

**FOREST CITY REGIONAL SCHOOL DISTRICT**

**SINGLE AUDIT REPORT**

**JUNE 30, 2016**

***Rainey & Rainey***  
***Certified Public Accountants***

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## CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA

Richard P. Rainey, CPA

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Forest City Regional School District

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Forest City Regional School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Forest City Regional School 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 from material misstatement.

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Forest City Regional School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

##### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 to 11 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

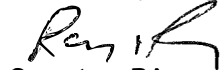
#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forest City Regional School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is 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 December 19, 2016, on our consideration of Forest City Regional School District'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 Forest City Regional School District's internal control over financial reporting and compliance.



Scranton, PA  
December 19, 2016

## **FOREST CITY REGIONAL SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the Forest City Regional School District (the "District") for the year ended June 30, 2016. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should review the basic financial statements and the notes to the financial statements for a better understanding of the District as a whole.

#### **FINANCIAL HIGHLIGHTS**

The total net position of the District decreased by \$1,191,541 in 2016. Net position of governmental activities decreased \$1,197,141 from 2015. Net position of the business-type activity increased \$5,600 from 2015.

The District had \$14,769,108 in expenses related to governmental activities in 2016; only \$3,513,538 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$10,058,429 were adequate to provide for these programs.

In the District's business-type activity, the food service fund had an operating gain of \$5,600 in 2016. The increase was primarily due to changes in staffing, reducing salary and benefit costs. The district has also continued to provide a Universal Free Breakfast to all students enrolled in the elementary school.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting. The focus of these statements is long-term.

The statement of net position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or

FOREST CITY REGIONAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

Both government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include all of the District's instructional programs and support services except for its food service operation, which is considered a business-type activity.

The government-wide financial statements can be found on pages 12 and 13 of this report.

#### **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

#### **GOVERNMENTAL FUNDS**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-

# FOREST CITY REGIONAL SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds (General Fund and Capital Reserve Fund) and nonmajor fund (Debt Service Fund).

The basic governmental fund financial statements can be found on pages 14-17 of this report.

The District adopts an annual budget for its General Fund. A budgetary comparison statement for the General Fund has been provided on page 42 of this report to demonstrate compliance with this budget.

## **PROPRIETARY FUND**

The District accounts for its food service operation in a proprietary fund, which reports the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 18-20 of this report.

## **FIDUCIARY FUND**

The District accounts for its activity fund as an agency fund. The basic fiduciary fund financial statement can be found on page 21 of this report.

## **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-38 of this report.

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District prepares a budget each year for its General Fund according to Pennsylvania law. The budget complied with all applicable state laws and financial policies approved by the School Board of Directors.

The General Fund's approved budget for 2016 included revenues of \$13,318,041 and expenditures and other uses of \$13,546,610.

Actual revenues were \$13,493,165 or 101% of budget. Actual expenditures and other financing uses were \$13,520,472 or 100% of budget.

**CONDENSED STATEMENT OF NET ASSETS (IN 000'S)**

	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$17,504	\$8,226	\$169	\$157	\$17,674	\$8,383
Capital assets	<u>5,178</u>	<u>5,078</u>	<u>50</u>	<u>57</u>	<u>5,228</u>	<u>5,135</u>
TOTAL	<u>22,682</u>	<u>13,304</u>	<u>219</u>	<u>214</u>	<u>22,902</u>	<u>13,518</u>
Current liabilities	3,031	2,458		1	3,032	2,459
Long-term liabilities:						
Due within one year	492	784		-	492	784
Due after one year	<u>30,747</u>	<u>18,815</u>		-	<u>30,747</u>	<u>18,815</u>
Total liabilities	<u>33,779</u>	<u>22,057</u>		<u>1</u>	<u>33,779</u>	<u>22,059</u>
Total Deferred Inflows of Resources-Pensions	786	980			786	980
Net position:						
Invested in capital assets, net of related debt	(5,271)	3,764	50	57	(5,221)	3,821
Restricted		421				421
Unrestricted	<u>(4,282)</u>	<u>(12,542)</u>	<u>169</u>	<u>\$156</u>	<u>(4,113)</u>	<u>(12,386)</u>
Total net position	<u>\$ (9,553)</u>	<u>\$ (8,356)</u>	<u>\$ 219</u>	<u>\$ 213</u>	<u>\$(9,334)</u>	<u>\$(8,143)</u>



FOREST CITY REGIONAL SCHOOL DISTRICT  
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CONDENSED STATEMENT OF ACTIVITIES (IN 000'S)						
	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program revenues:						
Charges for services	\$80	\$205	\$203	\$198	\$283	\$403
Operating grants and contributions	3,433	3,151	357	374	3,790	3,525
General revenues:						
Taxes levied for general purposes, net	6,603	6,620			6,603	6,620
Grants, subsidies and contributions not restricted	3,336	3,287			3,336	3,287
Other	<u>119</u>	<u>66</u>	<u>2</u>	<u>2</u>	<u>121</u>	<u>68</u>
Total revenues	<u>\$ 13,571</u>	<u>\$ 13,329</u>	<u>\$ 562</u>	<u>\$ 572</u>	<u>\$ 14,133</u>	<u>\$13,901</u>
Program expenses:						
Instruction	\$ 9,660	\$8,114			\$ 9,660	\$8,114
Instructional student support	917	869			917	869
Admin and financial support services	1,002	1,126			1,002	1,126
Operation and maintenance of plant services	849	764			849	764
Pupil transportation	1,424	1,149			1,424	1,149
Student activities	238	233			238	233
Community services						
Interest on long-term debt	234	109			234	109
Unallocated depreciation	<u>443</u>	<u>460</u>			443	460
Food service			<u>\$ 556</u>	<u>\$ 616</u>	<u>556</u>	<u>616</u>
Total expenses	<u>15,325</u>	<u>12,827</u>	<u>556</u>	<u>568</u>	<u>15,881</u>	<u>13,443</u>
Change in net position	(1,197)	503	5	(42)	(1,192)	461
Net position, beginning (as restated)	<u>(8,356)</u>	<u>(\$8,859)</u>	<u>213</u>	<u>255</u>	<u>(8,143)</u>	<u>(\$8,604)</u>
Net position, ending	<u>\$ (9,553)</u>	<u>\$ (8,356)</u>	<u>\$218</u>	<u>\$213</u>	<u>\$ (9,335)</u>	<u>(\$8,143)</u>

FOREST CITY REGIONAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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**GOVERNMENTAL ACTIVITIES**

In 2016, the net position of governmental activities decreased by \$1,197,141. Revenues increased by \$185,957, or 1.4%, from 2015. Overall, district expenses increased by \$503,062, or 4.17%.

