

FOREST CITY REGIONAL SCHOOL DISTRICT

SINGLE AUDIT REPORT

JUNE 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, 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 3-11 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* 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 were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 13, 2017, on our consideration of the Example 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, Pennsylvania
December 13, 2017

FOREST CITY REGIONAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2017. 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 \$340,947 in 2017. Net position of governmental activities decreased \$335,799 from 2016. Net position of the business-type activity increased \$5,148 from 2016.

The District had \$14,531,198 in expenses related to governmental activities in 2017; only \$3,510,127 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$10,685,272 were adequate to provide for these programs.

In the District's business-type activity, the food service fund had an operating loss of \$5,149 in 2017. In addition to increased benefits costs, the district has 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 of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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 of the 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-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

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

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.

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

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 2017 included revenues of \$13,541,075 and expenditures and other uses of \$14,025,501.

Actual revenues were \$14,145,366 or 104% of budget. Actual expenditures and other financing uses were \$15,866,379 or 113% of budget. Included in the expenditures is a transfer of \$1,600,000 that was transferred from the General Fund to the Capital Reserve Fund. This money was committed for and used to pay expenditures related to the district's current renovation project. Excluding the \$1,600,000 transfer, the general fund expenditures were 101.7% of the budgeted expenditures.

CONDENSED STATEMENT OF NET ASSETS (IN 000'S)

	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$15,554	\$17,591	\$171	\$169	\$15,725	\$17,761
Capital assets	<u>7,719</u>	<u>5,178</u>	<u>43</u>	<u>50</u>	<u>7,763</u>	<u>5,228</u>
TOTAL	<u>23,273</u>	<u>22,769</u>	<u>214</u>	<u>219</u>	<u>23,488</u>	<u>22,989</u>
Deferred Outflows of Resources Related to Pensions	4,824	2,242			4,824	2,243
Current liabilities	3,754	3,031	1		3,755	3,032
Long-term liabilities: Due after one year	<u>33,326</u>	<u>30,747</u>			<u>33,326</u>	<u>30,748</u>
Total liabilities	<u>37,081</u>	<u>33,779</u>	<u>1</u>		<u>37,082</u>	<u>33,780</u>
Total Deferred Inflows of Resources Related to Pensions	905	786			905	786
Net position:						
Invested in capital assets, net of related debt	(5,728)	(5,271)	43	50	(5,684)	(5,221)
Restricted	3,337				3,337	
Unrestricted	<u>(7,498)</u>	<u>(4,282)</u>	<u>170</u>	<u>\$169</u>	<u>(7,328)</u>	<u>(4,113)</u>
Total net position	<u>\$ (9,889)</u>	<u>\$ (9,553)</u>	<u>\$ 213</u>	<u>\$ 219</u>	<u>\$ (9,675)</u>	<u>\$ (9,334)</u>

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

CONDENSED STATEMENT OF ACTIVITIES (IN 000'S)						
	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program revenues:						
Charges for services	\$76	\$80	\$206	\$203	\$281	\$283
Operating grants and contributions	3,434	3,433	366	357	3,799	3,790
General revenues:						
Taxes levied for general purposes, net	6,721	6,603			6,721	6,603
Grants, subsidies and contributions not restricted	3,415	3,336			3,415	3,336
Other	<u>548</u>	<u>119</u>	<u>3</u>	<u>2</u>	<u>550</u>	<u>121</u>
Total revenues	<u>\$ 14,194</u>	<u>\$ 13,571</u>	<u>\$ 575</u>	<u>\$ 562</u>	<u>\$ 14,766</u>	<u>\$ 14,133</u>
Program expenses:						
Instruction	\$ 8,940	\$ 9,660			\$ 8,940	\$ 9,660
Instructional student support	1,367	917			1,367	917
Admin and financial support services	1,133	1,002			1,133	1,002
Operation and maintenance of plant services	923	849			923	849
Pupil transportation	1,186	1,424			1,186	1,424
Student activities	252	238			252	238
Community services						
Interest on long-term debt	270	234			270	234
Unallocated depreciation	<u>456</u>	<u>443</u>			456	443
Food service			<u>\$ 614</u>	<u>\$ 556</u>	<u>579</u>	<u>556</u>
Total expenses	<u>14,531</u>	<u>14,769</u>	<u>614</u>	<u>556</u>	<u>15,099</u>	<u>15,325</u>
Change in net position	(335)	(1,197)	(39)	6	(340)	(1,191)
Net position, beginning	<u>(9,553)</u>	<u>(8,356)</u>	<u>219</u>	<u>213</u>	<u>(9,335)</u>	<u>(8,143)</u>
Net position, ending	<u>\$ (9,889)</u>	<u>\$ (9,553)</u>	<u>\$180</u>	<u>\$219</u>	<u>\$ (9,675)</u>	<u>\$ (9,335)</u>

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

GOVERNMENTAL ACTIVITIES

In 2017, the net position of governmental activities decreased by \$335,799. Revenues increased by \$652,201, or 4.83%, from 2016. Overall, district expenses increased by \$2,345,907, or 17.35%. Of this increase, \$1,600,000 was transferred to the Capital Reserve Account and used for building renovation.

