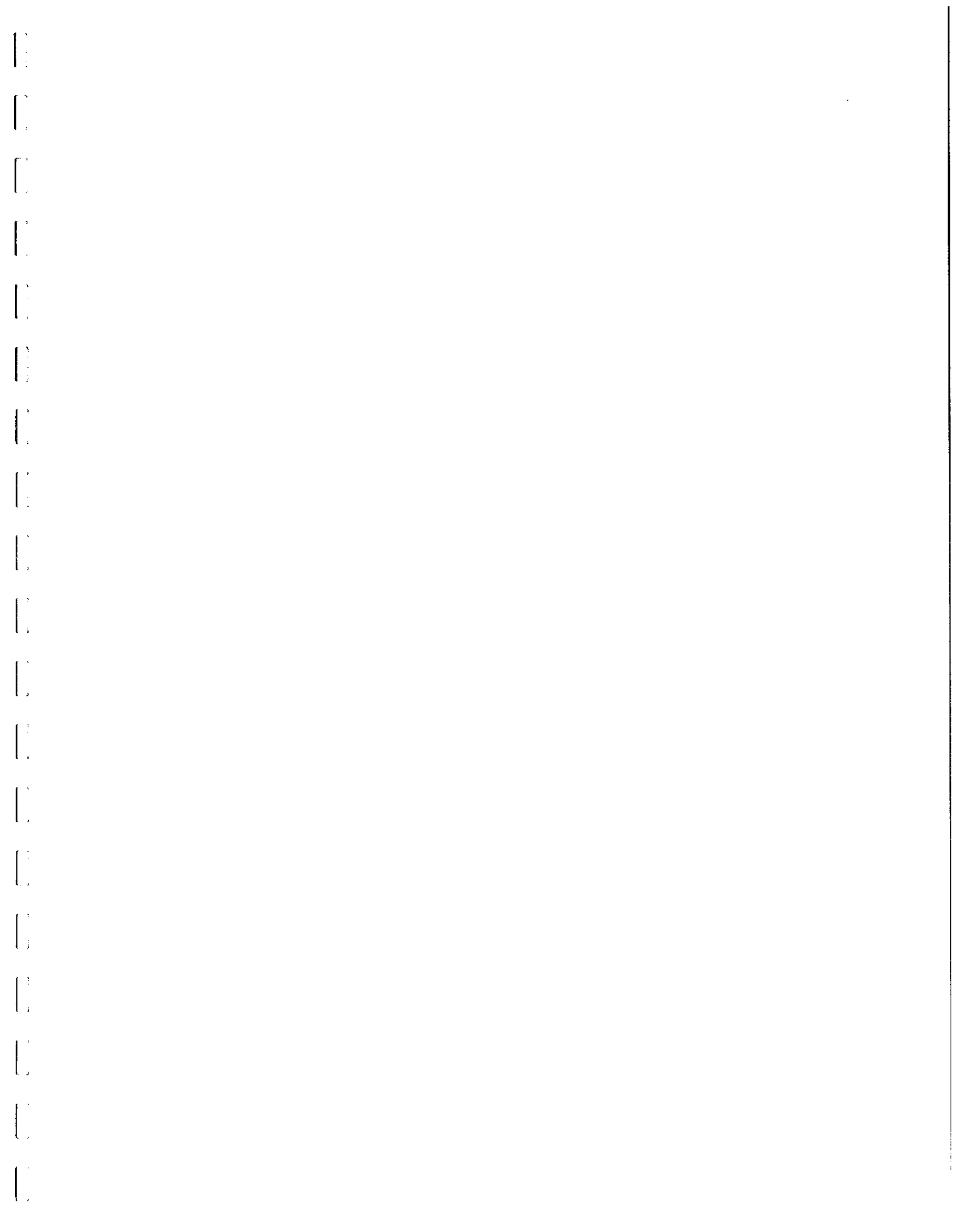
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 2016**

**(UNAUDITED)**

**Condensed Statements of Revenue and Expenses**  
**( In Thousands of Dollars)**

|                                                  | <b>Governmental<br/>Activities</b> |                    | <b>Business-Type<br/>Activities</b> |                 | <b>Total Primary<br/>Government</b> |                    |
|--------------------------------------------------|------------------------------------|--------------------|-------------------------------------|-----------------|-------------------------------------|--------------------|
|                                                  | <u>2016</u>                        | <u>2015</u>        | <u>2016</u>                         | <u>2015</u>     | <u>2016</u>                         | <u>2015</u>        |
| Revenues                                         |                                    |                    |                                     |                 |                                     |                    |
| Program revenues:                                |                                    |                    |                                     |                 |                                     |                    |
| Charges for Services                             | \$ 125                             | \$ 360             | \$ 471                              | \$ 461          | \$ 596                              | \$ 821             |
| Federal grants                                   | 8,242                              | 6,596              | 6,045                               | 3,794           | 14,287                              | 10,390             |
| State grants and entitlements                    | 75,840                             | 65,235             | 272                                 | 175             | 76,112                              | 65,410             |
| General Revenues:                                |                                    |                    |                                     |                 |                                     |                    |
| Property taxes                                   | 37,973                             | 37,807             | -                                   | -               | 37,973                              | 37,807             |
| Other taxes                                      | 22,628                             | 21,159             | -                                   | -               | 22,628                              | 21,159             |
| Other general revenues                           | 1,251                              | 1,850              | 166                                 | 5               | 1,417                               | 1,855              |
| Total Revenues                                   | <u>146,059</u>                     | <u>133,007</u>     | <u>6,954</u>                        | <u>4,435</u>    | <u>153,013</u>                      | <u>137,442</u>     |
| Program expenses:                                |                                    |                    |                                     |                 |                                     |                    |
| Instruction                                      | 110,620                            | 104,740            | -                                   | -               | 110,620                             | 104,740            |
| Instruction- student support                     | 8,460                              | 7,191              | -                                   | -               | 8,460                               | 7,191              |
| Administrative and financial<br>support services | 12,926                             | 12,560             | -                                   | -               | 12,926                              | 12,560             |
| Operation and maintenance<br>and plant services  | 14,667                             | 14,652             | -                                   | -               | 14,667                              | 14,652             |
| Pupil transportation                             | 4,776                              | 4,680              | -                                   | -               | 4,776                               | 4,680              |
| Student Activities                               | 1,917                              | 1,688              | -                                   | -               | 1,917                               | 1,688              |
| Community services                               | 266                                | 307                | -                                   | -               | 266                                 | 307                |
| Interest on long - term debt                     | 9,594                              | 8,508              | -                                   | -               | 9,594                               | 8,508              |
| Bond issuance costs                              | 441                                | 1,014              | -                                   | -               | 441                                 | 1,014              |
| Food Service                                     | -                                  | -                  | 5,841                               | 5,025           | 5,841                               | 5,025              |
| Other enterprise funds                           | -                                  | -                  | 30                                  | 23              | 30                                  | 23                 |
| Total expenses                                   | <u>163,667</u>                     | <u>155,340</u>     | <u>5,871</u>                        | <u>5,048</u>    | <u>169,538</u>                      | <u>160,388</u>     |
| Excess (Deficiency) before<br>special items      | (17,608)                           | (22,333)           | 1,083                               | (613)           | (16,525)                            | (22,946)           |
| Special Items                                    | <u>(724)</u>                       | <u>(610)</u>       | <u>-</u>                            | <u>-</u>        | <u>(724)</u>                        | <u>(610)</u>       |
| Change in net position                           | <u>\$ (18,332)</u>                 | <u>\$ (22,943)</u> | <u>\$ 1,083</u>                     | <u>\$ (613)</u> | <u>\$ (17,249)</u>                  | <u>\$ (23,556)</u> |



**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 2016**

**(UNAUDITED)**

**2. Business type Activities**

The net position of the business- type activities increased by \$1,082,507. The increase in net position occurred due to a timing difference of grant receipts.

See the Statement of Net Position and Statement of Activities for further information.

**Financial analysis of the District's Funds**

**Governmental Funds**

As of year-end, the governmental funds reported a combined fund balance of \$16,024,382, which is a decrease from the prior year of \$5,529,669. The decrease resulted from capital expenditures on the School District's buildings. The governmental funds include the Capital Projects Fund which is capital expenditure oriented, and therefore, may reflect capital expenditures (which are reflected in the current financial resources-based fund financial statements) as a spending of a portion of available net assets. The general fund experienced a \$ 3,758,478 net decrease in fund balance.

**General Fund Budgetary Highlights**

During the year ended December 31, 2016, the Board of School Directors authorized revisions to the original budget to accommodate differences from original budget to the actual expenditures of the District. A schedule showing the District's original and final budget amounts compared with the amounts actually incurred and recognized is provided on page 59.

The District's actual local revenue was under budget due to property tax revenue, delinquent tax and miscellaneous revenue. This local revenue variance resulted from fewer collections and a lower amount received on the sale of delinquent tax. Additionally, debt refinancing proceeds are reported in budgeted local miscellaneous income resulting in actual miscellaneous income being under budget. Actual state revenue was over budgeted amounts due to Gross up of Basic instructional subsidy and Rent subsidy actual over budget. Actual federal revenue actual was over budget due additional drawdown of Access funding. Expenditures exceeded budget due to increases in regular instruction, vocational education, pupil personnel, instructional staff, pupil health and student transportation. Expenditures were under budget for debt service due to payment of debt service through transactions in debt service fund (Other Governmental Funds)

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

(UNAUDITED)

General Fund Budgetary Highlights (Continued)

Actual expenditures exceeded budget due to recording basic instructional subsidy, tuition, special education, social security and transportation revenue at the gross amount for actual purposes.

Capital Assets and Debt Administration

Capital Assets

As of year-end, the District had \$86,419,234 invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$4,713,462 from the end of last year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements. (See Note 5)

Debt outstanding

As of year-end, the District had \$183,500,000 in debt (bonds) outstanding compared to \$180,670,000 last year. This represents a net increase of \$2,830,000. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements. (See Note 6 and Note 24)

Factors expected to have an effect on future operations

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

- a. The District is in the process of selling its real estate tax receivable to a third party in effort to collect taxes receivable.
- b. The District is also limited in the percent it can increase property taxes for future years due to the Pennsylvania state legislature's Act 1 of 2006. The Act places annual limits on the increase in property taxes that the District can levy and also provides for property tax relief funded by state gaming revenue. This may have significant impact on the District's ability to fund its programs and services in future years.
- c. The projected increase in PSERS employer contribution rate for future years could also result in a significant increase in expenditures.