**BUSINESS-TYPE ACTIVITY**

The District's food service operation had a gain of \$5,600 in 2016. This was due to a combination of items. There was a decrease in personnel costs because of a change in staffing as well as a decrease in the cost of supplies. The district has also continued to provide a Universal Free Breakfast to all students in the Elementary School.

**FINANCIAL ANALYSIS OF THE FUNDS**

**GENERAL FUND (MAJOR)**

The following represents a summary of General Fund revenue, by source, along with changes from 2015:

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Local sources	\$ 6,497,187	\$ 6,648,053	\$ (150,866)	-2.27%
State sources	6,723,810	6,391,918	331,892	5.19%
Federal sources	272,168	266,921	(178,514.00)	1.97%
Other sources	<u>0</u>	<u>316</u>	<u>(316)</u>	<u>-100.00%</u>
Total	<u>\$ 13,493,165</u>	<u>\$ 13,307,208</u>	<u>\$ 185,957</u>	<u>1.40%</u>

**LOCAL SOURCES**

The majority of the decrease in the local revenue was in the collection of Delinquent Real Estate Tax. Other local source revenues remained relatively static.

**STATE SOURCES**

State source revenue increased by 5.19% in 2016. This was primarily due to the state being required to match the district's increasing pension liability.

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(UNAUDITED)

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**FEDERAL Sources**

The federal source revenue remained relatively static.

The following represents a summary of General Fund expenditures, by function, along with changes from 2015.

	<b><u>2016</u></b> <b><u>Amount</u></b>	<b><u>2015</u></b> <b><u>Amount</u></b>	<b><u>Increase</u></b> <b><u>(Decrease)</u></b>	<b><u>%</u></b> <b><u>Change</u></b>
Instruction	\$ 8,207,935	\$ 8,189,614	\$ 18,321	0.22%
Support services	4,191,902	3,888,020	303,882	7.25%
Noninstructional services	238,526	255,164	(16,638)	-6.98%
Other financing uses	<u>882,109</u>	<u>792,291</u>	<u>89,818</u>	<u>10.18%</u>
Total	\$ 13,520,472	\$ 13,125,089	\$ 395,383	2.92%

There was a 2.92% overall increase in expenditures from 2015.

**Capital Reserve Fund (Major)**

The Capital Reserve Fund is legally restricted to capital improvements and related debt service under Pennsylvania law. The District made no expenditures from the fund during the fiscal year.

**NONMAJOR GOVERNMENTAL FUNDS**

The Debt Service Fund accounts for the proceeds and payments on bonds payable. In 2016, the District paid \$803,618 in debt service, including \$710,000 in principal and \$93,618 in interest, on its bonds payable. There was no fund balance at June 30, 2016.

FOREST CITY REGIONAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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**CAPITAL ASSETS**

The District's capital assets at June 30, 2016 are summarized below.

	<b><u>GOVERN- MENTAL ACTIVITIES</u></b>	<b><u>BUSINESS- TYPE ACTIVITY</u></b>	<b><u>TOTALS</u></b>
Land	\$ 7,624		\$ 7,624
Land improvements	331,488		331,488
Buildings and improvements	12,521,634		12,521,634
Construction in Projects	543,506		543,506
Furniture and equipment	<u>2,629,637</u>	<u>211,950</u>	<u>2,841,587</u>
Total	\$16,033,889	\$211,950	\$16,245,839
Less accumulated depreciation	<u>10,855,760</u>	<u>161,906</u>	<u>11,017,666</u>
Net	<u>\$ 5,178,129</u>	<u>\$ 50,044</u>	<u>\$ 5,228,173</u>

Additional information on the changes in the District's capital assets from 2015 to 2016 can be found on page 28 of this report.

**LONG TERM DEBT**

At June 30, 2016, the District's general obligation debt was \$10,330,000. This amount is approximately 36.08% of its legal limit of \$28.6 million. \$450,000 of this debt is scheduled for payment in 2017. The District's bonds have an A1 enhanced rating from Moody's Investors Service and a AAA rating from Standard and Poor's.

Additional information on changes in the district's long-term debt can be found on page 29 of this report.

# FOREST CITY REGIONAL SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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## **ECONOMIC CONDITION AND OUTLOOK**

The District is residential in nature and is not experiencing an increase in its tax base. Both the total assessed value of the district and the student enrollment is remaining static.

As a result of the minimal growth in the tax base and the state's lack of progress in addressing adequate funding for school districts, the District raised its real estate tax levies to the maximum amount allowed under Act 1. Although the Act 1 index was 3.0%, this only allowed for a 3.0% increase in Susquehanna County and a 2.87% increase in Wayne County for fiscal year 2016. Because of the state formula of distributing the tax burden to the three counties within the school district there was a decrease in Lackawanna County by .3%.

## **REQUESTS FOR INFORMATION**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Office, Forest City Regional School District, 100 Susquehanna Street, Forest City, PA 18421.

**FOREST CITY REGIONAL SCHOOL DISTRICT**

**Statement of Net Position**

**June 30, 2016**

	<b>Governmental Activities</b>	<b>Business Type</b>	<b>Primary Government Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 15,927,068	\$ 290,848	\$ 16,217,916
Taxes receivable, net	552,059	-	552,059
Internal balances	195,943	(195,944)	(1)
Due from other governments	539,854	50,038	589,892
Receivables, other	119,566	-	119,566
Prepaid expenses	256,993	-	256,993
Inventories	-	24,251	24,251
Total Current Assets	<u>17,591,483</u>	<u>169,193</u>	<u>17,760,676</u>
Noncurrent Assets:			
Capital assets:			
Land	7,624		7,624
Land improvements	331,488		331,488
Buildings and improvements	12,521,634		12,521,634
Construction in Projects	543,506		543,506
Furniture and equipment	2,629,637	211,950	2,841,587
Accumulated depreciation	<u>(10,855,760)</u>	<u>(161,906)</u>	<u>(11,017,666)</u>
Total Noncurrent Assets	<u>5,178,129</u>	<u>50,044</u>	<u>5,228,173</u>
<b>TOTAL ASSETS</b>	<u><b>22,769,612</b></u>	<u><b>219,236</b></u>	<u><b>22,988,848</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions	<u>2,242,756</u>	<u>-</u>	<u>2,242,756</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	72,620	-	72,620
Accrued salaries and benefits	1,394,485	-	1,394,485
Unearned revenue	-	464	464
Accrued Interest	140,445	-	140,445
Other Post Employment Benefits	637,961	-	637,961
Compensated Absences	293,508	-	293,508
Bonds Payable - Due within one year	450,000	-	450,000
Capital Leases Payable - Due within one year	<u>42,644</u>	<u>-</u>	<u>42,644</u>
Total Current Liabilities	3,031,663	464	3,032,127
Long-term Liabilities			
Portion due or payable after one year			
Bonds payable	9,880,000	-	9,880,000
Capital leases payable	76,794	-	76,794
Net pension liabilities	<u>20,791,000</u>	<u>-</u>	<u>20,791,000</u>
Total Long-term Liabilities	<u>30,747,794</u>	<u>-</u>	<u>30,747,794</u>
<b>TOTAL LIABILITIES</b>	<u><b>33,779,457</b></u>	<u><b>464</b></u>	<u><b>33,779,921</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions	<u>786,334</u>	<u>-</u>	<u>786,334</u>
<b>NET POSITION</b>			
Net investment in capital assets	(5,271,309)	50,044	(5,221,265)
Restricted for capital projects	-		-
Unrestricted	<u>(4,282,114)</u>	<u>168,729</u>	<u>(4,113,385)</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ (9,553,423)</b></u>	<u><b>\$ 218,772</b></u>	<u><b>\$ (9,334,651)</b></u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Activities**  
**Year Ended June 30, 2016**