BUSINESS-TYPE ACTIVITY

The District's food service operation had a loss of \$5,149 in 2017. This was due to a combination of items. There was a increase in personnel costs because of an increase in the cost of benefits. 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 2016:

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Local sources	7,080,637	6,497,187	583,450	8.98%
State sources	6,679,661	6,723,810	(44,149)	-0.66%
Federal sources	385,068	272,168	112,900	41.48%
Total	<u>14,145,366</u>	<u>13,307,208</u>	<u>652,201</u>	<u>4.83%</u>

LOCAL SOURCES

The majority of the increase in the local revenue was in the receipt of a payment in the amount of \$398,713 representing excess reserves in the district's health insurance fund. Other local source revenues remained relatively static.

STATE SOURCES

State source revenue remained relatively static.

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

FEDERAL Sources

The federal source revenue increased 41.48%, but this is only because the dates of the federal grants overlap two fiscal years. This amount only shows an increase because it was budgeted in the prior fiscal year, but received in this fiscal year.

The following represents a summary of General Fund expenditures, by function, along with changes from 2016.

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Instruction	\$ 8,474,759	\$ 8,207,935	\$ 266,824	3.25%
Support services	4,611,516	4,191,902	419,614	10.01%
Noninstructional services	252,792	238,526	14,266	5.98%
Other financing uses	<u>2,527,312</u>	<u>882,109</u>	<u>1,645,203</u>	<u>186.51%</u>
Total	\$ 15,866,379	\$ 13,520,472	\$ 2,345,907	17.35%

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 2017, the District paid \$726,635 in debt service, including \$450,000 in principal and \$276,635 in interest, on its bonds payable. There was no fund balance at June 30, 2017.

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

CAPITAL ASSETS

The District's capital assets at June 30, 2017 are summarized below.

	<u>GOVERN- MENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITY</u>	<u>TOTALS</u>
Land	\$ 7,624		\$ 7,624
Land improvements	331,488		331,488
Buildings and improvements	12,521,634		12,521,634
Construction in Progress	3,337,467		3,337,467
Furniture and equipment	<u>2,824,312</u>	<u>211,950</u>	<u>3,036,262</u>
Total	\$19,022,525	\$211,950	\$19,234,475
Less accumulated depreciation	<u>11,302,595</u>	<u>168,708</u>	<u>11,471,303</u>
Net	<u>\$ 7,719,929</u>	<u>\$ 43,242</u>	<u>\$ 7,763,171</u>

Additional information on the changes in the District's capital assets from 2016 to 2017 can be found on page 28 of this report.

LONG TERM DEBT

At June 30, 2017, the District's general obligation debt was \$9,815,000. This amount is approximately 33.1% of its legal limit of \$29.7 million. \$460,000 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 28-29 of this report.

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

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 3.1%, this only allowed for a 3.1% increase in Wayne County, a 2.94% increase in Susquehanna County and a 1.75% increase in Lackawanna County for fiscal year 2017.

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, 2017

	Governmental Activities	Business Type	Primary Government Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 13,783,598	\$ 330,539	\$ 14,114,137
Taxes receivable, net	791,082	-	791,082
Internal balances	239,007	(239,007)	-
Due from other governments	432,068	56,360	488,428
Receivables, other	122,349	-	122,349
Prepaid expenses	185,595	-	185,595
Inventories	-	23,522	23,522
Total Current Assets	<u>15,553,699</u>	<u>171,414</u>	<u>15,725,113</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 Progress	3,337,467		3,337,467
Furniture and equipment	2,824,312	211,950	3,036,262
Accumulated depreciation	<u>(11,302,596)</u>	<u>(168,708)</u>	<u>(11,471,304)</u>
Total Noncurrent Assets	<u>7,719,929</u>	<u>43,242</u>	<u>7,763,171</u>
TOTAL ASSETS	<u>23,273,628</u>	<u>214,656</u>	<u>23,488,284</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	<u>4,139,535</u>	<u>-</u>	<u>4,139,535</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	147,371	-	147,371
Accrued salaries and benefits	1,805,601	-	1,805,601
Unearned revenue	231,477	1,032	232,509
Accrued Interest	136,190	-	136,190
Other Post Employment Benefits	604,195	-	604,195
Compensated Absences	308,065	-	308,065
Bonds Payable - Due within one year	455,000	-	455,000
Capital Leases Payable - Due within one year	66,554	-	66,554
Total Current Liabilities	<u>3,754,453</u>	<u>1,032</u>	<u>3,755,485</u>
Long-term Liabilities			
Portion due or payable after one year			
Bonds payable	9,425,000	-	9,425,000
Capital leases payable	163,965	-	163,965
Net pension liabilities	<u>23,738,000</u>	<u>-</u>	<u>23,738,000</u>
Total Long-term Liabilities	<u>33,326,965</u>	<u>-</u>	<u>33,326,965</u>
TOTAL LIABILITIES	<u>37,081,418</u>	<u>1,032</u>	<u>37,082,450</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	<u>220,967</u>	<u>-</u>	<u>220,967</u>
NET POSITION			
Net investment in capital assets	(5,728,057)	43,242	(5,684,815)
Restricted for capital projects	3,337,467	-	3,337,467
Unrestricted	<u>(7,498,632)</u>	<u>170,382</u>	<u>(7,328,250)</u>
TOTAL NET POSITION	<u>\$ (9,889,222)</u>	<u>\$ 213,624</u>	<u>\$ (9,675,598)</u>