(concluded)

**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School District of the City of Scranton as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Scranton as of December 31, 2016, 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 25, 2017, 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. Bartlett, LLC*

Dunmore, Pennsylvania  
September 25, 2017

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

|                                       | Governmental       | Business -type   |                    |
|---------------------------------------|--------------------|------------------|--------------------|
|                                       | Activities         | Activities       | Total              |
| <b>ASSETS:</b>                        |                    |                  |                    |
| Cash and cash equivalents             | \$ 10,502,884      | \$ 2,205,613     | \$ 12,708,497      |
| Cash-restricted                       | 6,607,524          | -                | 6,607,524          |
| Property taxes receivable             | 6,457,917          | -                | 6,457,917          |
| Due from other governments            | 17,449,620         | -                | 17,449,620         |
| Internal balances                     | (564,513)          | 564,513          | -                  |
| Inventories                           | -                  | 51,543           | 51,543             |
| Nondepreciated capital assets         | 4,209,661          | -                | 4,209,661          |
| Depreciated capital assets            | 176,589,937        | 1,450,617        | 178,040,554        |
| Less: Accumulated depreciation        | (94,949,307)       | (881,674)        | (95,830,981)       |
| Total Assets                          | <u>126,303,723</u> | <u>3,390,612</u> | <u>129,694,335</u> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> |                    |                  |                    |
| Accumulated decrease in fair value of |                    |                  |                    |
| hedging derivative                    | 8,495,728          | -                | 8,495,728          |
| Deferred amount on bond refunding     | 1,060,045          | -                | 1,060,045          |
| Deferred outflows of resources:       |                    |                  |                    |
| Pension plan                          | <u>33,210,133</u>  | <u>-</u>         | <u>33,210,133</u>  |
| Total deferred outflows of resources  | <u>42,765,906</u>  | <u>-</u>         | <u>42,765,906</u>  |
| <b>LIABILITIES:</b>                   |                    |                  |                    |
| Accounts payable and accrued          |                    |                  |                    |
| liabilities                           | 10,654,395         | -                | 10,654,395         |
| Payroll payable and withholding       | 2,686,682          | -                | 2,686,682          |
| Deferred instrument liability-        |                    |                  |                    |
| interest rate swap                    | 8,495,728          | -                | 8,495,728          |
| Long-term obligations                 |                    |                  |                    |
| Due within one year                   |                    |                  |                    |
| Capital leases                        | 289,313            | -                | 289,313            |
| Bonds                                 | 6,500,000          | -                | 6,500,000          |
| Accrued interest                      | 2,104,300          | -                | 2,104,300          |
| Retirement Incentives                 | 2,004,000          | -                | 2,004,000          |
| Compensated Absences                  | 1,225,000          | -                | 1,225,000          |
| Due beyond one year                   |                    |                  |                    |
| Net pension liability                 | 227,189,000        | -                | 227,189,000        |
| Capital leases                        | 129,053            | -                | 129,053            |
| Bonds                                 | 177,000,000        | -                | 177,000,000        |
| Retirement Incentives                 | 5,132,500          | -                | 5,132,500          |
| Compensated Absences                  | <u>16,298,470</u>  | <u>-</u>         | <u>16,298,470</u>  |
| Total Liabilities                     | <u>459,708,441</u> | <u>-</u>         | <u>459,708,441</u> |

(continued)

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

STATEMENT OF NET POSITION  
DECEMBER 31, 2016

|                                     | <u>Governmental<br/>Activities</u> | <u>Business -type<br/>Activities</u> | <u>Total</u>                  |
|-------------------------------------|------------------------------------|--------------------------------------|-------------------------------|
| DEFERRED INFLOWS OF RESOURCES       |                                    |                                      |                               |
| Deferred revenue                    | 4,358,335                          | -                                    | 4,358,335                     |
| Deferred inflow of resources:       |                                    |                                      |                               |
| Pension plan                        | 1,398,000                          | -                                    | 1,398,000                     |
| Total deferred inflows of resources | <u>5,756,335</u>                   | <u>-</u>                             | <u>5,756,335</u>              |
| NET POSITION:                       |                                    |                                      |                               |
| Net Investment in Capital Assets    | (85,850,291)                       | 568,943                              | (85,281,348)                  |
| Restricted for:                     |                                    |                                      |                               |
| Debt service                        | 28,951,705                         | -                                    | 28,951,705                    |
| Healthcare benefits                 | 6,607,524                          | -                                    | 6,607,524                     |
| Capital Projects                    | 4,024,128                          | -                                    | 4,024,128                     |
| Unrestricted                        | (250,128,213)                      | 2,821,669                            | (247,306,544)                 |
| Total Net Position                  | <u><u>\$(296,395,147)</u></u>      | <u><u>\$ 3,390,612</u></u>           | <u><u>\$(293,004,535)</u></u> |

(concluded)

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

| FOR THE YEAR ENDED DECEMBER 31, 2010               |                  |                         |                                          |                                                      |                            |                             |                 |
|----------------------------------------------------|------------------|-------------------------|------------------------------------------|------------------------------------------------------|----------------------------|-----------------------------|-----------------|
| Functions / Programs                               | Program Revenues |                         |                                          | Net (Expense) Revenue and<br>Changes in Net Position |                            |                             |                 |
|                                                    | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions               | Governmental<br>Activities | Business-Type<br>Activities | Total           |
| Governmental Activities:                           |                  |                         |                                          |                                                      |                            |                             |                 |
| Instruction                                        | \$ 110,620,005   | \$ 66,506               | \$ 77,927,677                            | \$ -                                                 | \$ (32,625,822)            |                             | \$ (32,625,822) |
| Instruction-student support                        | 8,460,006        | -                       | 1,487,457                                | -                                                    | (6,972,549)                |                             | (6,972,549)     |
| Administrative and financial support services      | 12,926,069       | -                       | 1,490,216                                | -                                                    | (11,435,853)               |                             | (11,435,853)    |
| Operation and maintenance and plant services       | 14,667,063       | -                       | 1,604,847                                | -                                                    | (13,062,216)               |                             | (13,062,216)    |
| Pupil transportation                               | 4,776,178        | -                       | 1,418,596                                | -                                                    | (3,357,582)                |                             | (3,357,582)     |
| Student activities                                 | 1,916,826        | 58,384                  | 105,814                                  | -                                                    | (1,752,628)                |                             | (1,752,628)     |
| Community services                                 | 265,577          | -                       | 47,616                                   | -                                                    | (217,961)                  |                             | (217,961)       |
| Interest on long-term debt                         | 9,593,744        | -                       | -                                        | -                                                    | (9,593,744)                |                             | (9,593,744)     |
| Bond issuance costs                                | 441,099          | -                       | -                                        | -                                                    | (441,099)                  |                             | (441,099)       |
| Total Governmental Activities                      | 163,666,567      | 124,890                 | 84,082,223                               | -                                                    | (79,459,454)               |                             | (79,459,454)    |
| BUSINESS-TYPE ACTIVITIES:                          |                  |                         |                                          |                                                      |                            |                             |                 |
| Food service                                       | 5,841,322        | 316,755                 | 6,470,808                                | -                                                    | -                          | \$ 946,241                  | 946,241         |
| Other enterprise funds                             | 30,197           | 154,023                 | -                                        | -                                                    | -                          | 123,826                     | 123,826         |
| Total Business-Type Activities                     | 5,871,519        | 470,778                 | 6,470,808                                | -                                                    | -                          | 1,070,067                   | 1,070,067       |
| TOTAL SCHOOL DISTRICT                              | \$ 169,538,086   | \$ 595,668              | \$ 90,553,031                            | \$ -                                                 | (79,459,454)               | 1,070,067                   | (78,389,387)    |
| General Revenues:                                  |                  |                         |                                          |                                                      |                            |                             |                 |
| Taxes:                                             |                  |                         |                                          |                                                      |                            |                             |                 |
| Property taxes, levied for general purposes        |                  |                         |                                          |                                                      | 37,973,258                 | -                           | 37,973,258      |
| Other taxes levied                                 |                  |                         |                                          |                                                      | 22,628,239                 | -                           | 22,628,239      |
| Investment earnings                                |                  |                         |                                          |                                                      | 408,872                    | 12,440                      | 421,312         |
| Insurance stop loss                                |                  |                         |                                          |                                                      | 570,813                    | -                           | 570,813         |
| Miscellaneous income                               |                  |                         |                                          |                                                      | 270,320                    | -                           | 270,320         |
| Special item-special education lawsuit settlements |                  |                         |                                          |                                                      | (723,777)                  |                             | (723,777)       |
| Total General Revenues and Special Item            |                  |                         |                                          |                                                      | 61,127,725                 | 12,440                      | 61,140,165      |
| Change in net position                             |                  |                         |                                          |                                                      | (18,331,729)               | 1,082,507                   | (17,249,222)    |
| Net Position, Beginning                            |                  |                         |                                          |                                                      | (278,063,418)              | 2,308,105                   | (275,755,313)   |
| Net Position, Ending                               |                  |                         |                                          |                                                      | \$(296,395,147)            | \$ 3,390,612                | \$(293,004,535) |

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

|                                                                    | General              | Capital             | Other               | Total                |
|--------------------------------------------------------------------|----------------------|---------------------|---------------------|----------------------|
|                                                                    | Fund                 | Projects            | Governmental        | Governmental         |
| ASSETS                                                             | Fund                 | Fund                | Funds               | Funds                |
| Cash and cash equivalents                                          | \$ 6,649,769         | \$ 1,889,078        | \$ 1,692,316        | \$ 10,231,163        |
| Cash-restricted                                                    | 6,607,524            | -                   | -                   | 6,607,524            |
| Property taxes receivable                                          | 6,457,917            | -                   | -                   | 6,457,917            |
| Due from other governments                                         | 17,449,620           | -                   | -                   | 17,449,620           |
| Due from general fund                                              | -                    | 2,135,050           | -                   | 2,135,050            |
| Due from other funds                                               | 97,000               | -                   | -                   | 97,000               |
| Total Assets                                                       | <u>\$ 37,261,830</u> | <u>\$ 4,024,128</u> | <u>\$ 1,692,316</u> | <u>\$ 42,978,274</u> |
| LIABILITIES, DEFERRED INFLOWS<br>OF RESOURCES AND FUND<br>BALANCES |                      |                     |                     |                      |
| Liabilities:                                                       |                      |                     |                     |                      |
| Accounts payable and accrued<br>liabilities                        | \$ 10,654,395        | \$ -                | \$ -                | \$ 10,654,395        |
| Payroll payable and withholding                                    | 2,686,682            | -                   | -                   | 2,686,682            |
| Due to enterprise fund - food service                              | 661,513              | -                   | -                   | 661,513              |
| Due to capital projects fund                                       | 2,135,050            | -                   | -                   | 2,135,050            |
| Total Liabilities                                                  | <u>16,137,640</u>    | <u>-</u>            | <u>-</u>            | <u>16,137,640</u>    |
| DEFERRED INFLOWS OF<br>RESOURCES                                   |                      |                     |                     |                      |
| Deferred revenue                                                   | <u>10,816,252</u>    | <u>-</u>            | <u>-</u>            | <u>10,816,252</u>    |
| Fund Balances:                                                     |                      |                     |                     |                      |
| Restricted for debt service                                        | 28,951,705           | -                   | -                   | 28,951,705           |
| Restricted for healthcare benefits                                 | 6,607,524            | -                   | -                   | 6,607,524            |
| Assigned                                                           | -                    | 4,024,128           | 1,692,316           | 5,716,444            |
| Unassigned                                                         | (25,251,291)         | -                   | -                   | (25,251,291)         |
| Total Fund Balances                                                | <u>10,307,938</u>    | <u>4,024,128</u>    | <u>1,692,316</u>    | <u>16,024,382</u>    |
| Total Liabilities and Fund Balances                                | <u>\$ 37,261,830</u> | <u>\$ 4,024,128</u> | <u>\$ 1,692,316</u> | <u>\$ 42,978,274</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, 2016