	Program Revenues		Net (Expense) Revenue and Change in Net Assets			
	Expenditures	Charge For Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
Depreciation	\$ 443,429	\$ -	\$ -	(443,429)	\$ -	(443,429)
Instruction	9,659,948	75,578	2,006,552	(7,577,818)	-	(7,577,818)
Instructional Student Support	917,437	-	138,573	(778,864)	-	(778,864)
Administrative	1,002,509	-	106,405	(896,104)	-	(896,104)
Operation of Plant	848,869	-	60,579	(788,290)	-	(788,290)
Pupil Transportation	1,423,842	-	795,161	(628,681)	-	(628,681)
Student Activities	238,244	4,880	16,543	(216,821)	-	(216,821)
Community Services	282	-	-	(282)	-	(282)
Interest - Long Term Debt	234,548	-	309,267	74,719	-	74,719
<b>Total Government</b>	<b>14,769,108</b>	<b>80,458</b>	<b>3,433,080</b>	<b>(11,255,570)</b>	<b>-</b>	<b>(11,255,570)</b>
<b>Business Type Activities:</b>						
Food Service	556,649	203,143	356,860	-	3,353	3,353
<b>Total Primary Government</b>	<b>\$ 15,325,757</b>	<b>\$ 283,601</b>	<b>\$ 3,789,940</b>	<b>(11,255,570)</b>	<b>3,353</b>	<b>(11,252,217)</b>
<b>General Reveunes:</b>						
Taxes levied for general purposes				6,603,053	-	6,603,053
Grants, subsidies, contributions not restricted				3,336,182	-	3,336,182
Investment Earnings				116,848	2,247	119,095
Miscellaneous Income				2,346	-	2,346
Transfers between Governmental and business type activities				-	-	-
<b>Total General Revenues</b>				<b>10,058,429</b>	<b>2,247</b>	<b>10,060,676</b>
<b>Change In Net Position</b>				<b>(1,197,141)</b>	<b>5,600</b>	<b>(1,191,541)</b>
<b>Net Position at Beginning of Year</b>				<b>(8,356,282)</b>	<b>213,172</b>	<b>(8,143,110)</b>
<b>Net Position - June 30, 2016</b>				<b>\$ (9,553,423)</b>	<b>\$ 218,772</b>	<b>\$ (9,334,651)</b>

See Notes to Financial Statements and Independent Auditor's Report

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
**June 30, 2016**

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Fund Types
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 6,117,203	\$ 419,547	\$ 9,390,318	\$ 15,927,068
Taxes Receivable (Net)	460,491	-	-	460,491
Due From Other Funds	195,943	-	-	195,943
Due From Other Governments	534,548	5,306	-	539,854
Receivables - Other	119,566	-	-	119,566
Prepaid Expenses	169,657	-	-	169,657
<b>TOTAL ASSETS</b>	<b>7,597,408</b>	<b>424,853</b>	<b>9,390,318</b>	<b>17,412,579</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>Liabilities</b>				
Accounts Payable	72,620	-	-	72,620
Accrued Salaries and Benefits	1,394,485	-	-	1,394,485
Deferred Revenues	317,811	-	-	317,811
<b>TOTAL LIABILITIES</b>	<b>1,784,916</b>	<b>-</b>	<b>-</b>	<b>1,784,916</b>
<b><u>FUND BALANCE</u></b>				
Restricted Fund Balance	-	-	-	-
Committed Fund Balance	4,832,467	424,853	9,390,318	14,647,638
Assigned Fund Balance	-	-	-	-
Unassigned Fund Balance	980,025	-	-	980,025
<b>TOTAL FUND BALANCE</b>	<b>\$ 5,812,492</b>	<b>\$ 424,853</b>	<b>\$ 9,390,318</b>	<b>\$ 15,627,663</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 7,597,408</b>	<b>\$ 424,853</b>	<b>\$ 9,390,318</b>	<b>\$ 17,412,579</b>



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2016**

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Total Fund Balances – Governmental Funds	\$ 15,627,663
Capital assets net used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	5,178,129
Interest Payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet	(140,445)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Bonds Payable	(10,330,000)
Capital Leases Payable	(119,438)
Compensated Absences	(293,508)
Other post-employment benefits	(637,961)
Net pension liability	(20,791,000)
Bond issuance and discount costs net of amortization are not reported in the governmental funds balance sheet	87,336
Deferred outflows and inflows of resources related to pensions are applicable to future periods and not reported in the funds:	
Deferred outflows of resources related to pensions	2,242,756
Deferred inflows of resources related to pensions	(786,334)
Some of the District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and are therefore deferred in the funds.	<u>409,379</u>
Total Net Assets - Governmental Activities	<u><u>\$ (9,553,423)</u></u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2016**