See Notes to Financial Statements and Independent Auditor's Report

FOREST CITY REGIONAL SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2017

	Expenditures	Program Revenues		Net (Expense) Revenue and Change in Net Assets		
		Charge For Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Depreciation	\$ 456,272	\$ -	\$ -	\$ (456,272)	\$ -	\$ (456,272)
Instruction	8,940,404	70,658	2,074,723	(6,795,023)	-	(6,795,023)
Instructional Student Support	1,367,759	-	231,129	(1,136,630)	-	(1,136,630)
Administrative	1,133,623	-	100,587	(1,033,036)	-	(1,033,036)
Operation of Plant	923,365	-	76,665	(846,700)	-	(846,700)
Pupil Transportation	1,186,769	-	897,110	(289,659)	-	(289,659)
Student Activities	252,381	5,363	20,955	(226,063)	-	(226,063)
Community Services	410	-	33	(377)	-	(377)
Interest - Long Term Debt	270,215	-	32,904	(237,311)	-	(237,311)
Total Government	14,531,198	76,021	3,434,106	(11,021,071)	-	(11,021,071)
Business Type Activities:						
Food Service	579,273	205,870	365,743	-	(7,660)	(7,660)
Total Primary Government	\$ 15,110,471	\$ 281,891	\$ 3,799,849	(11,021,071)	(7,660)	(11,028,731)
General Revenues:						
Taxes levied for general purposes				6,721,515	-	6,721,515
Grants, subsidies, contributions not restricted				3,415,620	-	3,415,620
Investment Earnings				143,156	2,511	145,667
Miscellaneous Income				404,981	-	404,981
Transfers between Governmental and business type activities				-	-	-
Total General Revenues				10,685,272	2,511	10,687,783
Change In Net Position				(335,799)	(5,149)	(340,948)
Net Position at Beginning of Year				(9,553,423)	218,773	(9,334,650)
Net Position - June 30, 2017				\$ (9,889,222)	\$ 213,624	\$ (9,675,598)

See Notes to Financial Statements and Independent Auditor's Report

FOREST CITY REGIONAL SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Fund Types
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 4,969,883	\$ 1,599,399	\$ 7,214,316	\$ 13,783,598
Taxes Receivable (Net)	404,923	-	-	404,923
Due From Other Funds	239,007	-	-	239,007
Due From Other Governments	432,068	-	-	432,068
Receivables - Other	122,349	-	-	122,349
Prepaid Expenses	107,698	-	-	107,698
TOTAL ASSETS	6,275,928	1,599,399	7,214,316	15,089,643
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts Payable	147,371	-	-	147,371
Accrued Salaries and Benefits	1,805,601	-	-	1,805,601
Deferred Revenues	231,477	-	-	231,477
TOTAL LIABILITIES	2,184,449	-	-	2,184,449
<u>FUND BALANCE</u>				
Restricted Fund Balance	-	-	-	-
Committed Fund Balance	-	1,599,399	7,214,316	8,813,715
Assigned Fund Balance	-	-	-	-
Unassigned Fund Balance	4,091,479	-	-	4,091,479
TOTAL FUND BALANCE	\$ 4,091,479	\$ 1,599,399	\$ 7,214,316	\$ 12,905,194
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,275,928	\$ 1,599,399	\$ 7,214,316	\$ 15,089,643

FOREST CITY REGIONAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balances – Governmental Funds \$ 12,905,194

Capital assets net used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. 7,719,929

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 (136,190)