---

|                                  |    |            |
|----------------------------------|----|------------|
| Total Governmental Fund Balances | \$ | 16,024,382 |
|----------------------------------|----|------------|

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 \$180,799,598 and the accumulated depreciation is \$94,949,037 |  | 85,850,291 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------|

|                                                                                                                                                                                |  |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|
| 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. |  | 6,457,917 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|

|                                                                                                                                                                                                                                                          |  |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------|
| 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. |  | 271,721 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------|

|                                                                                                                                                                                                                                                                    |  |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|
| 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. |  | 1,060,045 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|

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                 |  | (183,500,000) |
| Capital lease payable         |  | (418,366)     |
| Net pension liability         |  | (227,189,000) |
| Accrued interest on the bonds |  | (2,104,300)   |
| Compensated absences          |  | (17,523,470)  |
| Retirement Incentives         |  | (7,136,500)   |

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 | 33,210,133         |            |
| Deferred Inflows of Resources-Pension Plan  | <u>(1,398,000)</u> | 31,812,133 |

|                                             |    |                      |
|---------------------------------------------|----|----------------------|
| Total Net Position- Governmental Activities | \$ | <u>(296,395,147)</u> |
|---------------------------------------------|----|----------------------|

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, 2016

|                                             | General<br>Fund | Capital<br>Projects<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------|-----------------|-----------------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                             |                 |                             |                                |                                |
| Local sources                               | \$ 62,121,413   | \$ 6,819                    | \$ 2,918                       | \$ 62,131,150                  |
| State sources                               | 75,839,896      | -                           | -                              | 75,839,896                     |
| Federal sources                             | 8,242,327       | -                           | -                              | 8,242,327                      |
| Total Revenues                              | 146,203,636     | 6,819                       | 2,918                          | 146,213,373                    |
| <b>EXPENDITURES</b>                         |                 |                             |                                |                                |
| Instruction                                 | 100,856,253     | -                           | -                              | 100,856,253                    |
| Support Services                            | 39,197,090      | -                           | -                              | 39,197,090                     |
| Noninstructional services                   | 1,629,072       | 295,346                     | 5,050                          | 1,929,468                      |
| Capital outlay                              | -               | 1,094,318                   | -                              | 1,094,318                      |
| Debt service:                               |                 |                             |                                |                                |
| Principal                                   | 2,705,000       | 285,858                     | 2,920,000                      | 5,910,858                      |
| Interest and other charges                  | 3,636,569       | 11,986                      | 5,320,671                      | 8,969,226                      |
| Total Expenditures                          | 148,023,984     | 1,687,508                   | 8,245,721                      | 157,957,213                    |
| Deficiency of revenues<br>over expenditures | (1,820,348)     | (1,680,689)                 | (8,242,803)                    | (11,743,840)                   |

(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, 2016

|                                       | General<br>Fund | Capital<br>Projects<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------|-----------------|-----------------------------|--------------------------------|--------------------------------|
| OTHER FINANCING SOURCES (USES)        |                 |                             |                                |                                |
| Proceeds from bond issuance           | -               | -                           | 46,255,000                     | 46,255,000                     |
| Refunding of 2015 Series C & D bonds  | -               | -                           | (37,800,000)                   | (37,800,000)                   |
| Bond issuance costs                   | -               | -                           | (441,099)                      | (441,099)                      |
| Special education lawsuit settlements | (723,777)       | -                           | -                              | (723,777)                      |
| Operating transfers (out) in          | (1,214,353)     | -                           | 138,400                        | (1,075,953)                    |
| Total                                 | (1,938,130)     | -                           | 8,152,301                      | 6,214,171                      |
| Net change in fund balances           | (3,758,478)     | (1,680,689)                 | (90,502)                       | (5,529,669)                    |
| Fund Balance, Beginning               | 14,066,416      | 5,704,817                   | 1,782,818                      | 21,554,051                     |
| Fund Balance, Ending                  | \$ 10,307,938   | \$ 4,024,128                | \$ 1,692,316                   | \$ 16,024,382                  |

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, 2016**

---

Net change in fund balances- Total Governmental funds \$ (5,529,569)

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.

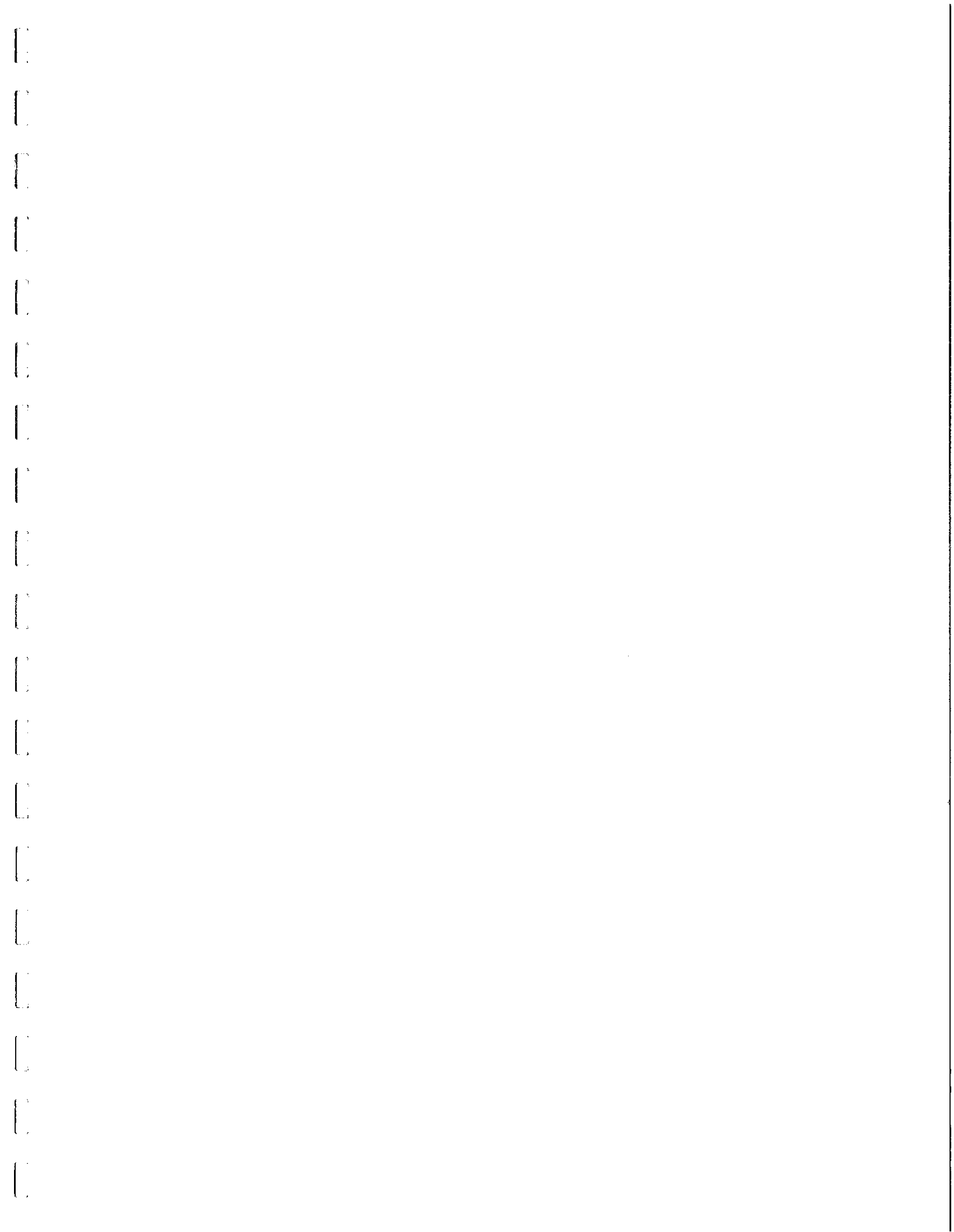
This is the amount by which depreciation exceeds capital outlays in the period.

|                 |    |                    |             |
|-----------------|----|--------------------|-------------|
| Capital outlays | \$ | 1,094,318          |             |
| Depreciation    |    | <u>(6,199,318)</u> | (5,105,000) |

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. (156,958)

In the statement of activities, certain operating expenses- compensated absences and retirement incentives are measured by the amounts earned during the year. In the governmental funds, however expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). Vacation, sick leave and retirement incentives used were more than the amounts earned. 2,682,560

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, 2016

---

|                                                                                                                                                                                                                                                                                                                                                                                           |                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| 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.                                                                                                                                    | 43,425,000                    |
| Bond issuance proceeds provide current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.                                                                                                                                                                                                                                | (46,255,000)                  |
| 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.                                                                                                                                                                                                     | 285,858                       |
| 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. | (624,518)                     |
| 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.                                                                                                                               | 140,728                       |
| Government funds report District pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense                                                                                                                                                                         |                               |
| District Pension Contributions                                                                                                                                                                                                                                                                                                                                                            | 16,728,133                    |
| Cost of Benefits Earned Net of Employee Contributions                                                                                                                                                                                                                                                                                                                                     | <u>(23,922,963)</u>           |
|                                                                                                                                                                                                                                                                                                                                                                                           | <u>(7,194,830)</u>            |
| Change in net position of governmental activities                                                                                                                                                                                                                                                                                                                                         | <u><u>\$ (18,331,729)</u></u> |
| See accompanying notes.                                                                                                                                                                                                                                                                                                                                                                   |                               |

SCHOOL DISTRICT OF THE CITY OF SCRANTON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

DECEMBER 31, 2016

|                                    | Enterprise Funds |                        |             | Internal Service Fund |
|------------------------------------|------------------|------------------------|-------------|-----------------------|
|                                    | Food Service     | Other Enterprise Funds | Total       |                       |
| ASSETS:                            |                  |                        |             |                       |
| Cash and cash equivalents          | \$ 1,780,427     | \$ 425,186             | \$2,205,613 | \$ 271,721            |
| Due from other funds               | 661,513          | -                      | 661,513     | -                     |
| Inventories                        | 51,543           | -                      | 51,543      | -                     |
| Depreciated capital assets         | 1,313,507        | 137,110                | 1,450,617   | -                     |
| Less: Accumulated depreciation     | (762,952)        | (118,722)              | (881,674)   | -                     |
| Total Assets                       | \$ 3,044,038     | \$ 443,574             | \$3,487,612 | \$ 271,721            |
| LIABILITIES:                       |                  |                        |             |                       |
| Due to other funds                 | \$ 24,000        | \$ 73,000              | \$ 97,000   | \$ -                  |
| NET POSITION:                      |                  |                        |             |                       |
| Net investment in capital assets   | 550,555          | 18,388                 | 568,943     | -                     |
| Unrestricted                       | 2,469,483        | 352,186                | 2,821,669   | 271,721               |
| Total net position                 | 3,020,038        | 370,574                | 3,390,612   | 271,721               |
| Total Liabilities and Net Position | \$ 3,044,038     | \$ 443,574             | \$3,487,612 | \$ 271,721            |