	<b>General Fund</b>	<b>Capital Reserve Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Fund Types</b>
<b><u>REVENUES &amp; OTHER FINANCING SOURCES</u></b>					
<b><u>REVENUES</u></b>					
Local Sources	\$ 6,497,187	\$ 3,448	\$ 61,813	\$ -	\$ 6,562,448
State Sources	6,723,810	-	-	-	6,723,810
Federal Sources	272,168	-	-	-	272,168
Interfund Transfers (From Other Funds)	-	-	-	882,109	882,109
<b><u>OTHER FINANCING SOURCES</u></b>					
Other Financing Sources	-	-	9,920,000	-	9,920,000
<b>TOTAL REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>13,493,165</b>	<b>3,448</b>	<b>9,981,813</b>	<b>882,109</b>	<b>24,360,535</b>
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>					
<b><u>EXPENDITURES</u></b>					
Instruction	8,207,935	-	-	-	8,207,935
Support Services	4,191,902	-	-	-	4,191,902
Non-Instructional Services	238,526	-	-	-	238,526
Construction and Improvements	-	-	543,523	-	543,523
Debt Service (Principal & Interest)	-	-	124,529	882,109	1,006,638
<b><u>OTHER FINANCING USES</u></b>					
Proceeds from Long Term Financing	-	-	(76,557)	(9,920,000)	(9,996,557)
Transfers Out (To Other Funds)	882,109	-	-	9,920,000	10,802,109
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>13,520,472</b>	<b>-</b>	<b>591,495</b>	<b>882,109</b>	<b>14,994,076</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(27,307)</b>	<b>3,448</b>	<b>9,390,318</b>	<b>-</b>	<b>9,366,459</b>
<b>FUND BALANCE -July 1, 2015</b>	<b>5,839,799</b>	<b>421,405</b>	<b>-</b>	<b>-</b>	<b>6,261,204</b>
<b>FUND BALANCE -June 30, 2016</b>	<b>\$ 5,812,492</b>	<b>\$ 424,853</b>	<b>\$ 9,390,318</b>	<b>\$ -</b>	<b>\$ 15,627,663</b>

**FOREST CITY REGIONAL AREA SCHOOL DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the**  
**Statement of Activities**  
**June 30, 2016**

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Net change in fund balances – total governmental funds. \$ 9,366,459

Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period:

Depreciation expense	(443,429)
Capital outlays	543,505

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Earned income taxes receivable	(15,046)
Delinquent taxes receivable	28,589

Decrease in other post employment benefit obligations	3,419
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Repayment (Borrowing) of debt principal is an expenditure (revenue) in the governmental funds, but the repayment reduces or increase long-term liabilities in the

Borrowing of debt principal net of costs	(9,872,768)
Repayment of debt principal	784,160

Governmental funds report district pension contributions as expenditures. However in

District pension contributions	1,584,168
Cost of pension benefits earned, net of employee contributions	(2,980,985)

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

Amortization Expense	(9,439)
Accrued Interest Expense	(127,160)
Compensated Absences	(58,614)
	(195,213)

Change in net position of governmental activities.	\$ (1,197,141)
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**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2016**

	<b>Food Service Fund</b>
<b><u>ASSETS</u></b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 290,848
Due from Other Governments	50,038
Other Receivables	-
Inventories	24,251
Total Current Assets	<u>365,137</u>
<b>Noncurrent Assets</b>	
Fixed Assets	211,950
Less: Accumulated Depreciation	<u>161,906</u>
Total Noncurrent Assets	<u>50,044</u>
<b>TOTAL ASSETS</b>	<u><u>415,181</u></u>
<b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Due to Other Funds	195,944
Unearned revenue	<u>464</u>
<b>TOTAL LIABILITIES</b>	196,408
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	50,044
Unrestricted	<u>168,729</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 218,772</u></u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**Year Ended June 30, 2016**

**OPERATING REVENUES**

Food Service Revenue	\$	203,143
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<b>TOTAL OPERATING REVENUES</b>	<b>\$</b>	<b>203,143</b>
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**OPERATING EXPENSES**

Salaries	\$	180,493
Employee Benefits		79,314
Purchased Professional Services		7,969
Food, Milk and Donated Commodities		258,795
Operating Supplies		19,219
Repairs and Maintenance		1,898
Other Expense		1,964
Depreciation		6,998

<b>TOTAL OPERATING EXPENSES</b>	<b>\$</b>	<b>556,649</b>
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<b>NET OPERATING LOSS</b>	<b>\$</b>	<b>(353,507)</b>
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**NON-OPERATING REVENUES**

Earnings on Investments	\$	2,247
Federal and State Subsidies		356,860

<b>TOTAL NON-OPERATING REVENUE</b>	<b>\$</b>	<b>359,107</b>
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<b>Change in Net Position</b>	<b>\$</b>	<b>5,600</b>
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<b>Net Position - July 1, 2015</b>		<b>213,172</b>
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<b>Net Position - June 30, 2016</b>	<b>\$</b>	<b>218,772</b>
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**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended June 30, 2016**

**CASH FLOWS USED FOR OPERATING ACTIVITIES**

Cash Received From Users	\$ 204,130
Cash Payments To Employees For Services	(294,644)
Cash Payments To Suppliers for Goods and Services	(286,952)
Cash Payments For Other Operating Expenses	<u>(3,862)</u>
<b>Net Cash Used For Operating Activities</b>	<b>\$ (381,328)</b>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Cash Received From Federal & State Subsidies	<u>\$ 364,603</u>
<b>Net Cash From Non-Capital Financing Activities</b>	<b>\$ 364,603</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Property Acquisition	\$ -
Cash Received From Investment Earnings	<u>2,248</u>
<b>Net Cash From Investing Activities</b>	<b>\$ 2,248</b>

<b>NET DECREASE IN CASH AND CASH FLOW</b>	<b>\$ (14,477)</b>
<b>CASH AND CASH EQUIVALENT - JULY 1, 2015</b>	<b>\$ 305,325</b>
<b>CASH AND CASH EQUIVALENT - JUNE 30, 2016</b>	<b><u>\$ 290,848</u></b>

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH  
USED FOR OPERATING ACTIVITIES**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Income (Loss)	<b>\$ (353,507)</b>
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**Adjustments to Reconcile Operating Loss to Net Cash Used For:**

Depreciation	6,998
(Increase) Decrease in Accounts Receivable	1,747
(Increase) Decrease in Inventory	(970)
Increase (Decrease) in Deferred Revenues	(759)
Increase (Decrease) in Advances from Other Funds	<u>(34,838)</u>

<b>Total Adjustments</b>	<b>\$ (27,822)</b>
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<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b><u>\$ (381,328)</u></b>
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**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

**Student  
Activity Fund**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents

\$ 71,814

**TOTAL ASSETS**

\$ 71,814

**LIABILITIES**

Other Liabilities

\$ 71,814

**TOTAL LIABILITIES**

71,814

**NET POSITION**

Restricted for Legal Purposes

\$ -

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE # 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Major accounting principles and practices followed by the Forest City Regional School District (the "District") are summarized below:

**Nature of Operations**

The District provides elementary and secondary education to the residents of the following municipalities: Clinton Township, Herrick Township, Forest City Borough, Mount Pleasant Township, Vandling Borough, and Uniondale Borough. The District assesses taxpayers of these municipalities based upon taxing powers at its disposal. The ability of the District's taxpayers to pay their assessments is dependent upon economic and other factors affecting the taxpayers.