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	(9,880,000)
Capital Leases Payable	(230,519)
Compensated Absences	(308,065)
Other post-employment benefits	(604,195)
Net pension liability	(23,738,000)

Bond issuance and discount costs net of amortization are not reported in the governmental funds balance sheet 77,897

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	4,139,535
Deferred inflows of resources related to pensions	(220,967)

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. 386,159

Total Net Assets - Governmental Activities \$ (9,889,222)

FOREST CITY REGIONAL SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Fund Types
<u>REVENUES & OTHER FINANCING SOURCES</u>					
<u>REVENUES</u>					
Local Sources	\$ 7,080,637	\$ 3,159	\$ 70,099	\$ -	\$ 7,153,895
State Sources	6,679,661	-	-	-	6,679,661
Federal Sources	385,068	-	-	-	385,068
Interfund Transfers (From Other Funds)	-	1,719,247	-	808,064	2,527,311
<u>OTHER FINANCING SOURCES</u>					
Other Financing Sources	-	-	-	-	-
TOTAL REVENUES & OTHER FINANCING SOURCES	14,145,366	1,722,406	70,099	808,064	16,745,935
<u>EXPENDITURES AND OTHER FINANCING USES</u>					
<u>EXPENDITURES</u>					
Instruction	8,474,759	-	-	-	8,474,759
Support Services	4,611,516	-	-	-	4,611,516
Non-Instructional Services	252,792	-	-	-	252,792
Construction and Improvements	-	547,860	2,246,101	-	2,793,961
Debt Service (Principal & Interest)	-	-	-	808,064	808,064
<u>OTHER FINANCING USES</u>					
Proceeds from Long Term Financing	-	-	-	-	-
Transfers Out (To Other Funds)	2,527,311	-	-	-	2,527,311
TOTAL EXPENDITURES AND OTHER FINANCING USES	15,866,378	547,860	2,246,101	808,064	19,468,403
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(1,721,012)	1,174,546	(2,176,002)	-	(2,722,468)
FUND BALANCE -July 1, 2016	5,812,491	424,853	9,390,318	-	15,627,662
FUND BALANCE -June 30, 2017	\$ 4,091,479	\$ 1,599,399	\$ 7,214,316	\$ -	\$ 12,905,194

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, 2017

Net change in fund balances – total governmental funds. \$ (2,722,468)

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	(446,836)
Capital outlays	2,988,642

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	5,363
Delinquent taxes receivable	(28,589)

Decrease in other post employment benefit obligations	33,766
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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	(194,675)
Repayment of debt principal	533,594

Governmental funds report district pension contributions as expenditures. However in

District pension contributions	1,835,764
Cost of pension benefits earned, net of employee contributions	(2,320,618)

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

Amortization Expense	(9,439)
Accrued Interest Expense	4,255
Compensated Absences	<u>(14,558)</u>

Change in net position of governmental activities.	<u>\$ (335,799)</u>
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FOREST CITY REGIONAL SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2017

	Food Service Fund
<hr/>	
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 330,539
Due from Other Governments	56,360
Inventories	23,522
Total Current Assets	<u>410,421</u>
Noncurrent Assets	
Fixed Assets	211,950
Less: Accumulated Depreciation	<u>168,708</u>
Total Noncurrent Assets	<u>43,242</u>
TOTAL ASSETS	<u><u>453,663</u></u>
<u>LIABILITIES</u>	
Current Liabilities	
Due to Other Funds	239,007
Unearned revenue	<u>1,032</u>
TOTAL LIABILITIES	240,039
<u>NET POSITION</u>	
Net Investment in Capital Assets	43,242
Unrestricted	<u>170,382</u>
TOTAL NET POSITION	<u><u>\$ 213,624</u></u>

FOREST CITY REGIONAL SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2017

OPERATING REVENUES

Food Service Revenue	\$	205,870
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TOTAL OPERATING REVENUES	\$	205,870
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OPERATING EXPENSES

Salaries	\$	177,620
Employee Benefits		92,740
Food, Milk and Donated Commodities		275,317
Operating Supplies		18,504
Repairs and Maintenance		5,691
Other Expense		2,599
Depreciation		6,802

TOTAL OPERATING EXPENSES	\$	579,273
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NET OPERATING LOSS	\$	(373,403)
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NON-OPERATING REVENUES

Earnings on Investments	\$	2,511
Federal and State Subsidies		365,743

TOTAL NON-OPERATING REVENUE	\$	368,254
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Change in Net Position	\$	(5,149)
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Net Position - July 1, 2016		218,773
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Net Position - June 30, 2017	\$	213,624
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FOREST CITY REGIONAL SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2017

