

**FOREST CITY REGIONAL SCHOOL DISTRICT**

**SINGLE AUDIT REPORT**

**JUNE 30, 2018**

***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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, 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 4-12 and 51 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***

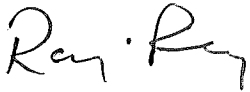
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forest City Regional School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019, on our consideration of the Forest City Regional School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Forest City Regional School District's 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.

A handwritten signature in black ink, appearing to read "Ray R.", with a stylized, cursive script.

Scranton, Pennsylvania

January 28, 2019

## **FOREST CITY REGIONAL SCHOOL DISTRICT**

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

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This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the Forest City Regional School District (the "District") for the year ended June 30, 2018. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should review the basic financial statements and the notes to the financial statements for a better understanding of the District as a whole.

#### **FINANCIAL HIGHLIGHTS**

The total net position of the District decreased by \$1,842,916 in 2018. Net position of governmental activities decreased \$1,590,407 from 2017. Net position of the business-type activity decreased \$252,509 from 2017.

The District had \$14,119,054 in expenses related to governmental activities in 2018; only \$3,804,495 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$10,419,226 were adequate to provide for these programs.

In the District's business-type activity, the food service fund had an operating gain of \$3,067 in 2018. In addition to meeting all National School Lunch Program requirements, 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)

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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 13 and 14 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)

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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 51 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 19-21 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 22 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 24-45 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 2018 included revenues of \$14,153,602 and expenditures and other uses of \$14,539,918.

Actual revenues were \$14,263,212 or 100% of budget. Actual expenditures and other financing uses were \$14,675,733 or 100% of budget.

<b>CONDENSED STATEMENT OF NET ASSETS (IN 000'S)</b>						
	<b>GOVERNMENTAL ACTIVITIES</b>		<b>BUSINESS TYPE ACTIVITY</b>		<b>TOTALS</b>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$7,713	\$15,554	\$160	\$171	\$7,873	\$15,725
Capital assets	<u>13,150</u>	<u>7,719</u>	<u>54</u>	<u>43</u>	<u>13,204</u>	<u>7,763</u>
<b>TOTAL</b>	<u><b>20,863</b></u>	<u><b>23,273</b></u>	<u><b>214</b></u>	<u><b>214</b></u>	<u><b>21,077</b></u>	<u><b>23,488</b></u>
Deferred Outflows of Resources Related to Pensions	5,030	4,824			5,030	4,824
Current liabilities	2,702	3,754	253	1	2,955	3,755
Long-term liabilities:						
Due after one year	<u>34,575</u>	<u>33,326</u>			<u>34,044</u>	<u>33,326</u>
<b>Total liabilities</b>	<u><b>37,277</b></u>	<u><b>37,081</b></u>	<u><b>253</b></u>	<u><b>1</b></u>	<u><b>37,530</b></u>	<u><b>37,082</b></u>
Total Deferred Inflows of Resources Related to Pensions	96	221			96	221
Net position:						
Invested in capital assets, net of related debt	(5,417)	(5,728)	55	50	(5,362)	(5,684)
Restricted	1,910	3,337			1,910	3,337
Unrestricted	<u>(7,972)</u>	<u>(7,498)</u>	<u>(93)</u>	<u>169</u>	<u>(8,062)</u>	<u>(7,328)</u>
<b>Total net position</b>	<u><b>\$ (11,480)</b></u>	<u><b>\$ (9,889)</b></u>	<u><b>\$ (39)</b></u>	<u><b>\$ 219</b></u>	<u><b>\$ (11,518)</b></u>	<u><b>\$ (9,675)</b></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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Program revenues:						
Charges for services	\$85	\$76	\$207	\$205	\$292	\$281
Operating grants and contributions	3,720	3,434	367	365	4,087	3,799
General revenues:						
Taxes levied for general purposes, net	6,826	6,721			6,826	6,721
Grants, subsidies and contributions not restricted	3,443	3,415			3,443	3,415
Other	<u>150</u>	<u>548</u>		<u>2</u>	<u>150</u>	<u>550</u>
Total revenues	<u>\$ 14,224</u>	<u>\$ 14,194</u>	<u>\$ 573</u>	<u>\$ 572</u>	<u>\$ 14,797</u>	<u>\$ 14,766</u>
Program expenses:						
Instruction	\$ 7,349	\$ 8,940			\$ 7,349	\$ 8,940
Instructional student support	1,046	1,367			1,046	1,367
Admin and financial support services	1,192	1,133			1,192	1,133
Operation and maintenance of plant services	2,344	923			2,344	923
Pupil transportation	1,202	1,186			1,202	1,186
Student activities	271	252			271	252
Community services						
Interest on long-term debt	289	270			289	270
Unallocated depreciation	<u>423</u>	<u>456</u>			<u>423</u>	<u>456</u>
Food service			<u>\$ 573</u>	<u>\$ 579</u>	<u>573</u>	<u>579</u>
Total expenses	<u>14,116</u>	<u>14,531</u>	<u>573</u>	<u>579</u>	<u>14,689</u>	<u>15,099</u>
Change in net position	104	(335)	3	(5)	107	(340)
Net position, beginning	<u>(11,584)</u>	<u>(9,553)</u>	<u>213</u>	<u>218</u>	<u>(11,371)</u>	<u>(9,335)</u>
Net position, ending	<u>\$ (11,479)</u>	<u>\$ (9,889)</u>	<u>\$216</u>	<u>\$213</u>	<u>\$ (11,263)</u>	<u>\$ (9,675)</u>