The accounting policies of the Forest City Regional School District (the District) conform to the generally accepted accounting principles for local government units, and the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems issued by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The more significant accounting policies are summarized below.

**Reporting Entity**

The District is the basic level of government, which has oversight responsibility, and is not included as a component unit of any other governmental agencies. Government Accounting Standards Board Statement Number 14, "The Financial Reporting Entity" establishes the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In accordance with Statement # 14, the District has determined that it has no other component unit, which should be included in its financial statements.

**Basis of Presentation - Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that 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 purposes for which they are spent. There are three fund types presented in this report. A brief description of each is presented below.

**A. Governmental Fund Types**

**General Fund** - The General Fund is used to account for all District resources and expenditures except for those required to be accounted for in another fund.

**Capital Project Fund** - The Capital Project Fund is used to account for receipt and disbursement of monies for major acquisitions or construction of capital facilities.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**B. Proprietary Fund Types**



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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Proprietary funds account for the operations of the District that are financed and operated in a manner similar to those often found in the private sector. The fund included in this category is the Food Service Fund, which accounts for the food service operations of the District. The Food Service Fund distinguishes between operating revenues and expenses and nonoperating items. Operating revenues consist of charges for food served. Operating expenses consist mainly of food and food preparation costs, supplies and other direct costs. All other revenues and expenses are reported as nonoperating.

**C. Fiduciary Fund Types**

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or the governmental units. The fund included in this category is the Activity Fund, which accounts for the collections and disbursements of assets of various student activities and clubs.

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the District's total net assets.

**Fund Financial Statements**

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing sources) in net current assets.

Proprietary funds are also accounted for using the economic resources measurement focus.

**Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual Basis**

Government-wide financial statements and the proprietary and fiduciary fund type financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Tax revenues are recognized in the year levied, while grant revenue is recognized when grantor eligibility requirements are met.

**Modified Accrual Basis**

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available"

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. The District considers property and other taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures, other than principal and interest on bonds payable, compensated absences, claims, and judgments, are recorded when the related fund liability is incurred. Principal and interest on bonds payable, compensated absences, claims, and judgments are recorded as fund liabilities when due and unpaid.

The District reports deferred revenue on its fund financial statements. Deferred revenue arises when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues may also arise when the District receives 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 liability for deferred revenue is removed and revenue is recognized.

**Application of FASB Pronouncements**

The District applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless the conflict with GASB pronouncements. The District does not apply FASB pronouncements issued after November 30, 1989.

**Budgetary Data**

An operating budget is adopted each year for the General Fund on the modified accrual basis of accounting. The District utilizes the Executive Budget approach to budgetary control. This approach requires the superintendent, together with the business offices, to prepare and submit a plan of financial operation to the School Board.

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out method) or market except for donated inventories, which are valued at fair market value, as determined by the United States Department of Agriculture, at the date of donation. Textbooks, instructional, and custodial supplies are charged to expense upon acquisition.

**Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets used by the Food Service fund are reported in the business-type activity of the government-wide statement of net assets and in the fund financial statements.

All Capital assets are stated at cost or estimated cost, net of accumulated depreciation. Donated capital assets are reported at their fair value at date of receipt. The district maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets, except land and construction in progress, are depreciated. Land is never depreciated.

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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Construction in progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Governmental Activities	Business-Type Activity
Land Improvements	15-20 Years	15-20 Years
Buildings and Improvements	5-40 Years	5-40 Years
Furniture and Equipment	5-20 Years	5-20 Years

The District does not have any infrastructure capital assets.

If applicable, interest is capitalized on Food Service Fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. However, no interest is capitalized on general capital assets.

**Assets Held for Capital Projects**

Assets held for capital projects represent funds in the Capital Reserve and Capital Project Funds.

**Compensated Absences**

The District's collective bargaining agreements with its professional and support employees specify the sick leave and vacation leave policies. Administrative personnel, while not party to these agreements, are provided similar benefits. The agreements generally provide for payment of accumulated sick leave, at retirement, based upon years of service and days accumulated. Vacation leave is earned in the year in which the service has been performed and cannot be carried over.

**Fund Balances**

In the year ending June 30, 2011, the school District implemented Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement No. 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- Restricted - Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation.
- Committed- Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision making authority prior to the end of the fiscal year, which requires the same level of formal action to remove the constraint.

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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- Unassigned- Represents the residual classification of the government's General Fund, and could report a surplus or deficit.

**Eliminations and Internal Balances**

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are labeled "internal balances" on the statement of net assets.

**Restricted Net Assets**

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

**Use of Estimates**

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

**NOTE #2 - CASH AND TEMPORARY INVESTMENTS:**

The District's investment policy is to invest in: (1) United States Treasury Bills, (2) short-term obligations of the United States Government or its agencies or instrumentalities, (3) deposits in savings or time accounts or share accounts of institutions insured by the Federal Deposit Insurance Corporations or the National Credit Union Share Insurance Fund to the extent 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, (4) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision, and (5) shares of certain investment companies registered under the Investment Companies Act of 1940 and the Securities Act of 1933 which invest only in instruments listed in (1) – (4) listed above, maintain a constant per share net asset value and are rated in the highest category by a nationally recognized rating agency.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, \$16,377,080 of the District's bank balance of \$16,627,080 was exposed to custodial credit risk. The amount exposed to credit risk was uninsured but was collateralized by securities pledged by the financial institutions for such funds but not in the District's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE #3 – REAL ESTATE TAXES:**

The School Board levies real estate taxes in three counties: Lackawanna, Susquehanna, and Wayne. The tax on real estate, as levied by the School Board, was 91.5 mills (\$91.50 per \$1,000 of assessed valuation) in Lackawanna County; 38.6 mills (\$38.6 per \$1,000 of assessed valuation) in Susquehanna County; and 15.8 mills (\$15.8 per \$1,000 of assessed valuation) in Wayne County. The counties determine assessed valuations of property and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows for Lackawanna, and Wayne Counties:

August 1	Levy Date
August 1-September 30	2% Discount Period
October 1-November 30	Face Payment Period
December 1-December 31	10% Penalty Period
January 1	Lien Date

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

July 1	Levy Date
July 1-August 31	2% Discount Period
September 1-October 31	Face Payment Period
November 1-December 31	10% Penalty Period
January 1	Lien Date

Delinquent real estate taxes receivable at June 30, 2016 amounted to \$511,656. The amount of taxes receivable is reported net of an allowance for doubtful collections of \$51,166.