CASH FLOWS USED FOR OPERATING ACTIVITIES

Cash Received From Users	\$ 206,438
Cash Payments To Employees For Services	(227,297)
Cash Payments To Suppliers for Goods and Services	(293,092)
Cash Payments For Other Operating Expenses	<u>(8,291)</u>
Net Cash Used For Operating Activities	\$ (322,242)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Cash Received From Federal & State Subsidies	<u>\$ 359,422</u>
Net Cash From Non-Capital Financing Activities	\$ 359,422

CASH FLOWS FROM INVESTING ACTIVITIES

Property Acquisition	\$ -
Cash Received From Investment Earnings	<u>2,511</u>
Net Cash From Investing Activities	\$ 2,511

NET DECREASE IN CASH AND CASH FLOW **\$ 39,691**

CASH AND CASH EQUIVALENT - JULY 1, 2016 **\$ 290,848**

CASH AND CASH EQUIVALENT - JUNE 30, 2017 **\$ 330,539**

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

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income (Loss)	\$ (373,403)
Adjustments to Reconcile Operating Loss to Net Cash Used For:	
Depreciation	6,801
(Increase) Decrease in Inventory	729
Increase (Decrease) in Deferred Revenues	568
Increase (Decrease) in Advances from Other Funds	<u>43,063</u>
Total Adjustments	\$ 51,161
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (322,242)</u>

FOREST CITY REGIONAL SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	<u>Student Activity Fund</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$ 71,184
TOTAL ASSETS	<u>\$ 71,184</u>
<u>LIABILITIES</u>	
Other Liabilities	\$ 71,184
TOTAL LIABILITIES	<u>71,184</u>
<u>NET POSITION</u>	
Restricted for Legal Purposes	<u>\$ -</u>

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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, 2017

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, 2017

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 three 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, 2017

- Unassigned- Represents the residual classification of the government's General Fund, and could report a surplus or deficit.
- Nonspendable - 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.
- Assigned – Consists of amounts intended to be used for a certain purpose as per committee or individual authorized by the governing body

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, \$14,216,469 of the District's bank balance of \$14,466,469 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, 2017

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 92.8 mills (\$92.80 per \$1,000 of assessed valuation) in Lackawanna County; 41.2 mills (\$41.20 per \$1,000 of assessed valuation) in Susquehanna County; and 16.7 mills (\$16.70 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, 2017 amounted to \$449,915. The amount of taxes receivable is reported net of an allowance for doubtful collections of \$44,992.

NOTE #4 - INTERGOVERNMENTAL SUBSIDIES AND RECEIVABLES:

The amounts reported in the General Fund at June 30, 2017 as due from other governments are summarized below:

Pennsylvania Department of Education (PDE)	
State Source Revenues	\$ 118,233
Federal Source Revenues	51,527
Other School Districts	<u>262,308</u>
Total	<u>\$ 432,068</u>

The amount reported in the Food Service Fund as due from other governments of \$ 56,360 represents \$3,689 due from the PDE state funds, as well as \$52,671 in federal funds passed through the PDE.

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE #5 - FIXED ASSETS AND DEPRECIATION:

Fixed asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities:				
Land	\$ 7,624	\$ -	\$ -	\$ 7,624
Land Improvements	331,488	-	-	331,488
Buildings and Improvements	12,521,634	-	-	12,521,634
Furniture and Equipment	2,629,637	194,675	-	2,824,312
Construction in Progress	543,506	2,793,961	-	3,337,467
Totals at Historical Cost	\$ 16,033,889	\$ 2,988,636	\$ -	\$ 19,022,525
Less Accumulated Depreciation:				
Land Improvements	\$ 304,014	\$ 17,932	\$ -	\$ 321,946
Buildings and Improvements	8,228,100	331,870	-	8,559,970
Furniture and Equipment	2,323,646	97,034	-	2,420,680
Total Accumulated Depreciation	10,855,760	446,836	-	11,302,596
Net Governmental Fixed Assets	\$ 5,178,129	\$ 2,541,800	\$ -	\$ 7,719,929
	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Business-type Activities:				
Furniture and Equipment	\$ 211,950	\$ -	\$ -	\$ 211,950
Less Accumulated Depreciation	161,906	6,802	-	168,708
Net Business-type Fixed Assets	\$ 50,044	\$ (6,802)	\$ -	\$ 43,242

NOTE #6 – LONG TERM DEBT:

As of June 30, 2017 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, 2017

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

	Balance <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2017</u>
Series B of 2012	\$ 410,000	\$ -	\$ (70,000)	\$ 340,000
Series of 2015	<u>9,920,000</u>	<u>-</u>	<u>(380,000)</u>	<u>9,540,000</u>
Total	<u>\$ 10,330,000</u>	<u>\$ -</u>	<u>\$ (450,000)</u>	<u>\$ 9,880,000</u>

Total interest paid on this bond in 2017 was \$ 276,635.