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

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**GOVERNMENTAL ACTIVITIES**

In 2017, the net position of governmental activities decreased by \$1,590,407. Revenues increased by \$117,846, or .83%, from 2017. Overall, district expenses decreased by \$1,462,562. This decrease was primarily because fund balance that was used in 2017 for building renovation.

**BUSINESS-TYPE ACTIVITY**

The District's food service operation had a gain of \$3,067 in 2018. The district has expanded its meal options and 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 2017:

	2018	2017	Increase	%
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
Local sources	6,898,244	7,080,637	(182,393)	-2.58%
State sources	6,909,727	6,679,661	230,066	3.44%
Federal sources	455,241	385,068	70,173	18.22%
Total	<u>14,263,212</u>	<u>14,145,366</u>	<u>117,846</u>	<u>.83%</u>

**LOCAL SOURCES**

Local source revenues remained relatively static. The reason that it is showing a decrease from the prior year is because there was a one time refund of health insurance reserves from the district's health insurance fund in 2017.

**STATE SOURCES**

State source revenue remained relatively static.

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

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**FEDERAL Sources**

The federal source revenue increased 18.22%, 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 2017.

	<b>2018</b>	<b>2017</b>	<b>Increase</b>	<b>%</b>
	<b><u>Amount</u></b>	<b><u>Amount</u></b>	<b><u>(Decrease)</u></b>	<b><u>Change</u></b>
Instruction	\$9,187,081	\$ 8,474,759	\$ 712,322	8.41%
Support services	4,697,896	4,611,516	86,380	1.87%
Noninstructional services	272,188	252,792	19,396	7.67%
Other financing uses	<u>518,568</u>	<u>2,527,312</u>	<u>(2,008,744)</u>	<u>(79.48%)</u>
Total	\$ 14,675,733	\$ 15,866,379	(\$ 1,190,646)	(7.35%)

**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 2018, the District paid \$724,943 in debt service, including \$455,000 in principal and \$269,943 in interest, on its bonds payable. There was no fund balance at June 30, 2018.

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

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**CAPITAL ASSETS**

The District's capital assets at June 30, 2018 are summarized below.

	<b>GOVERN- MENTAL <u>ACTIVITIES</u></b>	<b>BUSINESS- TYPE <u>ACTIVITY</u></b>	<b><u>TOTALS</u></b>
Land	\$ 7,624		\$ 7,624
Land improvements	331,488		331,488
Buildings and improvements	12,521,634		12,521,634
Construction in Progress	8,984,792		8,984,792
Furniture and equipment	<u>3,046,686</u>	<u>230,039</u>	<u>3,276,725</u>
Total	\$24,876,223	\$211,950	\$24,876,223
Less accumulated depreciation	<u>11,725,962</u>	<u>175,525</u>	<u>11,725,962</u>
Net	<u>\$ 13,150,262</u>	<u>\$ 54,514</u>	<u>\$ 13,150,262</u>

Additional information on the changes in the District's capital assets from 2017 to 2018 can be found on page 30-31 of this report.

**LONG TERM DEBT**

At June 30, 2018, 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 31 of this report.

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

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**ECONOMIC CONDITION AND OUTLOOK**

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

As a result of the minimal growth in the tax base and the state's lack of progress in addressing adequate funding for school districts, the District raised its real estate tax levies to the maximum amount allowed under Act 1. Although the Act 1 index was 3.1%, 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, 2018**