**NOTE #4 - INTERGOVERNMENTAL SUBSIDIES AND RECEIVABLES:**

The amounts reported in the General Fund at June 30, 2016 as due from other governments are summarized below:

Pennsylvania Department of Education (PDE)	
State Source Revenues	\$ 367,207
Federal Source Revenues	3,564
Other School Districts	<u>163,777</u>
Total	<u>\$ 539,854</u>

The amount reported in the Food Service Fund as due from other governments of \$50,038 represents \$3,305 due from the PDE state funds, as well as \$46,733 in federal funds passed through the PDE.

**FOREST CITY REGIONAL SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE #5 - FIXED ASSETS AND DEPRECIATION:**

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

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b>Governmental Activities:</b>				
Land	\$ 7,624	\$ -	\$ -	\$ 7,624
Land Improvements	331,488	-	-	331,488
Buildings and Improvements	12,521,634	-	-	12,521,634
Furniture and Equipment	-	543,506	-	543,506
Furniture and Equipment	2,629,637	-	-	2,629,637
Totals at Historical Cost	\$ 15,490,383	\$ -	\$ -	\$ 16,033,889
Less Accumulated Depreciation:				
Land Improvements	\$ 285,218	\$ 18,796	\$ -	\$ 304,014
Buildings and Improvements	7,872,266	355,834	-	8,228,100
Furniture and Equipment	2,254,847	68,799	-	2,323,646
Total Accumulated Depreciation	10,412,331	443,429	-	10,855,760
Net Governmental Fixed Assets	\$ 5,078,052	\$ 100,077	\$ -	\$ 5,178,129
<b>Business-type Activities:</b>				
Furniture and Equipment	\$ 211,950	\$ -	\$ -	\$ 211,950
Less Accumulated Depreciation	154,908	6,998	-	161,906
Net Business-type Fixed Assets	\$ 57,042	\$ (6,998)	\$ -	\$ 50,044

**NOTE #6 – LONG TERM DEBT:**

As of June 30, 2016 the District had the following General Obligation Bond and Note outstanding:

**General Obligation Bonds of 2012**

On May 22, 2012 the District issued a bond payable in the amount of \$3,190,000. This bond is due on varying annual installments plus interest at rates ranging from 1.00% to 2.375% with the final maturity scheduled for July 1, 2021. The proceeds of this bond was use to refund the Districts obligations from 2007.

**General Obligation Bonds of 2015**

On September 17, 2015 the District issued a bond payable in the amount of \$9,920,000. This bond is due on varying annual installments plus interest at rates ranging from 1.00% to 4.00% with the final maturity scheduled for June 30, 2035. The proceeds of this bond will be used to improve all school facilities.

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Series B of 2012	\$ 1,120,000	\$ -	\$ (710,000)	\$ 410,000
Series of 2015	\$ -	\$ 9,920,000	\$ -	\$ 9,920,000
Total	<u>\$ 1,210,000</u>	<u>\$ 9,920,000</u>	<u>\$ (710,000)</u>	<u>\$ 10,330,000</u>

Total interest paid on this bond in 2016 was \$ 93,618.

**Annual Debt Service Requirements**

Annual requirements to amortize principal and interest at June 30, 2016, are:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2017	450,000	280,635	730,635
2018	455,000	269,943	724,943
2019	465,000	263,930	728,930
2020	470,000	256,655	726,655
2021	480,000	248,114	728,114
2022-2035	<u>8,010,000</u>	<u>2,047,986</u>	<u>10,057,986</u>
Total	<u>\$ 10,330,000</u>	<u>\$ 3,367,263</u>	<u>\$ 13,697,263</u>

**NOTE #7 - LEASE OBLIGATIONS:**

**Capital Lease Payable**

As of June 30, 2016 the District had the following capital leases payable:

The District entered into a capital lease for energy conservation equipment. The lease agreement requires 180 monthly payments of \$1,470 through 2021.

The District entered into a capital lease for computer equipment. The lease agreement requires 48 monthly payments of \$3,483 through 2016.

The District entered into a capital lease for computer equipment. The lease agreement requires 48 monthly payments of \$1,588 through 2017.

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

The following is a summary of changes in capital lease payable:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Lease 2006	\$ 99,641	\$ -	\$ 15,788	\$ 83,854
Capital Lease 2013	49,580	-	40,393	9,187
Capital Lease 2014	44,375	-	17,978	26,397
Total	\$ 193,598	\$ -	\$ 74,159	\$ 119,438

The following is a summary of future minimum lease payments required under this capital lease along with the present value of the net minimum lease payments as of June 30, 2016:

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 45,937
2018	25,571
2019	17,637
2020	17,637
2021	17,637
Total minimum lease payment	\$ 124,419
Less interest	4,981
Present value of net minimum lease payments	119,438
Current Portion	42,644
Long-term portion	\$ 76,794

Interest paid in 2016 was \$4,332.

**NOTE #8 – COMPENSATED ABSENCES:**

Employees of the District are allowed to accumulate sick leave based upon agreement with the various collective bargaining units. The accumulated sick leave may be utilized by the employee upon illness. At termination or retirement, the employee will be compensated for unused absences at an amount established by contract. The District, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16 has determined its estimated liability for compensated absences to be \$293,508 at June 30, 2016. This same amount is calculated under the "termination of payment method". All employees who work a twelve (12) month year are entitled to annual paid vacation leave. Vacation leave credited to the employee, must be utilized by the fiscal year end; carryover is not permitted.



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE #9- PENSION PLAN**

Public School Employees' Retirement System Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deduction 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.

***General Information about the Pension Plan***

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 membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to 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 benefit is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

*Member Contributions:*

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 10.3% and 12.3%.

*Employer Contributions:*

The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 20.50% 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 \$1,584,168 for the year ended June 30, 2016.

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

At June 30, 2015, the District reported a liability of \$20,791,000 for its proportionate share of the net pension liability. The net pension was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.048 percent, which was an increase of 0.04 percent from its proportion measured as of June 30, 2014

For the year ended June 30, 2016, the District recognized pension expense of \$1,215,578. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 64,500
Net difference between projected and actual investment earnings	-	685,000
Change in proportion	578,650	-
Difference between employer contributions and proportionate share of total contributions	79,938	36,834
Contributions subsequent to the measurement date	1,584,168	-
Total	<u>\$ 2,242,756</u>	<u>\$ 786,334</u>

\$1,584,168 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	(262,382)
2018	(262,382)
2019	391,768
2020	12,618
2021	(7,367)

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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- 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 Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investments expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing 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.