Annual Debt Service Requirements

Annual requirements to amortize principal and interest at June 30, 2017, are:

	Principal	Interest	Total Debt Service
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	570,000	228,543	798,543
2023-2034	<u>7,440,000</u>	<u>1,819,443</u>	<u>9,259,443</u>
Total	<u>\$ 9,880,000</u>	<u>\$ 3,086,628</u>	<u>\$ 12,966,628</u>

NOTE #7 - LEASE OBLIGATIONS:

Capital Lease Payable

As of June 30, 2017 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 \$1,588 through 2017.

The District entered into a capital lease for computer equipment. The lease agreement requires 48 monthly payments of \$4,156 through 2020.

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

	Balance <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2017</u>
Capital Lease 2006	\$ 83,854	\$ -	\$ 16,107	\$ 67,747
Capital Lease 2013	9,187	-	9,187	-
Capital Lease 2014	26,397	-	18,521	7,876
Capital Lease 2016	-	194,675	39,779	154,896
Total	<u>\$ 119,438</u>	<u>\$ 194,675</u>	<u>\$ 83,594</u>	<u>\$ 230,519</u>

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, 2017:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 69,089
2019	67,507
2020	67,507
2021	<u>31,744</u>
Total minimum lease payment	\$ 235,847
Less interest	<u>5,328</u>
Present value of net minimum lease payments	230,519
Current Portion	<u>66,554</u>
Long-term portion	<u><u>\$ 163,965</u></u>

Interest paid in 2017 was \$3,410.78.

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 \$308,065 at June 30, 2017. 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, 2017

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.

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, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$1,835,764 for the year ended June 30, 2017.

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

At June 30, 2016, the District reported a liability of \$23,738,000 for its proportionate share of the net pension liability. The net pension was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's 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
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total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.048 percent, which was the same as its proportion measured as of June 30, 2015

For the year ended June 30, 2017, the District recognized pension expense of \$2,320,618. At June 30, 2016, 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	\$ -	\$ 191,500
Changes in assumptions	702,918	
Net difference between projected and actual investment earnings	644,500	-
Change in proportion	896,400	-
Difference between employer contributions and proportionate share of total contributions	59,954	29,467
Contributions subsequent to the measurement date	1,835,763	-
Total	<u>\$ 4,139,535</u>	<u>\$ 220,967</u>

\$1,835,763 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, 2017. 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:

2018	275,143
2019	1,277,168
2020	520,018
2021	12,034
2022	12,034

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

- Salary increases – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth of 2.25%, and merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 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.

Asset Class	Target allocation	Long-Term Expected Real Rate of Return
Global public entity	22.5%	5.3%
Fixed income	28.5%	6.6%
Commodities	8.0%	4.5%
Absolute return	10.0%	2.4%
Risk parity	10.0%	1.4%
Infrastructure/MLP's	5.0%	1.1%
Real estate	12.0%	3.3%
Alternative investments	15.0%	0.7%
Cash	3.0%	4.9%
Financing (LIBOR)	(14.0%)	3.7%
	<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, 2016.

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current 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 7.25%, as well as what the net pension liability would if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share			
The net pension liability	\$29,038,000	\$23,738,000	\$19,284,000

Pension plan fiduciary net position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual

Financial Report which can be found on the System's website at www.psers.state.pa.us

NOTE #10- INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The following summarizes the interfund transfers in 2017:

	TRANSFERS <u>IN</u>	TRANSFERS <u>OUT</u>
General Fund:		
Debt Service Fund	\$ -	\$ 2,527,311
Nonmajor Funds:		
Capital Reserve Fund	1,719,247	
Debt Service Fund	808,064	-
Totals	<u>\$ 2,527,311</u>	<u>\$ 2,527,311</u>

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to fund that statute or budget requires them, 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

The following summarizes the interfund receivables and payables at June 30, 2017:

	Interfund Receivable	Interfund Payable
General Fund	\$ 239,007	\$ -
Food Service Fund	-	239,007
Totals	<u>\$ 239,007</u>	<u>\$ 239,007</u>

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, 3) payments between funds are made.

NOTE #11- POSTRETIREMENT BENEFITS

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 \$604,195 and related reduction of expenses of \$33,766, 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

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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	\$ 284,014
Interest on net OPEB obligation	28,708
Adjustment to annual required contribution	(145,321)
Annual OPEB cost	167,401
Contributions made	(201,167)
Increase in net OPEB obligation	(33,766)
Net OPEB obligation-beginning of year	637,961
Net OPEB obligation-end of year	<u>\$ 604,195</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 the last three years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/17	\$ 284,014	71%	\$604,195
6/30/16	\$ 240,630	53%	\$637,961
6/30/15	\$ 240,630	71%	\$641,380

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, 2016, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$1,164,852, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,164,852. The covered payroll (annual payroll of active employees covered by the plan) equaled \$5,435,713 and the ratio of the UAAL to the covered payroll equaled 21.43%. 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

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2016, 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 4.5% 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 4.5%, initially, reduced by decrements to an ultimate rate of 4.5% 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.