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, 2016**

|                                             | Enterprise Funds    |                              |                     | Internal<br>Service Fund |
|---------------------------------------------|---------------------|------------------------------|---------------------|--------------------------|
|                                             | Food<br>Service     | Other<br>Enterprise<br>Funds | Total               |                          |
| OPERATING REVENUES:                         |                     |                              |                     |                          |
| Charges for services                        | \$ 316,755          | \$ 12,235                    | \$ 328,990          | \$ -                     |
| Rental income                               | -                   | 141,788                      | 141,788             | -                        |
| TOTAL                                       | <u>316,755</u>      | <u>154,023</u>               | <u>470,778</u>      | <u>-</u>                 |
| OPERATING EXPENSES:                         |                     |                              |                     |                          |
| Contracted services                         | 5,774,459           | 24,577                       | 5,799,036           | -                        |
| Depreciation                                | 66,863              | 5,620                        | 72,483              | -                        |
| Claims and judgments                        | -                   | -                            | -                   | 937,424                  |
| TOTAL                                       | <u>5,841,322</u>    | <u>30,197</u>                | <u>5,871,519</u>    | <u>937,424</u>           |
| OPERATING INCOME (LOSS)                     | <u>(5,524,567)</u>  | <u>123,826</u>               | <u>(5,400,741)</u>  | <u>(937,424)</u>         |
| NON-OPERATING REVENUES<br>(EXPENSES)        |                     |                              |                     |                          |
| Grant reimbursement                         | 153,712             | -                            | 153,712             | -                        |
| Earnings from investments                   | 9,533               | 2,907                        | 12,440              | 2,200                    |
| State sources                               | 272,314             | -                            | 272,314             | -                        |
| Federal sources                             | 6,044,782           | -                            | 6,044,782           | -                        |
| TOTAL                                       | <u>6,480,341</u>    | <u>2,907</u>                 | <u>6,483,248</u>    | <u>2,200</u>             |
| INCOME (LOSS) BEFORE<br>OPERATING TRANSFERS | 955,774             | 126,733                      | 1,082,507           | (935,224)                |
| OPERATING TRANSFERS:                        |                     |                              |                     |                          |
| Operating transfers in                      | -                   | -                            | -                   | 1,075,952                |
| CHANGE IN NET POSITION                      | 955,774             | 126,733                      | 1,082,507           | 140,728                  |
| NET POSITION, BEGINNING                     | <u>2,064,264</u>    | <u>243,841</u>               | <u>2,308,105</u>    | <u>130,993</u>           |
| NET POSITION, ENDING                        | <u>\$ 3,020,038</u> | <u>\$ 370,574</u>            | <u>\$ 3,390,612</u> | <u>\$ 271,721</u>        |
| See accompanying notes.                     |                     |                              |                     |                          |

# **SCHOOL DISTRICT OF THE CITY OF SCRANTON**

## **STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                                             | Enterprise Funds    |                              |                     |                          |
|-------------------------------------------------------------|---------------------|------------------------------|---------------------|--------------------------|
|                                                             | Food<br>Service     | Other<br>Enterprise<br>Funds | Total               | Internal<br>Service Fund |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                |                     |                              |                     |                          |
| Cash received from users                                    | \$ 316,755          | \$ 154,023                   | \$ 470,778          | \$ -                     |
| Cash paid to suppliers                                      | (6,125,503)         | (24,577)                     | (6,150,080)         | -                        |
| Cash paid for insurance claims                              | -                   | -                            | -                   | (937,424)                |
| Net cash (used) provided by operating activities            | (5,808,748)         | 129,446                      | (5,679,302)         | (937,424)                |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES:</b> |                     |                              |                     |                          |
| Grant reimbursement                                         | 153,712             | -                            | 153,712             | -                        |
| State sources                                               | 272,314             | -                            | 272,314             | -                        |
| Federal Sources                                             | 6,044,782           | -                            | 6,044,782           | -                        |
| Operating transfers in                                      | -                   | -                            | -                   | 1,075,952                |
| Net cash provided by noncapital financing activities:       | 6,470,808           | -                            | 6,470,808           | 1,075,952                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                |                     |                              |                     |                          |
| Purchase of capital assets                                  | (464,021)           | -                            | (464,021)           | -                        |
| Earnings on investments                                     | 9,533               | 2,907                        | 12,440              | 2,200                    |
| Net cash (used) provided by investing activities            | (454,488)           | 2,907                        | (451,581)           | 2,200                    |
| Net increase in cash                                        | 207,572             | 132,353                      | 339,925             | 140,728                  |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING</b>                | <b>1,572,855</b>    | <b>292,833</b>               | <b>1,865,688</b>    | <b>130,993</b>           |
| <b>CASH AND CASH EQUIVALENTS - ENDING</b>                   | <b>\$ 1,780,427</b> | <b>\$ 425,186</b>            | <b>\$ 2,205,613</b> | <b>\$ 271,721</b>        |

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                                                                                          | Enterprise Funds      |                     |                       |                          |
|----------------------------------------------------------------------------------------------------------|-----------------------|---------------------|-----------------------|--------------------------|
|                                                                                                          | Food<br>Service       | Enterprise<br>Funds | Total                 | Internal<br>Service Fund |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO<br>NET CASH (USED) PROVIDED BY OPERATING<br>ACTIVITIES:     |                       |                     |                       |                          |
| Operating income (loss)                                                                                  | \$ (5,524,567)        | \$ 123,826          | \$ (5,400,741)        | \$ (937,424)             |
| Adjustments to reconcile operating income (loss) to<br>net cash (used) provided by operating activities: |                       |                     |                       |                          |
| Depreciation                                                                                             | 66,863                | 5,620               | 72,483                | -                        |
| Changes in assets and liabilities:                                                                       |                       |                     |                       |                          |
| Due from general fund                                                                                    | (357,028)             | -                   | (357,028)             | -                        |
| Inventories                                                                                              | 5,984                 | -                   | 5,984                 | -                        |
| Net cash (used) provided by operating activities                                                         | <u>\$ (5,808,748)</u> | <u>\$ 129,446</u>   | <u>\$ (5,679,302)</u> | <u>\$ (937,424)</u>      |

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**

**DECEMBER 31, 2016**

|                                    | <u>Fiduciary Funds</u> |                                      |                   |
|------------------------------------|------------------------|--------------------------------------|-------------------|
|                                    | <u>Agency</u>          | <u>Private<br/>Purpose<br/>Trust</u> | <u>Total</u>      |
| ASSETS:                            |                        |                                      |                   |
| Cash and cash equivalents          | \$ 423,286             | \$ 3,739                             | \$ 427,025        |
| Investments                        | 22,532                 | -                                    | 22,532            |
| Total Assets                       | <u>\$ 445,818</u>      | <u>\$ 3,739</u>                      | <u>\$ 449,557</u> |
| LIABILITIES:                       |                        |                                      |                   |
| Due to student groups              | \$ 445,818             | \$ -                                 | \$ 445,818        |
| NET POSITION:                      |                        |                                      |                   |
| Unrestricted                       | <u>-</u>               | <u>3,739</u>                         | <u>3,739</u>      |
| Total Liabilities and Net Position | <u>\$ 445,818</u>      | <u>\$ 3,739</u>                      | <u>\$ 449,557</u> |

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

---

|                         | Private<br>Purpose<br>Trust |
|-------------------------|-----------------------------|
| ADDITIONS:              |                             |
| Private Donations       | \$ -                        |
| Investment earnings     | 32                          |
| Total additions         | <u>32</u>                   |
| DEDUCTIONS:             |                             |
| Scholarships awarded    | <u>-</u>                    |
| Change in net position  | 32                          |
| Net Position- Beginning | <u>3,707</u>                |
| Net Position- Ending    | <u>\$ 3,739</u>             |

See accompanying notes.

# SCHOOL DISTRICT OF THE CITY OF SCRANTON

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

#### Reporting entity

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

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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  
Effective January 1, 2015 the District 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, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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 \$19,743,046 and the corresponding bank balance was \$23,493,621.

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.

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, 2016 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>\$22,532.</u>  |

Derivative Instruments

The fair value balance and notional amount of derivative instruments outstanding at December 31, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements is as follows:

|                              | <u>Changes in Fair Value</u> |               | <u>Fair Value at December 31, 2016</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         | \$ 1,001,359  | Debt                                   | \$ (8,495,728) | \$ 31,005,000   |

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.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

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, 2016 along with the credit rating of the associated counterparty.

| <u>Type</u>                        | <u>Objective</u>                                       | <u>Notional<br/>Amount</u> | <u>Effective<br/>Date</u> | <u>Maturity<br/>Date</u> | <u>Terms</u>                                    |
|------------------------------------|--------------------------------------------------------|----------------------------|---------------------------|--------------------------|-------------------------------------------------|
| Pay-fixed<br>interest rate<br>swap | Hedge of changes in<br>cash flows on the<br>2014 bonds | \$ <u>31,005,000</u>       | 12/29/2014                | 4/1/2031                 | Pay 4.738%; receives<br>68% of 1-month<br>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, 2016, 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.

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.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3 - RECEIVABLES:**

Property Taxes Receivable

The property tax receivable recorded in the accompanying financial statements is \$6,457,917.

Due from Other Governments (Intergovernmental Receivables)

Local Tax Receivable

|                          |              |
|--------------------------|--------------|
| Real Estate Tax          | \$ 1,105,145 |
| Business Privilege Tax   | 27,197       |
| Earned Income Tax        | 429,443      |
| Local Services Tax       | 17,406       |
| Real Estate Transfer tax | 42,116       |

State Subsidies Receivable

|                 |           |
|-----------------|-----------|
| Retirement      | 4,961,193 |
| Rent Subsidy    | 7,032,372 |
| Social Work     | 66,146    |
| Social Security | 961,919   |

Federal Subsidies Receivable

|               |           |
|---------------|-----------|
| Title I       | 58,188    |
| Project Elect | 88,501    |
| Access        | 641,243   |
| IDEA Grant    | 2,011,259 |
| Title III     | 7,492     |

Total Receivable (Other governments) \$ 17,449,620

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The following is a summary of interfund receivables and payables at December 31, 2016:

|                                    | Interfund<br>Receivable | Interfund<br>Payable |
|------------------------------------|-------------------------|----------------------|
| General Fund                       | \$ 97,000               | \$ 2,796,563         |
| Capital Projects Fund              | 2,135,050               | -                    |
| Enterprise Fund, Other             | -                       | 73,000               |
| Enterprise Fund, Food Service Fund | 661,513                 | 24,000               |
|                                    | <u>\$ 2,893,563</u>     | <u>\$ 2,893,563</u>  |

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

Interfund transfers are summarized as follows:

|                       | <u>Operating<br/>Transfers In</u> | <u>Operating<br/>Transfers Out</u> |
|-----------------------|-----------------------------------|------------------------------------|
| General Fund          | \$ -                              | \$ 1,214,353                       |
| Debt Service Fund     | 138,400                           | -                                  |
| Internal Service Fund | 1,075,952                         | -                                  |
| Rounding              | 1                                 | -                                  |
|                       | <u>\$ 1,214,353</u>               | <u>\$ 1,214,353</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<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
|---------------------------------------|-----------------------|-------------------------------------|---------------------------|
| Capital assets not being depreciated: |                       |                                     |                           |
| Land                                  | \$ 4,209,661          | \$ -                                | \$ 4,209,661              |
| Capital assets being depreciated:     |                       |                                     |                           |
| Buildings and building improvements   | 149,164,965           | 70,382,174                          | 78,782,791                |
| Furniture and equipment               | 25,162,169            | 22,530,604                          | 2,631,565                 |
| Textbooks                             | 2,262,803             | 2,036,529                           | 226,274                   |
| Total                                 | <u>\$ 180,799,598</u> | <u>\$ 94,949,307</u>                | <u>\$ 85,850,291</u>      |