<b>Asset Class</b>	<b>Target allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Public markets global equity	22.5%	7.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasures	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100.0%</u>	

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

**FOREST CITY REGIONAL SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Sensitivity of the District's proportionate share of the 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 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 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share			
The net pension liability	\$20,791,000	\$25,267,000	\$16,727,000

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 #10- INTERNAL BALANCES/ INTERFUND BALANCES AND TRANSFERS**

The following summarizes the inter-fund transfers in 2016:

	TRANSFERS <u>IN</u>	TRANSFERS <u>OUT</u>
General Fund:		
Debt Service Fund		(882,109)
Nonmajor Funds:		
Debt Service Fund	882,109	
Totals	<u>\$ 882,109</u>	<u>\$ (882,109)</u>

**NOTE #11- POSTRETIREMENT BENEFITS**

**FOREST CITY REGIONAL SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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The Forest City Regional School District follows the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability of \$637,961 and related reduction of expenses of \$3,419, in governmental activities.

The Forest City Regional School District, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a single-employer defined benefit plan to provide certain postretirement healthcare benefits to all former full-time employees who were members of the Employee Retirement Plan for a minimum of ten years and a member of the professional staff and met definition of a qualifying PSERS retirement at the time of termination. A qualifying retirement is any superannuation retirement (age 62 and 1, 60 and 30 or 35 years or, at age 55 and 25 early retirement withdrawal 1 retirement). Such benefits are not available to members' spouses or dependents; rather, only to former employees as previously described. Specific details of the Plan include the provision of certain hospitalization, major medical insurance, and prescription drug coverage. These benefits are provided through insurance companies.

The Forest City Regional School District is under no statutory or contractual obligation to provide these post retirement healthcare benefits. Because the Plan consists solely of the District's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

#### Funding Policy

The Forest City Regional School District pays the full cost of coverage for the healthcare benefits paid to a qualified retiree. The District has chosen to fund the healthcare benefits on a pay as you go basis.

#### Annual OPEB Cost and Net OPEB Obligation

The Forest City Regional School District annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table illustrates the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and Changes in the District's net OPEB obligation:

Annual required on contribution	\$ 240,630
Interest on net OPEB obligation	28,862
Adjustment to annual required contribution	(146,100)
Annual OPEB cost	<u>123,392</u>
Contributions made	<u>(126,811)</u>
Increase in net OPEB obligation	(3,419)
Net OPEB obligation-beginning of year	<u>641,380</u>
Net OPEB obligation-end of year	<u>\$ 637,961</u>

The Forest City Regional School District's annual OPEB cost, the percentage of annual OPEB cost was contributed to the Plan and the net OPEB obligation for June 30, 2016 are as follows:

Fiscal Year	Annual	Percentage of Annual OPEB	Net OPEB Obligation-
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**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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Ended	OPEB Cost	Cost Contributed	End of Year
6/30/16	\$ 240,630	53%	\$637,961
6/30/15	\$ 240,630	71%	\$641,380
6/30/14	\$ 240,630	70%	\$ 699,953
6/30/13	\$ 259,654	43%	\$ 766,493
6/30/12	\$ 348,225	43%	\$ 618,678

Because June 30, 2009 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of years proceeding June 30, 2009.

Funding Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$981,852, resulting in an unfunded actuarial accrued liability (UAAL) of \$981,852. The covered payroll (annual payroll of active employees covered by the plan) equaled \$5,198,026 and the ratio of the UAAL to the covered payroll equaled 18.89%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because Forest City Regional School District maintains no Plan assets, information relative Plan asset required disclosures is not applicable. Additionally, because June 30, 2009 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the RSI does not reflect similar information respective of years proceeding June 30, 2009.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the District and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Forest City Regional District and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2013, the projected unit credit cost actuarial method was used. Because the Unit funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 5.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Forest City Regional School District. Actuarial assumptions also included annual healthcare and prescription drug cost trend rates of 5.5%, initially, reduced by decrements to an ultimate rate of 5.5% for both healthcare and prescription drug costs after five and ten years, respectively. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE # 12- CONTINGENCIES**

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for an expenditure that may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

The district is involved, from time to time, in various legal actions. In the opinion of the District, these matters either are adequately covered by insurance or will not have a material effect on the District's financial statements.

**NOTE # 13- SUBSEQUENT EVENTS**

The District has evaluated events subsequent to the balance sheet date of June 30, 2016 through December 19, 2016, which is the date these financial statements were available to be issued, and determined the following required disclosures under FASB Accounting Standards Codification Topic – Subsequent Events.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

FOREST CITY REGIONAL SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY

Last 10 Fiscal Years (\*)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	4.8000%	0.0462%	0.0461%
District's proportionate share of the net pension liability	\$ 20,791,000	\$ 18,286,000	\$ 18,872,000
District's covered-employee payroll	\$ 6,180,775	\$ 5,889,880	\$ 5,921,361
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	336.38%	310.46%	318.71%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

Amounts determined as of the cost-sharing plan's June 30, 2015 fiscal year.

- (\*) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

FOREST CITY REGIONAL SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
TO PENSION PLAN

Last 10 Fiscal Years (\*)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	1,584,168	1,202,166	1,019,923
Contributions in relation to the contractually required contribution	1,584,168	1,202,166	1,019,923
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	6,180,775	5,892,563	5,889,880
Contributions as a percentage of covered-employee payroll	25.63%	20.40%	17.32%

Amounts determined as of the cost-sharing plan's June 30, 2015 fiscal year.

- (\*) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

FOREST CITY REGIONAL SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT BENEFITS PLAN

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (ALL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
7/1/2011	\$-	\$4,189,595	\$4,189,595	0%	\$5,672,207	73.86%
7/1/2013	\$-	\$3,158,794	\$3,158,794	0%	\$6,114,885	51.66%
7/1/2015	\$-	\$3,341,213	\$3,341,213	0%	\$5,889,880	56.73%

Because June 30, 2009 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of years preceding June 30, 2009.