	<b>Governmental Activities</b>	<b>Business Type</b>	<b>Primary Government Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 6,188,406	\$ 325,692	\$ 6,514,098
Taxes receivable, net	660,246	-	660,246
Internal balances	253,205	(253,205)	-
Due from other governments	432,482	62,915	495,397
Receivables, other	110,305	-	110,305
Prepaid expenses	68,458	-	68,458
Inventories	-	24,404	24,404
Total Current Assets	<u>7,713,102</u>	<u>159,806</u>	<u>7,872,908</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	8,984,792		8,984,792
Furniture and equipment	3,030,686	230,039	3,260,725
Accumulated depreciation	<u>(11,725,962)</u>	<u>(175,525)</u>	<u>(11,901,487)</u>
Total Noncurrent Assets	<u>13,150,262</u>	<u>54,514</u>	<u>13,204,776</u>
<b>TOTAL ASSETS</b>	<u>20,863,364</u>	<u>214,320</u>	<u>21,077,684</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions and OPEB	<u>5,030,871</u>	<u>-</u>	<u>5,030,871</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	360,869	-	360,869
Accrued salaries and benefits	1,449,033	-	1,449,033
Unearned revenue	227,734	253,205	480,939
Accrued Interest	133,753	-	133,753
Bonds Payable - Due within one year	465,000	-	465,000
Capital Leases Payable - Due within one year	<u>65,795</u>	<u>-</u>	<u>65,795</u>
Total Current Liabilities	<u>2,702,184</u>	<u>253,205</u>	<u>2,955,389</u>
Long-term Liabilities			
Portion due or payable after one year			
Bonds payable	8,960,000	-	8,960,000
Capital leases payable	91,872	-	91,872
Compensated Absences	300,736		300,736
Other Post Employment Benefits	2,059,660		2,059,660
Net pension liabilities	<u>23,163,000</u>	<u>-</u>	<u>23,163,000</u>
Total Long-term Liabilities	<u>34,575,268</u>	<u>-</u>	<u>34,575,268</u>
<b>TOTAL LIABILITIES</b>	<u>37,277,452</u>	<u>253,205</u>	<u>37,530,657</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions and OPEB	<u>96,412</u>	<u>-</u>	<u>96,412</u>
<b>NET POSITION</b>			
Net investment in capital assets	(5,417,197)	54,514	(5,362,683)
Restricted for capital projects	1,910,110	-	1,910,110
Unrestricted	<u>(7,972,542)</u>	<u>(93,399)</u>	<u>(8,065,941)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (11,479,629)</u>	<u>\$ (38,885)</u>	<u>\$ (11,518,514)</u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Activities**  
**Year Ended June 30, 2018**

	Expenditures	Program Revenues		Net (Expense) Revenue and Change in Net Assets		
		Charge For Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
Depreciation	\$ 423,366	\$ -	\$ -	\$ (423,366)	\$ -	\$ (423,366)
Instruction	7,349,252	80,805	2,388,515	(4,879,932)	-	(4,879,932)
Instructional Student Support	1,046,551	-	278,493	(768,058)	-	(768,058)
Administrative	1,192,202	-	152,026	(1,040,176)	-	(1,040,176)
Operation of Plant	2,344,108	-	74,442	(2,269,666)	-	(2,269,666)
Pupil Transportation	1,202,355	-	774,261	(428,094)	-	(428,094)
Student Activities	271,956	4,040	21,533	(246,383)	-	(246,383)
Community Services	232	-	12	(220)	-	(220)
Interest - Long Term Debt	289,032	-	30,368	(258,664)	-	(258,664)
<b>Total Government</b>	<b>14,119,054</b>	<b>84,845</b>	<b>3,719,650</b>	<b>(10,314,559)</b>	<b>-</b>	<b>(10,314,559)</b>
<b>Business Type Activities:</b>						
Food Service	573,499	206,846	366,707	-	54	54
<b>Total Primary Government</b>	<b>\$ 14,692,553</b>	<b>\$ 291,691</b>	<b>\$ 4,086,357</b>	<b>(10,314,559)</b>	<b>54</b>	<b>(10,314,505)</b>
<b>General Revenues:</b>						
Taxes levied for general purposes				6,826,043	-	6,826,043
Grants, subsidies, contributions not restricted				3,443,336	-	3,443,336
Investment Earnings				81,617	3,013	84,630
Miscellaneous Income				68,230	-	68,230
Transfers between Governmental and business type activities				-	-	-
<b>Total General Revenues</b>				<b>10,419,226</b>	<b>3,013</b>	<b>10,422,239</b>
<b>Change In Net Position</b>				<b>104,667</b>	<b>3,067</b>	<b>107,734</b>
<b>Net Position at Beginning of Year, Restated</b>				<b>(11,584,296)</b>	<b>213,624</b>	<b>(11,370,672)</b>
<b>Net Position - June 30, 2018</b>				<b>\$ (11,479,629)</b>	<b>\$ 216,691</b>	<b>\$ (11,262,938)</b>

See Notes to Financial Statements and Independent Auditor's Report



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2018**

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Total Fund Balances – Governmental Funds	\$ 5,297,659
Capital assets net used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	13,150,262
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	(133,753)
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	(9,425,000)
Capital Leases Payable	(157,667)
Compensated Absences	(300,736)
Other post-employment benefits	(2,059,660)
Net pension liability	(23,163,000)
Bond issuance and discount costs net of amortization are not reported in the governmental funds balance sheet	68,458
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	5,030,871
Deferred inflows of resources related to pensions	(96,412)
Some of the District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and are therefore deferred in the funds.	<u>309,349</u>
Total Net Position - Governmental Activities	<u><u>\$ (11,479,629)</u></u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
**June 30, 2018**