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 – TAX ABATEMENTS AND OTHER TAX ARRANGEMENTS

The District's Local Economic Revitalization Tax Assistance (LERTA) is authorized by the School Board. Recipients are eligible for tax abatement for various reasons such as development costs, property location, or renovations that would otherwise result in increased assessment. All LERTA tax abatements are based on the increase of value of the improvement.

There were no amounts recorded or receivable from other governments in association with forgone taxes. The District did not make other commitments other than to reduce taxes as part of the tax abatement agreements.

The adoption of this pronouncement did not have a significant impact to the School District's financial statements.

NOTE # 14- SUBSEQUENT EVENTS

The District has evaluated events subsequent to the balance sheet date of June 30, 2016 through December 13, 2017, 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, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.0479%	0.0480%	0.0462%	0.0461%
District's proportionate share of the net pension liability	\$ 23,738,000	\$ 20,791,000	\$ 18,286,000	\$ 18,872,000
District's covered-employee payroll	\$ 6,197,448	\$ 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	383.03%	336.38%	310.46%	318.71%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.49%

Amounts determined as of the cost-sharing plan's June 30, 2016 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, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	1,835,763	1,584,168	1,202,166	1,019,923
Contributions in relation to the contractually required contribution	1,835,763	1,584,168	1,202,166	1,019,923
Contribution deficiency (excess)		-	-	-
District's covered-employee payroll	6,197,448	6,180,775	5,892,563	5,889,880
Contributions as a percentage of covered-employee payroll	29.62%	25.63%	20.40%	17.32%

Amounts determined as of the cost-sharing plan's June 30, 2016 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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (ALL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	\$-	\$ 3,158,794	\$ 3,158,794	0%	\$ 6,114,885	51.66%
7/1/2013	\$-	\$ 975,874	\$ 975,874	0%	\$ 5,104,801	19.12%
7/1/2016	\$-	\$ 1,164,852	\$ 1,164,852	0%	\$ 5,435,713	21.43%

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.

FOREST CITY REGIONAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Expenditures	Final Budget
				Positive
				(Negative)
REVENUE & OTHER FINANCING SOURCES				
Local Sources	\$ 6,443,445	\$ 6,443,445	\$ 7,080,637	\$ 637,192
State Sources	6,614,588	6,614,588	6,679,661	65,073
Federal Sources	<u>483,042</u>	<u>483,042</u>	<u>385,068</u>	<u>(97,974)</u>
TOTAL REVENUE & OTHER FINANCING SOURCES	13,541,075	13,541,075	14,145,366	604,291
EXPENDITURES				
INSTRUCTION				
Regular Programs - Elementary / Secondary	5,711,231	5,711,231	5,715,777	(4,546)
Special Programs - Elementary / Secondary	1,643,497	1,643,497	1,667,105	(23,608)
Vocational Education Programs	533,255	533,255	534,132	(877)
Other Instructional Programs - Elementary / Secondary	<u>534,940</u>	<u>534,940</u>	<u>557,745</u>	<u>(22,805)</u>
TOTAL INSTRUCTION	8,422,923	8,422,923	8,474,759	(51,836)
SUPPORT SERVICES				
Pupil Personnel	314,322	314,322	387,070	(72,748)
Instructional Staff	506,988	506,988	527,450	(20,462)
Administration	886,797	886,797	838,940	47,857
Pupil Health	158,908	158,908	145,274	13,634
Business	293,779	293,779	294,683	(904)
Operation and Maintenance of Plant Services	938,363	938,363	923,365	14,998
Student Transportation Services	1,099,096	1,099,096	1,186,769	(87,673)
Central	394,947	394,947	286,537	108,410
Other Support Services	<u>22,320</u>	<u>22,320</u>	<u>21,428</u>	<u>892</u>
TOTAL SUPPORT SERVICES	4,615,520	4,615,520	4,611,516	4,004
NON-INSTRUCTIONAL SERVICES				
Student Activities	202,286	202,286	252,381	(50,095)
Debt Service	466,437	466,437	-	466,437
Community Services	<u>500</u>	<u>500</u>	<u>411</u>	<u>89</u>
TOTAL NON-INSTRUCTIONAL SERVICES	669,223	669,223	252,792	416,431
OTHER FINANCING(SOURCES) AND USES				
Transfers Out	<u>317,835</u>	<u>317,835</u>	<u>2,527,311</u>	<u>(2,209,476)</u>
TOTAL OTHER FINANCING USES	317,835	317,835	2,527,311	(2,209,476)
TOTAL EXPENDITURES & OTHER USES	14,025,501	14,025,501	15,866,378	(1,840,877)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(484,426)	(484,426)	(1,721,012)	\$ (1,236,586)
FUND BALANCE - July 1, 2016	-	-	5,812,491	-
FUND BALANCE - June 30, 2017	\$ (484,426)	\$ (484,426)	\$ 4,091,479	\$ (1,236,586)