A summary of changes in capital assets is as follows:

|                                       | <u>Balance<br/>1/1/2016</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Balance<br/>12/31/2016</u> |
|---------------------------------------|-----------------------------|--------------------|------------------|-------------------------------|
| Governmental Activities               |                             |                    |                  |                               |
| Capital assets not being depreciated: |                             |                    |                  |                               |
| Land                                  | \$ 4,209,661                | \$ -               | \$ -             | \$ 4,209,661                  |
| Capital assets being depreciated:     |                             |                    |                  |                               |
| Buildings and building improvements   | 148,471,475                 | 693,490            | -                | 149,164,965                   |
| Furniture and equipment               | 24,761,341                  | 400,828            | -                | 25,162,169                    |
| Textbooks                             | 2,262,803                   | -                  | -                | 2,262,803                     |
| Subtotals                             | 179,705,280                 | 1,094,318          | -                | 180,799,598                   |
| Accumulated Depreciation              | (88,749,989)                | (6,199,318)        | -                | (94,949,307)                  |
| Total Governmental Activities         | <u>90,955,291</u>           | <u>(5,105,000)</u> | <u>-</u>         | <u>85,850,291</u>             |

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5 - CAPITAL ASSETS (CONTINUED)**

|                                   | <u>Balance</u><br><u>1/1/2016</u> | <u>Increases</u>      | <u>Decreases</u> | <u>Balance</u><br><u>12/31/2016</u> |
|-----------------------------------|-----------------------------------|-----------------------|------------------|-------------------------------------|
| Business Type Activities          |                                   |                       |                  |                                     |
| Capital Assets being depreciated: |                                   |                       |                  |                                     |
| Furniture and equipment           | 986,596                           | 464,021               | -                | 1,450,617                           |
| Accumulated depreciation          | <u>(809,191)</u>                  | <u>(72,483)</u>       | <u>-</u>         | <u>(881,674)</u>                    |
| Total Business Type Activities    | <u>177,405</u>                    | <u>391,538</u>        | <u>-</u>         | <u>568,943</u>                      |
| Total for Reporting Entity        | <u>\$ 91,132,696</u>              | <u>\$ (4,713,462)</u> | <u>\$ -</u>      | <u>\$ 86,419,234</u>                |

Depreciation expense was charged to governmental functions as follows:

|                                |                     |
|--------------------------------|---------------------|
| Instruction                    | \$ 4,591,092        |
| Instructional- Student Support | 589,287             |
| Administrative and             |                     |
| Financial support services     | 81,490              |
| Operation and maintenance of   |                     |
| Plant Services                 | 630,996             |
| Student Activities             | <u>306,453</u>      |
| Total                          | <u>\$ 6,199,318</u> |

**NOTE 6 - LONG TERM DEBT**

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,

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 -LONG TERM DEBT (CONTINUED)**

(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.

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.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 -LONG TERM DEBT (CONTINUED)**

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.

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.

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.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

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

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

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 May 15, 2006, the School District of the City of Scranton issued a total of \$16,485,000 general obligation bonds, Series of 2006. The bond issue consisted of Series A of 2006 \$9,000,000 and series B of 2006 \$7,485,000. The proceeds of the Series A general obligation bonds were used to undertake capital improvements and/or expansion of existing facilities, to provide for the preparation of design and developmental studies for new building and land acquisition, fund capitalized interest on the Series A bonds and pay for the cost of issuance. The proceeds of 2006 series B bonds were used for an energy conservation program for the District's various facilities and pay for the cost of issuance. On February 27, 2015, the 2006 Series A and B Bonds were advance refunded.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

The following is a summary of governmental long-term liability activity of the District for the year ended December 31, 2016:

| <u>Debt<br/>Obligation</u> | <u>Interest<br/>Rate</u> | <u>Balance<br/>1/1/2016</u> | <u>Additions<br/>2016</u> | <u>(Refinancing)<br/>Maturities<br/>2016</u> | <u>Balance<br/>12/31/2016</u> | <u>Due<br/>Within<br/>One Year</u> |
|----------------------------|--------------------------|-----------------------------|---------------------------|----------------------------------------------|-------------------------------|------------------------------------|
| 2016 Series:               |                          |                             |                           |                                              |                               |                                    |
| Series A                   | 4.125%                   | \$ -                        | \$ 5,625,000              | \$ -                                         | \$ 5,625,000                  | \$ -                               |
| Series B                   | 4.125%                   | -                           | 2,830,000                 | -                                            | 2,830,000                     | -                                  |
| 2015 Series:               |                          |                             |                           |                                              |                               |                                    |
| Series A                   | 1.00%-3.800%             | 6,565,000                   | -                         | 250,000                                      | 6,315,000                     | 505,000                            |
| Series B                   | 2.00%-3.625%             | 14,985,000                  | -                         | 430,000                                      | 14,555,000                    | 715,000                            |
| Series C                   | 3.125%                   | -                           | 30,045,000                | -                                            | 30,045,000                    | 2,210,000                          |
| Series D                   | 3.125%                   | -                           | 7,755,000                 | -                                            | 7,755,000                     | 575,000                            |
| Series C *                 | 4.000%                   | 32,170,000                  | -                         | 32,170,000                                   | -                             | -                                  |
| Series D *                 | 4.000%                   | 8,335,000                   | -                         | 8,335,000                                    | -                             | -                                  |
| 2014 Series                | Variable                 | 31,010,000                  | -                         | 5,000                                        | 31,005,000                    | 210,000                            |
| 2011 Series:               |                          |                             |                           |                                              |                               |                                    |
| Series A                   | 1.150%-4.00%             | 3,845,000                   | -                         | 1,245,000                                    | 2,600,000                     | 1,280,000                          |
| Series C                   | 0.580%-5.20%             | 23,025,000                  | -                         | 340,000                                      | 22,685,000                    | 320,000                            |
| Series D                   | 0.890%-5.552%            | 1,960,000                   | -                         | 620,000                                      | 1,340,000                     | 655,000                            |
| 2007 Series:               |                          |                             |                           |                                              |                               |                                    |
| Series A                   | 3.50%-5.00%              | 26,930,000                  | -                         | 15,000                                       | 26,915,000                    | 15,000                             |
| Series B                   | 3.50%-5.00%              | 11,565,000                  | -                         | 5,000                                        | 11,560,000                    | 5,000                              |
| Series C                   | 3.50%-5.00%              | 20,280,000                  | -                         | 10,000                                       | 20,270,000                    | 10,000                             |
| Totals                     |                          | <u>\$ 180,670,000</u>       | <u>\$ 46,255,000</u>      | <u>\$ 43,425,000</u>                         | <u>\$ 183,500,000</u>         | <u>\$ 6,500,000</u>                |

\* 2015 Series C and Series D Remarketed on November 30, 2016.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all debts outstanding as of December 31, 2016 are as follows:

| <u>Year Ended</u><br><u>12/31/2016</u> | <u>Principal</u>      | <u>Interest</u>      | <u>Total</u>          |
|----------------------------------------|-----------------------|----------------------|-----------------------|
| 2017                                   | \$ 6,500,000          | \$ 8,109,032         | \$ 14,609,032         |
| 2018                                   | 7,325,000             | 7,890,497            | 15,215,497            |
| 2019                                   | 7,950,000             | 7,627,404            | 15,577,404            |
| 2020                                   | 7,695,000             | 7,343,771            | 15,038,771            |
| 2021                                   | 8,335,000             | 7,038,464            | 15,373,464            |
| 2022-2026                              | 48,675,000            | 29,443,469           | 78,118,469            |
| 2027-2031                              | 39,840,000            | 19,336,107           | 59,176,107            |
| 2032-2036                              | 45,545,000            | 9,243,486            | 54,788,486            |
| 2037-2038                              | <u>11,635,000</u>     | <u>721,500</u>       | <u>12,356,500</u>     |
| Totals                                 | <u>\$ 183,500,000</u> | <u>\$ 96,753,730</u> | <u>\$ 280,253,730</u> |

Swap Payments and Associated Debt

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

Hedging derivative instrument payments and hedged debt- As of December 31, 2016, aggregate debt service requirements of the District's debt and net receipts / payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts / payments on the hedging derivative instruments will vary. Refer to Note 2 for information on derivative instruments.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

Swap Payments and Associated Debt (Continued)

| <u>Year Ended</u><br><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>     |                      |
| 2017                                    | \$ 210,000                               | \$ 466,739          | \$ 1,321,966         | \$ 1,998,705         |
| 2018                                    | 255,000                                  | 475,481             | 1,312,019            | 2,042,500            |
| 2019                                    | 1,245,000                                | 463,852             | 1,279,933            | 2,988,785            |
| 2020                                    | 1,400,000                                | 443,348             | 1,223,353            | 3,066,701            |
| 2021                                    | 1,540,000                                | 420,556             | 1,160,464            | 3,121,020            |
| 2022-2026                               | 10,295,000                               | 1,673,765           | 4,617,576            | 16,586,341           |
| 2027-2031                               | <u>16,060,000</u>                        | <u>663,433</u>      | <u>1,830,645</u>     | <u>18,554,078</u>    |
| Totals                                  | <u>\$ 31,005,000</u>                     | <u>\$ 4,607,174</u> | <u>\$ 12,745,956</u> | <u>\$ 48,358,130</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 2016 Note was for \$19,000,000 and bore interest at a rate of 2.39%. The maturity date of the note was December 31, 2016. The following schedule shows the changes in short-term debt:

|           | <u>Balance</u><br><u>1/1/2016</u> | <u>Note</u><br><u>Proceeds</u> | <u>Principal</u><br><u>Payments</u> | <u>Balance</u><br><u>12/31/2016</u> |
|-----------|-----------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| 2016 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, 2016**

**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, 2016, deferred revenue of \$10,816,252 consisted of delinquent taxes receivable of \$6,457,917, property tax relief revenue of \$4,349,535 and other deferred revenue of \$8,800.

Governmental Activities

At December 31, 2016, deferred revenue of \$4,358,335, consisted of \$4,349,535 property tax relief funding and other deferred revenue \$8,800.