	<b>General Fund</b>	<b>Capital Reserve Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Fund Types</b>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 4,278,297	\$ 553,370	\$ 1,356,740	\$ 6,188,407
Taxes Receivable (Net)	350,956	-	-	350,956
Due From Other Funds	544,555	-	-	544,555
Due From Other Governments	432,482	-	-	432,482
Receivables - Other	110,305	-	-	110,305
Prepaid Expenses	-	-	-	-
<b>TOTAL ASSETS</b>	<b>5,716,595</b>	<b>553,370</b>	<b>1,356,740</b>	<b>7,626,705</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>Liabilities</b>				
Accounts Payable	360,869	-	-	360,869
Accrued Salaries and Benefits	1,449,033	-	-	1,449,033
Due To Other Funds	-	291,350	-	291,350
Deferred Revenues	227,734	-	-	227,734
<b>TOTAL LIABILITIES</b>	<b>2,037,636</b>	<b>291,350</b>	<b>-</b>	<b>2,328,986</b>
<b><u>FUND BALANCE</u></b>				
Restricted Fund Balance	-	-	-	-
Committed Fund Balance	-	262,020	1,356,740	1,618,760
Assigned Fund Balance	-	-	-	-
Unassigned Fund Balance	3,678,959	-	-	3,678,959
<b>TOTAL FUND BALANCE</b>	<b>\$ 3,678,959</b>	<b>\$ 262,020</b>	<b>\$ 1,356,740</b>	<b>\$ 5,297,719</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 5,716,595</b>	<b>\$ 553,370</b>	<b>\$ 1,356,740</b>	<b>\$ 7,626,705</b>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2018**

	<b>General Fund</b>	<b>Capital Reserve Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Fund Types</b>
<b><u>REVENUES &amp; OTHER FINANCING SOURCES</u></b>					
<b><u>REVENUES</u></b>					
Local Sources	\$ 6,898,244	\$ 6,110	\$ 31,303	\$ -	\$ 6,935,657
State Sources	6,909,727	-	-	-	6,909,727
Federal Sources	455,241	-	-	-	455,241
Interfund Transfers (From Other Funds)	-	-	-	809,918	809,918
	<u>-</u>	<u>-</u>	<u>-</u>	<u>809,918</u>	<u>809,918</u>
<b><u>OTHER FINANCING SOURCES</u></b>					
Other Financing Sources	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>14,263,212</b>	<b>6,110</b>	<b>31,303</b>	<b>809,918</b>	<b>15,110,543</b>
<b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>					
<b><u>EXPENDITURES</u></b>					
Instruction	9,187,081	-	-	-	9,187,081
Support Services	4,697,896	-	-	-	4,697,896
Non-Instructional Services	272,188	-	-	-	272,188
Construction and Improvements	-	1,052,139	5,888,879	-	6,941,018
Debt Service (Principal & Interest)	-	-	-	809,918	809,918
	<u>-</u>	<u>-</u>	<u>-</u>	<u>809,918</u>	<u>809,918</u>
<b><u>OTHER FINANCING USES</u></b>					
Proceeds from Long Term Financing	-	-	-	-	-
Transfers Out (To Other Funds)	518,568	291,350	-	-	809,918
	<u>518,568</u>	<u>291,350</u>	<u>-</u>	<u>-</u>	<u>809,918</u>
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>14,675,733</b>	<b>1,343,489</b>	<b>5,888,879</b>	<b>809,918</b>	<b>22,718,019</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(412,521)</b>	<b>(1,337,379)</b>	<b>(5,857,576)</b>	<b>-</b>	<b>(7,607,476)</b>
<b>FUND BALANCE -July 1, 2017</b>	<b>4,091,480</b>	<b>1,599,339</b>	<b>7,214,316</b>	<b>-</b>	<b>12,905,135</b>
	<u>4,091,480</u>	<u>1,599,339</u>	<u>7,214,316</u>	<u>-</u>	<u>12,905,135</u>
<b>FUND BALANCE -June 30, 2018</b>	<b>\$ 3,678,959</b>	<b>\$ 261,960</b>	<b>\$ 1,356,740</b>	<b>\$ -</b>	<b>\$ 5,297,659</b>
	<u>\$ 3,678,959</u>	<u>\$ 261,960</u>	<u>\$ 1,356,740</u>	<u>\$ -</u>	<u>\$ 5,297,659</u>

**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, 2018**

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Net change in fund balances – total governmental funds. \$ (7,607,476)

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	(423,366)
Capital outlays	5,853,693

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

Earned income taxes receivable	(15,374)
Delinquent taxes receivable	(61,489)

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

Repayment of debt principal	527,852
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Governmental funds report district pension contributions as expenditures. However in

District pension contributions	2,090,668
Cost of pension benefits earned, net of employee contributions	(653,775)

Other post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.