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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, 2016 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

SUPPLEMENTARY INFORMATION

1

FOREST CITY REGIONAL SCHOOL DISTRICT
Schedule of Expenditure-Federal Awards
June 30, 2017

Grantor/Project Title	Source	Revenue Code	Grantors Number	CFDA Number	Grant Period	Grant Award	Receipts July 1, 2016 to June 30, 2017	Accrued (Deferred) July 1, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) June 30, 2017
U.S. DEPARTMENT OF EDUCATION											
<u>Passed through the PA Dept of Education</u>											
Title I - Improving Basic Programs	Indirect	8514	013-170150	84.010	10-16 to 9-17	\$ 233,175	\$ 187,785	\$ -	\$ 233,175	\$ 233,175	\$ 45,390
Title II - Improving Teacher Quality	Indirect	8515	020-170150	84.367	10-16 to 9-17	38,685	38,685	-	31,823	31,823	(6,862)
Rural and Low Income Schools	Indirect	8519	007-170150	84.358B	10-16 to 9-17	16,132	4,372	-	9,932	9,932	5,560
<u>Passed through Intermediate Units</u>											
IDEA - B	Indirect	8708		84.027	10-16 to 9-17	159,630	159,630	-	159,630	159,630	-
Special Education Cluster							159,630	-	159,630	159,630	-
TOTAL U.S. DEPARTMENT OF EDUCATION							<u>390,472</u>	<u>-</u>	<u>434,560</u>	<u>434,560</u>	<u>44,088</u>
U.S. DEPARTMENT OF HEALTH AND SOCIAL SERVICES											
<u>Passed through the PA Department of Public Welfare</u>											
Medical Assistance - Access	Indirect	8810	044-007150	93.778	10-16 to 9-17	107,439	103,564	3,564	107,439	107,439	7,439
TOTAL U.S. DEPARTMENT OF HEALTH AND SOCIAL SERVICES							<u>103,564</u>	<u>3,564</u>	<u>107,439</u>	<u>107,439</u>	<u>7,439</u>
U.S. DEPARTMENT OF AGRICULTURE											
<u>Passed through the Penna. Dept of Education</u>											
National School Lunch Program				10.555	7-16 to 6-17	-	220,238	34,135	223,564	223,564	37,461
School Breakfast Program				10.553	7-16 to 6-17	-	79,944	12,598	82,556	82,556	15,210
Donated Commodities				10.555	7-16 to 6-17	39,337	39,337	-	39,337	39,337	-
Child Nutrition Cluster							339,519	46,733	345,457	345,457	52,671
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>\$ 39,337</u>	<u>339,519</u>	<u>46,733</u>	<u>345,457</u>	<u>345,457</u>	<u>52,671</u>
TOTAL FEDERAL ASSISTANCE							<u>\$ 833,555</u>	<u>\$ 50,297</u>	<u>\$ 887,456</u>	<u>\$ 887,456</u>	<u>\$ 104,198</u>
										<u>Testing requirement - 20% Rule</u>	
										Total Expenditures (Listed Above)	
										\$	887,456
										20 % - Testing Requirement	
										\$	221,864
										<u>Programs Tested</u>	
										Title II	
										\$	31,823
										Nutrition Cluster	
										345,457	
										TOTAL TESTED	
										\$	377,280
										PERCENT TESTED	
										<u>43%</u>	

FOREST CITY REGIONAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Forest City Regional School District's basic financial statements, and have issued our report thereon dated December 13, 2017.

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 Forest City Regional School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Forest City Regional School 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.

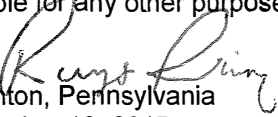
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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



Scranton, Pennsylvania
December 13, 2017

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 Forest City Regional School District's major federal programs for the year ended June 30, 2017. 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 Forest City Regional School 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 Forest City Regional School 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 Forest City Regional School 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, 2017.

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 Forest City Regional School 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 Forest City Regional School 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 13, 2017

FOREST CITY REGIONAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2017

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 Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.367	Title II - Improving Teacher Quality
10.553, 10.555	Child Nutrition Cluster

**FOREST CITY REGIONAL SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

There were no prior year audit findings.