## **SUPPLEMENTARY INFORMATION**

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**Year Ended June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Expenditures</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUE &amp; OTHER FINANCING SOURCES</b>				
Local Sources	\$ 6,358,983	\$ 6,358,983	\$ 6,497,187	\$ 138,204
State Sources	6,540,232	6,540,232	6,723,810	183,578
Federal Sources	418,826	418,826	272,168	(146,658)
<b>TOTAL REVENUE &amp; OTHER FINANCING SOURCES</b>	<b>13,318,041</b>	<b>13,318,041</b>	<b>13,493,165</b>	<b>175,124</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTION</b>				
Regular Programs - Elementary / Secondary	5,427,612	5,427,612	5,442,996	(15,384)
Special Programs - Elementary / Secondary	1,729,721	1,729,721	1,698,761	30,960
Vocational Education Programs	522,857	522,857	524,139	(1,282)
Other Instructional Programs - Elementary / Secondary	510,170	510,170	542,039	(31,869)
<b>TOTAL INSTRUCTION</b>	<b>8,190,360</b>	<b>8,190,360</b>	<b>8,207,935</b>	<b>(17,575)</b>
<b>SUPPORT SERVICES</b>				
Pupil Personnel	362,278	362,278	323,144	39,134
Instructional Staff	476,796	476,796	448,532	28,264
Administration	765,858	765,858	732,881	32,977
Pupil Health	151,812	151,812	145,761	6,051
Business	277,720	277,720	269,628	8,092
Operation and Maintenance of Plant Services	861,209	861,209	848,114	13,095
Student Transportation Services	1,100,570	1,100,570	1,164,590	(64,020)
Central	384,510	384,510	237,706	146,804
Other Support Services	22,320	22,320	21,546	774
<b>TOTAL SUPPORT SERVICES</b>	<b>4,403,073</b>	<b>4,403,073</b>	<b>4,191,902</b>	<b>211,171</b>
<b>NON-INSTRUCTIONAL SERVICES</b>				
Student Activities	180,386	180,386	238,244	(57,858)
Construction and improvements	-	-	-	-
Debt Service	726,437	726,437	-	726,437
Community Services	500	500	282	218
<b>TOTAL NON-INSTRUCTIONAL SERVICES</b>	<b>907,323</b>	<b>907,323</b>	<b>238,526</b>	<b>668,797</b>
<b>OTHER FINANCING(SOURCES) AND USES</b>				
Other Financing Sources	-	-	-	-
Transfers Out	45,854	45,854	882,109	(836,255)
<b>TOTAL OTHER FINANCING USES</b>	<b>45,854</b>	<b>45,854</b>	<b>882,109</b>	<b>(836,255)</b>
<b>TOTAL EXPENDITURES &amp; OTHER USES</b>	<b>13,546,610</b>	<b>13,546,610</b>	<b>13,520,472</b>	<b>26,138</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(228,569)</b>	<b>(228,569)</b>	<b>(27,307)</b>	<b>\$ 201,262</b>
<b>FUND BALANCE - July 1, 2015</b>	<b>-</b>	<b>-</b>	<b>5,839,799</b>	<b>-</b>
<b>FUND BALANCE - June 30, 2016</b>	<b>\$ (228,569)</b>	<b>\$ (228,569)</b>	<b>\$ 5,812,492</b>	<b>\$ 201,262</b>

**FOREST CITY REGIONAL SCHOOL DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

**1. Budgetary Data**

Budgetary data is established by the School Board of the District and is officially adopted via ordinance. The budgets are prepared using the modified accrual basis of accounting which is method utilized for the Governmental Funds. Revenues are recognized when they become both measurable and available. Expenditures are recognized when the related liability is incurred.

Budgetary data and actual data is presented only for the General Fund.

**2. Pension Data**

The amounts reported in the schedule of the District's proportionate share of the net pension liability are determined as of June 30, 2015 by The Commonwealth of Pennsylvania Public School Employees' Retirement System. The plan is a cost-sharing plan. There were no changes in benefit terms and no changes in assumptions.

**3. Postemployment Benefits Plan**

The calculation of Actuarial Accrued Liability utilizes tables calculating the probability of the employee remaining employed until assumed retirement age, united states life tables (2007 version) and expected future working lifetimes of employment. In addition the following assumptions are used:

Premium increases	3% per year
Investment rate of return	5.5%
Discount rate	5.5%
Assumed age at retirement	62

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Schedule of Expenditure-Federal Awards**  
**June 30, 2016**

Grantor/Project Title		Source	Revenue Code	Grants Number	CFDA Number	Grant Period	Grant Award	Receipts July 1, 2015 to June 30, 2016	Accrued (Deferred) July 1, 2014	Revenue Recognized	Expenditures	Accrued (Deferred) June 30, 2016
<b>U.S. DEPARTMENT OF EDUCATION</b>												
Passed through the PA Dept of Education												
Title I - Improving Basic Programs												
Title I - Improving Basic Programs												
Total Title I												
Title II - Improving Teacher Quality												
Medical Assistance - Access												
Medical Assistance Reimbursement-Adm Claims												
Passed through Intermediate Units												
IDEA - B												
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>												
<b>U.S. DEPARTMENT OF AGRICULTURE</b>												
Passed through the Penna. Dept of Education												
National School Lunch Program												
National School Lunch Program												
School Breakfast Program												
School Breakfast Program												
Donated Commodities												
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>												
<b>TOTAL FEDERAL ASSISTANCE</b>												

Testing requirement - 20% Rule		
Total Expenditures (Listed Above)	\$	772,469
20 % - Testing Requirement	\$	154,494
Programs Tested	\$	193,901
TOTAL TESTED	\$	193,901
PERCENT TESTED		25%



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2016**

**General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Forest City Regional School District. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule.

Scope of the audit pursuant to the 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:

- a) All major and non-major federal grant activity of the Forest City Regional School District is included in the accompanying Schedule of Expenditures of Federal Awards.
- b) The District is a sub-recipient of Federal Funds from the Commonwealth of Pennsylvania. The federal cognizant agency is the United States Department of Education.
- c) District is a sub-recipient of Federal Funds from the Northeastern Intermediate Unit #19. The federal cognizant agency is the United States Department of Education.

**Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in the notes to the District's financial statements.

**Indirect Cost Rate**

Forest City Regional School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance

## CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA

Richard P. Rainey, CPA

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

To the Board of Directors  
Forest City Regional School District

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 Forest City Regional School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2016.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Forest City Regional School District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

#### **Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink, appearing to read "Ray H.", is positioned above the location and date text.

Scranton, Pennsylvania  
December 19, 2016

## CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA

Richard P. Rainey, CPA

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

To the Board of Directors  
Forest City Regional School District

#### **Report on Compliance for Each Major Federal Program**

We have audited the Forest City Regional School District'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 District's major federal programs for the year ended June 30, 2016. Forest City Regional School District'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 District'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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In our opinion, the Forest City Regional School District, 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 June 30, 2016.

#### **Report on Internal Control over Compliance**

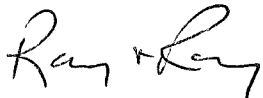
Management of the Forest City Regional School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control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

compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.



Scranton, Pennsylvania  
December 19, 2016

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

**Part I - Summary of Auditors Results**

**Financial Statement Section**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified not considered to be material weaknesses?        Yes   X   No

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards Section**

Dollar threshold used to determine Type A programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes        No

Type of auditor's report on compliance for major programs: Unmodified

Internal Control over compliance:

Material weakness(es) identified?        Yes   X   No

Were reportable condition(s) identified not considered to be material weakness(es)?        Yes   X   No

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)?        Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I

**FOREST CITY REGIONAL SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

There were no prior year audit findings.