393,607

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	2,437
Compensated Absences	7,329

Change in net position of governmental activities.	\$ 104,667
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**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2018**

	<b>Food Service Fund</b>
<hr/>	
<b><u>ASSETS</u></b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 325,692
Due from Other Governments	62,915
Accounts Receivable	2,371
Inventories	24,404
Total Current Assets	<u>415,382</u>
<b>Noncurrent Assets</b>	
Fixed Assets	230,039
Less: Accumulated Depreciation	<u>175,525</u>
Total Noncurrent Assets	<u>54,514</u>
<b>TOTAL ASSETS</b>	<u><u>469,896</u></u>
<b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Due to Other Funds	<u>253,205</u>
<b>TOTAL LIABILITIES</b>	253,205
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	54,514
Unrestricted	<u>162,177</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 216,691</u></u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**Year Ended June 30, 2018**

**OPERATING REVENUES**

Food Service Revenue	\$	206,846
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<b>TOTAL OPERATING REVENUES</b>	<b>\$</b>	<b>206,846</b>
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**OPERATING EXPENSES**

Salaries	\$	192,596
Employee Benefits		89,046
Food, Milk and Donated Commodities		256,061
Operating Supplies		19,468
Other Expense		9,511
Depreciation		6,817

<b>TOTAL OPERATING EXPENSES</b>	<b>\$</b>	<b>573,499</b>
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<b>NET OPERATING LOSS</b>	<b>\$</b>	<b>(366,653)</b>
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**NON-OPERATING REVENUES**

Earnings on Investments	\$	3,013
Federal and State Subsidies		366,707

<b>TOTAL NON-OPERATING REVENUE</b>	<b>\$</b>	<b>369,720</b>
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<b>Change in Net Position</b>	<b>\$</b>	<b>3,067</b>
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<b>Net Position - July 1, 2017</b>		<b>213,624</b>
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<b>Net Position - June 30, 2018</b>	<b>\$</b>	<b>216,691</b>
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**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended June 30, 2018**

**CASH FLOWS USED FOR OPERATING ACTIVITIES**

Cash Received From Users	\$ 203,443
Cash Payments To Employees For Services	(267,444)
Cash Payments To Suppliers for Goods and Services	(276,411)
Cash Payments For Other Operating Expenses	<u>(9,511)</u>
 Net Cash Used For Operating Activities	 \$ (349,923)

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

Cash Received From Federal & State Subsidies	<u>\$ 360,152</u>
 Net Cash From Non-Capital Financing Activities	 \$ 360,152

**CASH FLOWS FROM INVESTING ACTIVITIES**

Property Acquisition	\$ (18,089)
Cash Received From Investment Earnings	<u>3,013</u>
 Net Cash From Investing Activities	 <u>\$ (15,076)</u>

**NET DECREASE IN CASH AND CASH FLOW** **\$ (4,847)**

**CASH AND CASH EQUIVALENT - JULY 1, 2017** **\$ 330,539**

**CASH AND CASH EQUIVALENT - JUNE 30, 2018** **\$ 325,692**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (366,653)
 Adjustments to Reconcile Operating Loss to Net Cash Used For:	
(Increase) Decrease in Inventory	(2,371)
Depreciation	6,817
(Increase) Decrease in Prepaid Expense	(882)
Increase (Decrease) in Deferred Revenues	(1,032)
Increase (Decrease) in Advances from Other Funds	<u>14,198</u>
 Total Adjustments	 <u>\$ 16,730</u>
 NET CASH USED FOR OPERATING ACTIVITIES	 <u><u>\$ (349,923)</u></u>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2018**

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	<u>Student Activity Fund</u>
<b><u>ASSETS</u></b>	
<b><u>CURRENT ASSETS</u></b>	
Cash and Cash Equivalents	\$ 90,497
<b>TOTAL ASSETS</b>	<u>\$ 90,497</u>
<b><u>LIABILITIES</u></b>	
Other Liabilities	\$ 90,497
<b>TOTAL LIABILITIES</b>	<u>90,497</u>
<b><u>NET POSITION</u></b>	
Restricted for Legal Purposes	<u>\$ -</u>



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

**Nature of Operations**

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

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

**Reporting Entity**

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

**Basis of Presentation - Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent. There are three fund types presented in this report. A brief description of each is presented below.

**A. Governmental Fund Types**

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

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

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

**B. Proprietary Fund Types**

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**C. Fiduciary Fund Types**

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

**Government-Wide Financial Statements**

The Statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the government, except for Fiduciary Funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**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

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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(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" 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

**FOREST CITY REGIONAL SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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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. 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

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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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.

**Deferred Inflows of Outflows of Resources**

In addition to assets and liabilities, the statement of financial position includes separate elements for deferred outflows and inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The District's items that qualify for reporting in this category, are the deferred loss on debt refunding reported on the government-wide statement of net position and items related to the pension and OPEB obligations. See note 9 for details of deferred outflows and inflows related to the pension obligation and note 10 for the OPEB obligation.