**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, 2016, the School District of the City of Scranton's share was \$1,774,346. 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, 2016, consist of the following:

|                     |                  |
|---------------------|------------------|
| Supplies            | \$ 14,801        |
| Purchased food      | 28,738           |
| Donated commodities | <u>8,004</u>     |
|                     | <u>\$ 51,543</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 2016, \$5,751,395 was allocated to the School District in this manner. Therefore, the School District's basic instructional subsidy, tuition, special education, social security and transportation revenue accounts were increased and certain expenditure accounts were increased by the same amount. The \$5,751,395 consists of \$3,433,890 basic instructional subsidy, \$102,491 tuition, \$1,542,579 Special Education revenue, \$299,255 Social Security and \$373,180 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, 2016**

**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](http://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, 2016**

**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, 2016 was 25.00% 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 \$16,728,133 for the year ended June 30, 2016.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 13- PENSIONS (CONTINUED)**

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

At June 30, 2016, the District reported a liability of \$227,189,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's 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, 2015, the District's proportion was .005245%, which was an increase of \$36,449,000 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$21,365,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                          | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience                                        | \$ -                                      | \$ 938,000                               |
| Changes in assumptions                                                                   | -                                         | -                                        |
| Net difference between projected and actual investment                                   |                                           |                                          |
| Earnings                                                                                 | -                                         | 460,000                                  |
| Changes in proportions                                                                   | 16,482,000                                | -                                        |
| Difference between employer contributions and proportionate share of total contributions | -                                         | -                                        |
| Contributions subsequent to the measurement date                                         | 16,728,133                                | -                                        |
|                                                                                          | <u>\$ 33,210,133</u>                      | <u>\$ 1,398,000</u>                      |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date of \$16,728,133 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 13- PENSIONS (CONTINUED)**

Year ending June 30:

|       |                      |
|-------|----------------------|
| 2016  | \$ 2,980,000         |
| 2017  | 2,980,000            |
| 2018  | 2,980,000            |
| 2019  | 6,144,000            |
| Total | <u>\$ 15,084,000</u> |

Actuarial Assumptions

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

- Actuarial cost method-Entry Age Normal-level of % of pay
- Investment return-7.50%, includes inflation at 3.00%
- Salary increases-Effective average of 5.50%, which reflects an allowance for inflation of 3.00%,  
real wage growth of 1%, and merit or seniority increases of 1.50%
- 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. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five -year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long- term expected rate of return on pension 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.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 13- PENSIONS (CONTINUED)**

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

| <u>Asset Class</u>           | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real Rate<br/>Rate of Return</u> |
|------------------------------|------------------------------|------------------------------------------------------------|
| Public markets global equity | 23%                          | 4.8%                                                       |
| Private markets (equity)     | 15%                          | 6.6%                                                       |
| Private real estate          | 12%                          | 4.5%                                                       |
| Global fixed income          | 7%                           | 2.4%                                                       |
| U.S. long treasuries         | 3%                           | 1.4%                                                       |
| TIPS                         | 12%                          | 1.1%                                                       |
| High yield bonds             | 6%                           | 3.3%                                                       |
| Cash                         | 3%                           | 0.7%                                                       |
| Absolute return              | 10%                          | 4.9%                                                       |
| Risk parity                  | 10%                          | 3.7%                                                       |
| MLPs/Infrastructure          | 5%                           | 5.2%                                                       |
| Commodities                  | 8%                           | 3.1%                                                       |
| Financing (LIBOR)            | -14%                         | 1.1%                                                       |
|                              | <u>100%</u>                  |                                                            |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions 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, 2016**

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

|                                                                | 1% Decrease<br>6.50% | Current<br>Discount Rate<br>7.50% | 1% Increase<br>8.50% |
|----------------------------------------------------------------|----------------------|-----------------------------------|----------------------|
| District's Proportionate Share of<br>the Net Pension Liability | \$ 280,032,000       | \$ 227,189,000                    | \$ 182,774,000       |

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

**NOTE 14- CHANGES IN COMPENSATED ABSENCES**

|                       | Balance<br>January 1,<br>2016 | Additions   | Reductions        | Balance<br>December 31,<br>2016 |
|-----------------------|-------------------------------|-------------|-------------------|---------------------------------|
| Accrued Vacation      | \$ 72,945                     | \$ -        | \$ 40,132         | \$ 32,813                       |
| Accrued Sick Pays     | 16,006,971                    | -           | 585,984           | 15,420,987                      |
| Accrued Personal Days | 2,119,214                     | -           | 49,544            | 2,069,670                       |
| Total                 | <u>\$ 18,199,130</u>          | <u>\$ -</u> | <u>\$ 675,660</u> | <u>\$ 17,523,470</u>            |

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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, 2016, this liability is recorded in the accompanying governmental –wide financial statements and totaled \$7,136,500.

**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 Blue Cross of Northeastern Pennsylvania. The health insurance is funded by premiums paid by the District and through employee contributions deducted from their compensation.

**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, 2016**

**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, 2016 the deferred amount on bond refunding of \$1,060,045 consisted of deferred interest rate swap termination of \$1,664,896 less deferred bond premium of \$604,851.

**NOTE 20-PROPERTY TAX**

Property taxes attach as enforceable lien on property as of December 31, 2016. 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 | \$ 392,840,643       |
| Approved Tax Rate in Mills                           | <u>123.77</u>        |
| Gross Levy                                           | 48,621,886           |
| Plus: Penalties Applied                              | 251,587              |
| Deductions:                                          |                      |
| Homestead exemption                                  | 4,127,200            |
| Discounts                                            | 698,427              |
| Credits                                              | 342,529              |
| Other                                                | 795                  |
| Taxes Receivable-Current Year                        | <u>5,574,306</u>     |
| Net Current Year Property Tax Revenue                | <u>\$ 38,130,216</u> |

**NOTE 21- FUND BALANCES- GENERAL FUND**

The Unassigned Fund Balance-General Fund at December 31, 2016 is a fund deficit of \$25,251,291.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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 inception. Lease payments are due in either annual or semi-annual installments based on the lease terms.

The original cost of the School District's assets under capital lease arrangements at December 31, 2016 is \$793,056 and there has been \$317,222 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:

|                                                | <u>Governmental<br/>Activities</u> |
|------------------------------------------------|------------------------------------|
| Year Ended December 31,                        |                                    |
| 2017                                           | 289,313                            |
| 2018                                           | <u>129,053</u>                     |
| Present value of future minimum lease payments | <u><u>418,366</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 \$25,251,291 at December 31, 2016. This resulted from general fund expenditures exceeding general fund revenue during the years ended December 31, 2016, 2015, 2014, and 2013.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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 25, 2017, which represents the date the financial statements were available to be issued.

In January 2017, the School District entered into an agreement to sell its tax claims for the year ended December 31, 2016. The proceeds resulting from this sale totaled \$4,307,178. This amount was received in May 2017.

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.

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 the cost of issuance.

(continued)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 24- SUBSEQUENT EVENTS (CONTINUED)**

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 the interest due on the 2015A Notes on June 15, 2017 and December 15, 2017 and pay the cost of issuance.

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

(concluded)

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                                              | Budgeted Amounts   |                    | GAAP                 | Variance With                          |
|--------------------------------------------------------------|--------------------|--------------------|----------------------|----------------------------------------|
|                                                              | Original           | Final              | Basis<br>Actual      | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>                                              |                    |                    |                      |                                        |
| Local sources                                                | \$ 74,377,400      | \$ 74,377,400      | \$ 62,121,413        | (12,255,987)                           |
| State sources                                                | 64,987,100         | 64,987,100         | 75,839,896           | 10,852,796                             |
| Federal sources                                              | 7,148,000          | 7,148,000          | 8,242,327            | 1,094,327                              |
| Total Revenues                                               | <u>146,512,500</u> | <u>146,512,500</u> | <u>146,203,636</u>   | <u>(308,864)</u>                       |
| <b>EXPENDITURES</b>                                          |                    |                    |                      |                                        |
| Regular programs                                             | 70,113,954         | 70,113,954         | 75,426,771           | (5,312,817)                            |
| Special programs                                             | 20,863,859         | 20,863,859         | 20,455,693           | 408,166                                |
| Vocational programs                                          | 1,579,733          | 1,579,733          | 1,784,557            | (204,824)                              |
| Other instructional programs                                 | 3,483,272          | 3,483,272          | 3,189,232            | 294,040                                |
| Pupil personnel services                                     | 2,676,045          | 2,676,045          | 3,230,885            | (554,840)                              |
| Instructional staff services                                 | 2,286,388          | 2,286,388          | 2,586,334            | (299,946)                              |
| Administrative services                                      | 8,683,559          | 8,683,559          | 8,230,612            | 452,947                                |
| Pupil health                                                 | 1,900,719          | 1,900,719          | 2,103,995            | (203,276)                              |
| Business services                                            | 1,167,740          | 1,167,740          | 1,190,790            | (23,050)                               |
| Operation and maintenance of plant services                  | 14,115,578         | 14,115,578         | 14,165,163           | (49,585)                               |
| Student transportation services                              | 4,005,000          | 4,005,000          | 4,776,178            | (771,178)                              |
| Central                                                      | 2,880,697          | 2,880,697          | 2,806,703            | 73,994                                 |
| Other support services                                       | -                  | -                  | 106,430              | (106,430)                              |
| Student activities                                           | 1,150,228          | 1,150,228          | 1,358,783            | (208,555)                              |
| Community services                                           | 344,828            | 344,828            | 270,289              | 74,539                                 |
| Debt service                                                 | 11,260,900         | 11,260,900         | 6,341,569            | 4,919,331                              |
| Total Expenditures                                           | <u>146,512,500</u> | <u>146,512,500</u> | <u>148,023,984</u>   | <u>(1,511,484)</u>                     |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>-</u>           | <u>-</u>           | <u>(1,820,348)</u>   | <u>(1,820,348)</u>                     |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                    |                    |                      |                                        |
| Operating transfers out                                      | -                  | -                  | (1,214,353)          | (1,214,353)                            |
| Lawsuit settlements- special education                       | -                  | -                  | (723,777)            | (723,777)                              |
| Total Other Financing Sources (Uses)                         | <u>-</u>           | <u>-</u>           | <u>(1,938,130)</u>   | <u>(1,938,130)</u>                     |
| <b>NET CHANGE IN FUND BALANCE</b>                            | <u>-</u>           | <u>-</u>           | <u>(3,758,478)</u>   | <u>(3,758,478)</u>                     |
| <b>FUND BALANCE, BEGINNING</b>                               | <u>-</u>           | <u>-</u>           | <u>14,066,416</u>    | <u>14,066,416</u>                      |
| <b>FUND BALANCE, ENDING</b>                                  | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ 10,307,938</u> | <u>10,307,938</u>                      |

See accompanying notes.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

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

**DECEMBER 31, 2016**

---

**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 Chief Financial Officer 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, 2016**

| <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%                                                                   |

# SCHOOL DISTRICT OF THE CITY OF SCRANTON

## SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

| <u>Year<br/>Ended</u> | <u>Contractually<br/>Required<br/>Contribution</u> | <u>Contributions<br/>in Relation to<br/>the Contractually<br/>Required<br/>Contribution</u> | <u>Contribution<br/>Excess/<br/>(Deficiency)</u> | <u>District's<br/>Covered<br/>Payroll</u> | <u>Contributions<br/>as a<br/>Percentage of<br/>Covered<br/>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%                                                                  |