**Pension Plan**

For purposes of measuring the net position, liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense, information about the Pennsylvania Public School Employees' Retirement System ("PSERS") and additions to/deductions from PSERS 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 benefit terms. Investments are reported at fair value.

**Post-Employment Benefits Other than Pensions**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Pennsylvania Public School Employees' Retirement System ("PSERS") and additions to/deductions from PSERS 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 benefit terms. Investments are reported at fair value.

**Net Position**

Net position represented the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of others governments.

**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.

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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.
- 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

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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, 2018, \$6,826,079 of the District's bank balance of \$8,376,079 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.

**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, 2018 amounted to \$389,951. The amount of taxes receivable is reported net of an allowance for doubtful collections of \$38,995.

**NOTE #4 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFER**

The following is a summary of interfund receivables and payables at June 30, 2018:

	Interfund Receivables	Interfund Payable
General Fund	544,555	-0-
General Fund	-0-	291,350
Proprietary Fund	-0-	253,205
Total	<u>544,555</u>	<u>544,555</u>

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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, and 3) payments between funds are made.

Interfund transfers are summarized as follows:

	Interfund Transfers – In	Interfund Transfers - Out
General Fund	\$ -0-	\$ 809,918
Debt Service Fund	<u>809,918</u>	<u>-0-</u>
	<u>\$ 809,918</u>	<u>\$ 809,809</u>

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

**NOTE #5 - INTERGOVERNMENTAL SUBSIDIES AND RECEIVABLES:**

The amounts reported in the General Fund at June 30, 2018 as due from other governments are summarized below:

Pennsylvania Department of Education (PDE)	
State Source Revenues	\$ 157,904
Federal Source Revenues	21,364
Other School Districts	<u>253,214</u>
Total	<u>\$ 432,482</u>

The amount reported in the Food Service Fund as due from other governments of \$ 62,915 represents \$3,901 due from the PDE state funds, as well as \$59,014 in federal funds passed through the PDE.

**NOTE #6 - FIXED ASSETS AND DEPRECIATION:**

Fixed asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Governmental Activities:</b>				
Land	\$ 7,624	\$ -	\$ -	\$ 7,624
Land Improvements	331,488	-	-	331,488
Buildings and Improvements	12,521,634	-	-	12,521,634
Furniture and Equipment	2,824,312	206,374	-	3,046,686
Construction in Progress	<u>3,337,467</u>	<u>5,647,325</u>	<u>-</u>	<u>8,984,792</u>
Totals at Historical Cost	\$ 19,022,525	\$ 5,853,698	\$ -	\$ 24,876,224
Less Accumulated Depreciation:				
Land Improvements	\$ 321,946	9,034	-	\$ 330,980



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Buildings and Improvements	8,559,970	307,902	-	8,869,872
Furniture and Equipment	2,420,680	106,430	-	2,527,110
Total Accumulated Depreciation	11,302,596	423,366	-	11,725,962
Net Governmental Fixed Assets	\$ 7,719,929	\$ 2,541,800	\$ -	\$ 13,150,262

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Business-type Activities:</b>				
Furniture and Equipment	\$ 211,950	\$ 18,089	\$ -	\$ 230,039
Less Accumulated Depreciation	168,708	6,817	-	175,525
Net Business-type Fixed Assets	\$ 43,242	\$ (6,817)	\$ -	\$ 54,514

**NOTE #7 – LONG TERM DEBT:**

As of June 30, 2018 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.

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Series B of 2012	\$ 340,000	\$ -	\$ (65,000)	\$ 275,000
Series of 2015	9,540,000	-	(390,000)	9,150,000
Total	\$ 9,880,000	\$ -	\$ (455,000)	\$ 9,425,000

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, 2018, are:

	Principal	Interest	Total Debt Service
2019	\$ 465,000	\$ 263,930	\$ 728,930
2020	470,000	256,655	726,655

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2021	480,000	248,114	728,114
2022	570,000	228,543	798,543
2023	510,000	216,346	726,346
2023-2034	<u>6,930,000</u>	<u>1,603,097</u>	<u>8,533,097</u>
Total	<u>\$ 9,425,000</u>	<u>\$ 2,816,685</u>	<u>\$ 12,241,685</u>

**NOTE #8 - LEASE OBLIGATIONS:**

**Capital Lease Payable**

As of June 30, 2018 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.

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

	Balance <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2018</u>
Capital Lease 2006	\$ 67,747	\$ -	\$ 16,432	\$ 51,314
Capital Lease 2014	7,876	-	7,876	-
Capital Lease 2016	154,896	-	48,544	106,353
Total	<u>\$ 230,519</u>	<u>\$ -</u>	<u>\$ 72,852</u>	<u>\$ 157,667</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, 2018:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 67,507
2020	67,507
2021	<u>31,744</u>
Total minimum lease payment	\$ 166,758
Less interest	<u>9,091</u>
Present value of net minimum lease payments	157,667
Current Portion	<u>65,795</u>

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Long-term portion

\$ 91,872

Interest paid in 2018 was \$2,590.

**NOTE #9 – 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 \$300,736 at June 30, 2018. 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.

**NOTE #10- PENSION PLAN**

Public School Employees’ Retirement System Plan

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

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

Plan description

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

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To

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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.

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:*

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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, 2017, the District reported a liability of \$23,163,000 for its proportionate share of the net pension liability. The net pension was measured as of June 30, 2017, 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, 2016 to June 30, 2017. The District's proportion of the pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.0469percent, which was the same as its proportion measured as of June 30, 2016

For the year ended June 30, 2018 the District recognized pension expense of \$908,682. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ 16,000
Changes in assumptions	838,500	
Net difference between projected and actual investment earnings	1,041,625	-
Change in proportion	717,900	-
Difference between employer contributions and proportionate share of total contributions	129,777	22,100
Contributions subsequent to the measurement date	2,090,669	-
Total	<u>\$ 4,818,561</u>	<u>\$ 38,100</u>

\$2,090,669 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:

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2019	1,269,801
2020	512,651
2021	4,667
2022	12,034
2023	8,353

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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%
- 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.

<b>Asset Class</b>	<b>Target allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global public entity	22.5%	5.3%
Fixed income	28.5%	6.6%

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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)	<u>(14.0%)</u>	3.7%
	<u>100.0%</u>	

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The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions 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	\$28,512,000	\$23,163,000	\$18,647,000

Pension plan fiduciary net position

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

Financial Report which can be found on the System's website at [www.psers.state.pa.us](http://www.psers.state.pa.us)

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**NOTE #11- POSTRETIREMENT BENEFITS**

Postemployment benefits other than pension (OPEB):

For purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB fiduciary net position have been determined on the same basis as they are reported by the OPEB plan (Plan). Benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Plan Description:*

The district offers postemployment dental, vision, life and health insurance benefits to employees upon their retirement with the same plan provisions provided to active employees. The following is a breakdown of eligibility requirements and coverage by group:

Administrators

The member must meet the requirements of one of the following programs:

- A. Program One: Complete at least ten consecutive years of District service, must be eligible for PSERS retirement and must give written notice by April 1 in the year of retirement.
- B. Program Two: Attain 55 years of age and attain 10 years of PSERS service.
- C. Act 110/43 (30 years of PSERS service or upon superannuation retirement).

Teachers

The member must meet the requirements of one of the following programs:

- A. Program One: Complete at least ten consecutive years of District service, must be eligible for PSERS retirement and must give written notice by April 1 in the year of retirement.
- B. Program Two: Attain 55 years of age and attain 10 years of PSERS service.
- C. Act 110/43 (30 years of PSERS service or upon superannuation retirement).

Support Staff

The Member must meet the requirements of one of the following programs:

- A. Program Two: Attain 55 years of age and attain 10 years of PSERS service.
- B. Act 110/43 (30 years of PSERS service or upon superannuation retirement).

Employees covered by benefit terms:

At July 1, 2016, the following employees were covered by benefit terms:

	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	25
Active employees	<u>95</u>
 Total	 <u>120</u>

*Total OPEB liability and actuarial assumptions:*



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The District's total OPEB liability of \$1,110,474 was measured as of June 30, 2017 and was determined by rolling forward the July 1, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions and other inputs, applies to all periods included in the measurements, unless otherwise specified:

Discount rate: 3.13% based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017

Salary increases 2.50% cost of living adjustment, 1% real wage growth and merit increases which varies by age from 2.75% to 0%

Healthcare cost trend rates: 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on Society of Actuaries Long-Run Medical Cost Trend Model

Retirees' share of benefit related costs Retiree contributions are assumed to increase at the same rate as the Healthcare Cost Trend Rate

Mortality rates: Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement

Mortality rates are presumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

*Changes in the total OPEB liability:*

Balance at June 30, 2016	\$ 1,263,683
Changes for the year:	
Service Cost	25,899
Interest	29,397
Changes in assumptions	(7,338)
Benefit payments	(201,167)
Net Changes	(153,209)
Balance at June 30, 2017	\$ 1,110,474

Changes in assumptions reflect a change in the discount rate from 2.49% in 2016 to 3.13% in 2017. The trend assumptions for salary, mortality, withdrawal and retirement were updated based on the new PSERS assumptions.