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2016

|                                       | <u>*Budget</u>       | <u>Actual</u>        |
|---------------------------------------|----------------------|----------------------|
| REVENUE - LOCAL SOURCES:              |                      |                      |
| Real estate taxes                     | \$ 39,078,400        | \$ 38,130,216        |
| Act 511 taxes - wages and profit      | 10,200,000           | 10,666,467           |
| Realty transfer tax                   | 450,000              | 694,640              |
| Occupation tax                        | 240,000              | 173,964              |
| Business privilege and Mercantile tax | 6,025,000            | 6,508,614            |
| Real estate tax - in lieu of tax      | 52,000               | 53,313               |
| Real estate tax - delinquent          | 4,800,000            | 4,464,136            |
| Public utility realty tax             | 67,000               | 67,105               |
| Tuition                               | 200,000              | 66,506               |
| Rent                                  | 45,000               | 58,384               |
| Earnings from temporary deposits      | 100,000              | 384,761              |
| Insurance stop loss                   | 400,000              | 570,813              |
| Miscellaneous revenue                 | 12,720,000           | 282,494              |
| Total                                 | <u>\$ 74,377,400</u> | <u>\$ 62,121,413</u> |
| REVENUE - STATE SOURCES:              |                      |                      |
| Basic instructional subsidy           | \$ 35,250,000        | \$ 39,877,880        |
| Special education                     | 5,600,000            | 5,757,678            |
| Nursing servicess                     | 225,000              | 200,052              |
| Property tax relief                   | 4,349,000            | 4,368,794            |
| Transportation                        | 1,300,000            | 1,418,596            |
| Rent subsidy                          | -                    | 4,636,438            |
| Social security                       | 3,600,000            | 3,648,111            |
| Retirement                            | 13,050,000           | 13,987,572           |
| Other program subsidy                 | 1,388,100            | 1,142,730            |
| Miscellaneous                         | 225,000              | 802,045              |
| Total                                 | <u>\$ 64,987,100</u> | <u>\$ 75,839,896</u> |
| REVENUE - FEDERAL SOURCES:            |                      |                      |
| Title I - ESEA                        | \$ 3,950,000         | \$ 4,369,529         |
| ESEA Title II                         | 648,000              | 557,246              |
| IDEA GRANT                            | 2,000,000            | 2,014,051            |
| Other federal grants                  | 550,000              | 1,301,501            |
| Total                                 | <u>\$ 7,148,000</u>  | <u>\$ 8,242,327</u>  |

\*Budget per final revision.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**SUPPLEMENTAL SCHEDULES**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                               | <u>*Budget</u>       | <u>Actual</u>        |
|-----------------------------------------------|----------------------|----------------------|
| <b>INSTRUCTION - REGULAR:</b>                 |                      |                      |
| Salaries                                      | \$ 41,750,740        | \$ 41,737,403        |
| Employee benefits                             | 25,407,153           | 26,329,249           |
| Purchased professional and technical services | 85,300               | 107,965              |
| Purchased property services                   | 195,791              | 200,958              |
| Other purchased services                      | 374,350              | 5,304,183            |
| Supplies                                      | 2,226,318            | 1,691,905            |
| Property                                      | 40,000               | 29,630               |
| Other                                         | 34,302               | 25,478               |
| Total                                         | <u>\$ 70,113,954</u> | <u>\$ 75,426,771</u> |
| <b>INSTRUCTION - SPECIAL:</b>                 |                      |                      |
| Salaries                                      | \$ 10,517,923        | \$ 10,552,885        |
| Employee benefits                             | 6,342,773            | 6,828,386            |
| Purchased professional and technical services | 2,868,396            | 1,533,526            |
| Other purchased services                      | 864,000              | 1,220,600            |
| Supplies                                      | 231,850              | 126,711              |
| Property                                      | 32,282               | 188,159              |
| Other                                         | 6,635                | 5,426                |
| Total                                         | <u>\$ 20,863,859</u> | <u>\$ 20,455,693</u> |
| <b>INSTRUCTION - VOCATIONAL EDUCATION:</b>    |                      |                      |
| Other purchased services                      | \$ 1,559,300         | \$ 1,774,346         |
| Supplies                                      | 17,483               | 9,009                |
| Property                                      | 2,950                | 1,202                |
| Total                                         | <u>\$ 1,579,733</u>  | <u>\$ 1,784,557</u>  |

\*Budget per final revision.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**SUPPLEMENTAL SCHEDULES**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                                    | <u>*Budget</u>      | <u>Actual</u>       |
|----------------------------------------------------|---------------------|---------------------|
| <b>INSTRUCTION - OTHER PROGRAMS:</b>               |                     |                     |
| Salaries                                           | \$ 1,866,020        | \$ 1,903,013        |
| Employee benefits                                  | 1,197,652           | 1,237,069           |
| Purchased professional and technical services      | 300,000             | 11,151              |
| Other purchased services                           | 3,900               | 14,918              |
| Supplies                                           | 115,700             | 23,081              |
| Total                                              | <u>\$ 3,483,272</u> | <u>\$ 3,189,232</u> |
| <br><b>SUPPORT SERVICES - PUPIL PERSONNEL:</b>     |                     |                     |
| Salaries                                           | \$ 1,592,935        | \$ 2,054,428        |
| Employee benefits                                  | 960,610             | 1,166,148           |
| Purchased professional and technical services      | 110,000             | -                   |
| Purchased property services                        | 3,000               | 8,725               |
| Other purchased services                           | 3,000               | 637                 |
| Supplies                                           | 6,500               | 947                 |
| Total                                              | <u>\$ 2,676,045</u> | <u>\$ 3,230,885</u> |
| <br><b>SUPPORT SERVICES - INSTRUCTIONAL STAFF:</b> |                     |                     |
| Salaries                                           | \$ 1,255,800        | \$ 1,423,378        |
| Employee benefits                                  | 827,135             | 900,483             |
| Purchased professional and technical services      | -                   | 100,885             |
| Purchased property services                        | 5,800               | 8,639               |
| Other purchased services                           | 3,000               | 52,581              |
| Supplies                                           | 185,153             | 100,227             |
| Property                                           | 9,500               | 141                 |
| Total                                              | <u>\$ 2,286,388</u> | <u>\$ 2,586,334</u> |

\*Budget per final revision.

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SUPPLEMENTAL SCHEDULES

FOR THE YEAR ENDED DECEMBER 31, 2016

|                                                           | <u>*Budget</u>       | <u>Actual</u>        |
|-----------------------------------------------------------|----------------------|----------------------|
| SUPPORT SERVICES - ADMINISTRATION:                        |                      |                      |
| Salaries                                                  | \$ 5,223,200         | \$ 4,815,959         |
| Employee benefits                                         | 2,966,134            | 2,999,877            |
| Purchased professional and technical services             | 217,000              | 199,174              |
| Purchased property services                               | 23,625               | 3,853                |
| Other purchased services                                  | 70,200               | 31,672               |
| Supplies                                                  | 21,400               | 26,094               |
| Property                                                  | 2,000                | 474                  |
| Other                                                     | 160,000              | 153,509              |
| Total                                                     | <u>\$ 8,683,559</u>  | <u>\$ 8,230,612</u>  |
| SUPPORT SERVICES - PUPIL HEALTH:                          |                      |                      |
| Salaries                                                  | \$ 1,115,300         | \$ 1,273,434         |
| Employee benefits                                         | 712,919              | 771,601              |
| Purchased professional and technical services             | 38,000               | 34,834               |
| Purchased property services                               | 9,000                | 5,515                |
| Other purchased services                                  | 3,500                | 787                  |
| Supplies                                                  | 22,000               | 17,824               |
| Total                                                     | <u>\$ 1,900,719</u>  | <u>\$ 2,103,995</u>  |
| SUPPORT SERVICES - BUSINESS:                              |                      |                      |
| Salaries                                                  | \$ 482,805           | \$ 520,693           |
| Employee benefits                                         | 307,435              | 358,974              |
| Purchased professional and technical services             | 55,000               | 73,037               |
| Purchased property services                               | 195,000              | 150,585              |
| Other purchased services                                  | 46,500               | 13,251               |
| Supplies                                                  | 80,000               | 73,858               |
| Other                                                     | 1,000                | 392                  |
| Total                                                     | <u>\$ 1,167,740</u>  | <u>\$ 1,190,790</u>  |
| SUPPORT SERVICES - OPERATION AND<br>MAINTENANCE OF PLANT: |                      |                      |
| Salaries                                                  | \$ 5,899,200         | \$ 5,600,687         |
| Employee benefits                                         | 3,557,478            | 3,655,182            |
| Purchased property services                               | 2,518,900            | 2,736,621            |
| Other purchased services                                  | 770,000              | 925,001              |
| Supplies                                                  | 1,325,000            | 1,183,947            |
| Property                                                  | 45,000               | 63,725               |
| Total                                                     | <u>\$ 14,115,578</u> | <u>\$ 14,165,163</u> |

\*Budget per final revision.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**SUPPLEMENTAL SCHEDULES**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                                                            | <u>*Budget</u>      | <u>Actual</u>       |
|----------------------------------------------------------------------------|---------------------|---------------------|
| <b>SUPPORT SERVICES - STUDENT TRANSPORTATION:</b>                          |                     |                     |
| Salaries                                                                   | \$ -                | \$ 61,323           |
| Employee benefits                                                          | -                   | 21,211              |
| Other purchased services                                                   | 4,005,000           | 4,693,644           |
| Total                                                                      | <u>\$ 4,005,000</u> | <u>\$ 4,776,178</u> |
| <br><b>SUPPORT SERVICES - CENTRAL:</b>                                     |                     |                     |
| Salaries                                                                   | \$ 1,057,050        | \$ 1,100,448        |
| Employee benefits                                                          | 668,147             | 637,733             |
| Purchased professional and technical services                              | 512,500             | 422,843             |
| Other purchased services                                                   | 12,000              | 558                 |
| Supplies                                                                   | 76,000              | 130,651             |
| Property                                                                   | 552,000             | 511,759             |
| Other                                                                      | 3,000               | 2,711               |
| Total                                                                      | <u>\$ 2,880,697</u> | <u>\$ 2,806,703</u> |
| <br><b>SUPPORT SERVICES - OTHER:</b>                                       |                     |                     |
| Other purchased services                                                   | <u>\$ -</u>         | <u>\$ 106,430</u>   |
| <br><b>OPERATION OF NON-INSTRUCTION SERVICES -<br/>STUDENT ACTIVITIES:</b> |                     |                     |
| Salaries                                                                   | \$ 470,000          | \$ 588,971          |
| Employee benefits                                                          | 267,448             | 284,212             |
| Purchased property services                                                | 30,100              | 6,878               |
| Other purchased services                                                   | 207,850             | 221,000             |
| Supplies                                                                   | 30,300              | 213,922             |
| Property                                                                   | 86,730              | 20,284              |
| Other                                                                      | 57,800              | 23,516              |
| Total                                                                      | <u>\$ 1,150,228</u> | <u>\$ 1,358,783</u> |

\*Budget per final revision.

**SCHOOL DISTRICT OF THE CITY OF SCRANTON**

**SUPPLEMENTAL SCHEDULES**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

|                                                               | <u>*Budget</u>           | <u>Actual</u>           |
|---------------------------------------------------------------|--------------------------|-------------------------|
| OPERATION OF NON-INSTRUCTION SERVICES -<br>COMMUNITY SERVICES |                          |                         |
| Salaries                                                      | \$ 210,990               | \$ 153,722              |
| Employee benefits                                             | 127,238                  | 78,055                  |
| Purchased professional and technical services                 | 2,000                    | -                       |
| Other purchased services                                      | 2,500                    | -                       |
| Supplies                                                      | 2,100                    | 38,512                  |
| Total                                                         | <u>\$ 344,828</u>        | <u>\$ 270,289</u>       |
| <br>DEBT SERVICE                                              | <br><u>\$ 11,260,900</u> | <br><u>\$ 6,341,569</u> |
| <br>OTHER FINANCING SOURCES (USES):                           |                          |                         |
| Operating transfers out                                       | \$ -                     | \$ (1,214,353)          |
| Lawsuit settlements-special education                         | -                        | (723,777)               |
| Total                                                         | <u>\$ -</u>              | <u>\$ (1,938,130)</u>   |

\*Budget per final revision.

**SCHOOL DISTRICT  
OF THE CITY OF SCRANTON**

**SINGLE AUDIT ACT  
SUPPLEMENTAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2016**

**SCHOOL DISTRICT  
OF THE CITY OF SCRANTON**

**TABLE OF CONTENTS**

|                                                                                                                                                                                                                    | <b><u>PAGE</u></b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING<br>AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT<br>OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH<br><i>GOVERNMENT AUDITING STANDARDS</i> ..... | 1 - 2              |
| REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND<br>REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON<br>THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED<br>BY UNIFORM GUIDANCE... ..        | 3 - 5              |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....                                                                                                                                                                    | 6 - 9              |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....                                                                                                                                                                   | 10 - 11            |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS. ....                                                                                                                                                          | 12                 |
| SCHEDULE OF PRIOR AUDIT FINDINGS .....                                                                                                                                                                             | 13                 |

**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, 2016 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 25, 2017.

**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 2016-1 and 2016-2.

### **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. Bartlett, LLC*

Dunmore, Pennsylvania  
September 25, 2017



**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, 2016. 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, 2016.

## **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 2016-3. 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, 2016, 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 25, 2017, 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. Barlett, LLC*

Dunmore, Pennsylvania  
September 25, 2017

**SCHOOL DISTRICT  
OF THE CITY OF SCRANTON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

---

**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, 2016**

---

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCY**

**2016-1 Budgeting Process**

Condition: The School District's 2016 General Fund Budget was balanced by using proceeds of 2016 bond issues to make certain debt service payments, which are reflected on the debt service fund in the December 31, 2016 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 looking at its health care plan, and collective bargaining agreements to reduce its annual costs moving forward. 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, 2016**

---

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**SIGNIFICANT DEFICIENCY**

**2016-2 Activity Fund- West Scranton Intermediate School**

Condition: The School District's treasurer at West Scranton Intermediate School resigned during the 2016 year and was replaced by another individual. As a result, the accounting for the 2016 year was not completed timely. Additionally, due to the change in personnel the activity fund's accounting was not in accordance with 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**

**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.

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, 2016**

---

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

**2016-3 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 insure 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, 2016

| Federal Grantor                       | Source | Federal | Grantor     | Grant     | Grant     | Award     | Total Received | Revenue    | Federal      | Accrued    | Accrued    |
|---------------------------------------|--------|---------|-------------|-----------|-----------|-----------|----------------|------------|--------------|------------|------------|
| Pass-through Grantor/Program Title    | Code   | CFDA #  | Number      | Beginning | Ending    | Amount    | for year       | Recognized | Expenditures | (Deferred) | (Deferred) |
|                                       |        |         |             | Date      | Date      |           |                |            |              | 1/1/2016   | 12/31/2016 |
| US Department of Education            |        |         |             |           |           |           |                |            |              |            |            |
| Passed through the PA Department      |        |         |             |           |           |           |                |            |              |            |            |
| Education:                            |        |         |             |           |           |           |                |            |              |            |            |
| ESEA Title I                          | I      | 84.010  | 013-16-0376 | 7/1/2015  | 9/30/2016 | 3,817,142 | 3,828,826      | 1,896,578  | 1,896,578    | 1,932,248  | -          |
| ESEA Title I                          | I      | 84.010  | 013-17-0376 | 7/1/2016  | 9/30/2017 | 4,241,317 | 1,979,281      | 2,033,058  | 2,033,058    | -          | 53,777     |
| ESEA Title I (Part D)                 | I      | 84.010  | 107-16-0376 | 7/1/2015  | 9/30/2016 | 26,695    | 26,695         | 23,256     | 23,256       | 3,439      | -          |
| ESEA Title I (Part D)                 | I      | 84.010  | 107-17-0376 | 7/1/2016  | 9/30/2017 | 35,183    | 14,073         | 18,484     | 18,484       | -          | 4,411      |
| Title II Improving Teacher Quality    | I      | 84.367  | 020-17-0376 | 7/1/2016  | 9/30/2017 | 637,091   | 169,891        | 157,753    | 157,753      | -          | (12,138)   |
| Title II Improving Teacher Quality    | I      | 84.367  | 020-16-0376 | 7/1/2015  | 9/30/2016 | 646,496   | 646,496        | 502,826    | 502,826      | 143,670    | -          |
| Title II Improving Teacher Quality    | I      | 84.367  | 020-15-0376 | 7/1/2014  | 9/30/2015 | 646,015   | 128,687        | -          | -            | 128,687    | -          |
| Title III Language Inst.              | I      | 84.365  | 010-16-0376 | 7/1/2015  | 9/30/2016 | 219,771   | 219,771        | 167,868    | 167,868      | 51,903     | -          |
| Title III Language Inst.              | I      | 84.365  | 010-15-0376 | 7/1/2014  | 9/30/2015 | 204,734   | 109,191        | -          | -            | 109,191    | -          |
| Title III Language Inst.              | I      | 84.365  | 010-17-0376 | 7/1/2016  | 9/30/2017 | 249,167   | 116,278        | 123,770    | 123,770      | -          | 7,492      |
| Fund for the Improvement of Education | D      | 84.215  | S215E140359 | 8/22/2014 | 8/21/2017 | 1,188,000 | 357,595        | 399,471    | 399,471      | 33,347     | 75,223     |
| 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    | -          | 2,011,259  |
| Special Education Grants to States    | I      | 84.027  | 062-130019  | 7/1/2014  | 6/30/2015 | 1,855,933 | 1,855,933      | -          | -            | 1,855,933  | -          |
| Total US Department of Education      |        |         |             |           |           |           |                |            |              |            |            |
|                                       |        |         |             |           |           | 9,452,717 |                | 7,334,323  | 7,334,323    | 4,258,418  | 2,140,024  |

**US Department of Health and  
Human Services  
Passed through PA  
Department of Education**

|                                         |   |        |            |          |           |         |         |         |         |        |        |
|-----------------------------------------|---|--------|------------|----------|-----------|---------|---------|---------|---------|--------|--------|
| Temporary Assistance for Needy Families | I | 93.558 | 4100071413 | 7/1/2015 | 6/30/2016 | 180,000 | 180,000 | 126,245 | 126,245 | 53,755 | -      |
| Temporary Assistance for Needy Families | I | 93.558 | 4100071413 | 7/1/2016 | 6/30/2017 | 180,000 | -       | 88,501  | 88,501  | -      | 88,501 |

(continued)

SCHOOL DISTRICT OF THE CITY OF SCRANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2016

| Federal Grantor<br>Pass-through Grantor/Program Title                                                | Source<br>Code | Federal<br>CFDA # | Grantor<br>Number | Grant<br>Beginning<br>Date | Grant<br>Ending<br>Date | Award<br>Amount | Total Received<br>for year | Accrued<br>(Deferred)<br>1/1/2016 | Revenue<br>Recognized | Federal<br>Expenditures | Accrued<br>(Deferred)<br>12/31/2016 |
|------------------------------------------------------------------------------------------------------|----------------|-------------------|-------------------|----------------------------|-------------------------|-----------------|----------------------------|-----------------------------------|-----------------------|-------------------------|-------------------------------------|
| US Department of Health and<br>Human Services (Continued)                                            |                |                   |                   |                            |                         |                 |                            |                                   |                       |                         |                                     |
| Passed through PA                                                                                    |                |                   |                   |                            |                         |                 |                            |                                   |                       |                         |                                     |
| Department of Human Services;<br>Medical Assistance Program<br>(Administrative Claiming Program)     | I              | 93.778            | -                 | 1/1/2016                   | 12/31/2016              | 118,184         | 118,184                    | -                                 | 118,184               | 118,184                 | -                                   |
| Total US Department of Health<br>and Human Services                                                  |                |                   |                   |                            |                         |                 | 298,184                    | 53,755                            | 332,930               | 332,930                 | 88,501                              |
| US Department of Agriculture<br>Passed through the PA                                                |                |                   |                   |                            |                         |                 |                            |                                   |                       |                         |                                     |
| Department of Agriculture;<br>National School Lunch Program;<br>Value of USDA Donated<br>Commodities | I              | 10.555            | 2-03-35-740       | 1/1/2016                   | 12/31/2016              | -               | 376,381                    | (14,143)                          | 382,520               | 382,520                 | (8,004)                             |
| Passed through the PA                                                                                |                |                   |                   |                            |                         |                 |                            |                                   |                       |                         |                                     |
| Dept. of Education;                                                                                  |                |                   |                   |                            |                         |                 |                            |                                   |                       |                         |                                     |
| National School Lunch Program                                                                        | F I            | 10.555            | 1-19-35-740-2     | 1/1/2016                   | 12/31/2016              | -               | 3,645,607                  | -                                 | 3,645,607             | 3,645,607               | -                                   |
| National School Breakfast Program                                                                    | S I            | N/A               | N/A               | 1/1/2016                   | 12/31/2016              | -               | 272,314                    | -                                 | 272,314               | 272,314                 | -                                   |
| Summer Food Service Program                                                                          | I              | 10.553            | 1-19-35-740-2     | 1/1/2016                   | 12/31/2016              | -               | 2,126,052                  | -                                 | 2,126,052             | 2,126,052               | -                                   |
| Fresh Fruit and Vegetable Program                                                                    | I              | 10.559            | 1-19-35-740-2     | 1/1/2016                   | 12/31/2016              | -               | 90,254                     | -                                 | 90,254                | 90,254                  | -                                   |
| Total US Department of Agriculture                                                                   |                |                   |                   |                            |                         |                 | 182,869                    | -                                 | 182,869               | 182,869                 | -                                   |
| Total                                                                                                |                |                   |                   |                            |                         |                 | \$ 16,444,378              | \$ 4,298,030                      | \$ 14,366,869         | \$ 14,366,869           | \$ 2,220,521                        |

See accompanying notes to schedule of expenditures of federal awards.

(concluded)

**SCHOOL DISTRICT  
OF THE CITY OF SCRANTON**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2016

---

**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:**

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 \$376,381 during the year ended December 31, 2016. 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, 2016**

---

**2015-1 Budgeting Process**

Condition: The School District's 2015 General Fund Budget was balanced by using transfer from its Debt Service Fund. Additionally, certain debt service payments during 2015 were paid through proceeds of 2015 bond issues, which is reflected on the debt service fund in the December 31, 2015 financial statements.

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

Current Status: The School District transferred funds in 2016 from its Debt Service Fund to balance its 2016 General Fund Budget. This is the same type of transfer as made in 2015. See current year significant deficiency 2016-1.

**2015-2 Cash Accounting Invest Program for Local Governments**

Condition: The School District has an account with the Pennsylvania Treasurer's Invest Program for Local Governments. Governmental subsidies and grants are deposited into this account prior to being transferred into the School District's operating account. The District records the investment income and funds received from this account on its general ledger, however the monthly activity in this account is not recorded on the School District's general ledger.

Recommendation: The School District's management account for this account on its general ledger and post activity monthly.

Current Status: The School District of the City of Scranton has accounted for this account on its general ledger and posted activity monthly.