*Sensitivity of net OPEB liability to changes in the discount rate:*

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate is 1% lower or 1% higher than the current rate:

	Current discount Rate		
	1% Decrease 2.13%	3.13%	1% Increase 4.13%
Districts net OPEB liability	\$ 1,156,997	\$ 1,110,474	\$ 1,066,901

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*Sensitivity of net OPEB liability to changes in the healthcare cost trend rates:*

The Following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	1% Decrease	Current trend rates	1% Increase
District's net OPEB liability	\$ 1,038,495	\$ 1,110,474	\$ 1,193,442

*OPEB expenses and deferred outflows of resources and deferred inflows of resources related to OPEB:*

For the year ended June 30, 2018, the District recognized OPEB expenses of \$611,173. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of Resources
Changes in assumption District benefit payments subsequent the measurement date	\$ -	\$ 6,814
	211,310	-
Total	\$ 211,310	\$ 6,814

*OPEB expenses and deferred outflows of resources and deferred inflows of resources related to OPEB:*

For the year ended June 30, 2018, \$629,479 reported as deferred outflows of resources relate to OPEB resulting from District benefit payments made subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability for the valuation year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June	
30,	
2019	\$ 524
2020	524
2021	524
2022	524
2023	524
thereafter	4,194

*Health Insurance Premium Assistance Program (HIPAP):*

For purpose of measuring the net HIPAP liability, deferred outflows of resources and deferred inflows of resources related to HIPAP expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PSERS provide Premium Assistance which is a governmental cost sharing, multiple-employer HIPAP plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 2001, participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To Receive Premium Assistance,

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Option Program (HOP). As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

*Premium Assistance eligibility criteria:*

Retirees of the system can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health program.

*Benefits provided:*

Participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer the PSERS; HOP. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

*Employer contributions:*

The District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefit earned by employees during the year, with an addition amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the district were \$276,000 for the year ended June 30, 2018.

*HIPAP liabilities, HIPAP expenses, and deferred outflows of resources and deferred inflows of resources related to HIPAP:*

At June 30, 2018, the District reported a liability of \$956,000 its proportionate share of the net HIPAP liability. The net HIPAP liability was measured as of June 30, 2017, and the total HIPAP liability used to calculate the net HIPAP liability was determined by rolling forward PSERS' total HIPAP liability as of June 30, 2016 to June 30, 2017. The district's proportion of the net HIPAP liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported cover payroll. At June 30, 2017, the District's proportion was 0.2402%, which was an increase of 0.002% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized HIPAP expense of \$81,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to HIPAP from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Change in assumptions	\$ -0-	\$ 44,000
Net difference between projected and actual investment earnings	1,000	-0-
Change in proportion	-0-	18,000

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Contributions subsequent to the measurement date	52,000	-0-
	<u>\$ 53,000</u>	<u>\$ 62,000</u>

*HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):*

\$107,000 reported as deferred outflows of resources related to HIPAP resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net HIPAP liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to HIPAP will be recognized in HIPAP expense as follows:

Year ended June	
30	
2018	(47,000)
2019	(47,000)
2020	(47,000)
2021	(47,000)
2022	(47,000)
thereafter	(47,000)

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial assumptions

The total HIPAP liability as of June 30, 2017, was determined by rolling forward the System's total HIPAP liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method-Entry Age Normal-level % of pay.
- Investment return-3.13%-S&P 20 Year Municipal Bond Rate.
- Salary growth-Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed health care cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate pre age 65 at 50%
  - Eligible retirees will elect to participate post age 65 at 70%

*HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):*

Actuarial Assumptions (continued):

The following assumptions were used to determine the contribution rate:

- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date:
- Asset valuation method: Market Value.

**FOREST CITY REGIONAL SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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- Participation rate: Effective average of 5.00%, compromised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority.
- Premium Assistance: 63% of eligible retirees are assumed to elect Premium Assistance.
- Mortality rates: Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants, ) A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the plan assets.

The expected rate of return on HIPAP plan investments was determined using the HIPAP asset allocation policy and best estimates of geometric real rates of return for each asset class.

The HIPAP plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

	Target Allocation	Long-Term expected real rate of return
HIPAP-Asset class		
Cash	76.4%	0.6%
Fixed income	<u>23.6</u>	1.5
	<u>100.0%</u>	

*HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):*

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, 2017.

Discount rate

The discount rate used to measure the total HIPAP liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the HIPAP plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments: therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total HIPAP liability.

*HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):*

Sensitivity of the District's proportionate share of the net HIPAP liability to changes in the healthcare cost trend rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at maximum of \$1,200. As of June 30, 2017, 91,797 retirees were receiving the maximum amount allowed of 1,200 per year. As of June 30, 2017,

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

*HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):*

The following presents the District's proportionate share of the net HIPAP liability for June 30, 2017, calculated using current healthcare cost trends as well as what the net HIPAP liability would be if it healthcare cost trends were 1-percentage lower or 1-percentage point higher than the current rate:

	1% Decrease	Current trend rates	1% Increase
District's proportionate share of net HIPAP liability	\$ 955,000	\$ 956,000	\$ 956,000

Sensitivity of the District's proportionate share of the net HIPAP liability to changes in the discount rate

The following presents the District' proportionate share of the net HIPAP liability, calculated using the discount rate of 3.13%, as well as what het net HIPAP liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) that the current rate:

	1% Decrease 2.13%	Current discount rate 3.13%	1% Increase 4.13%
District's proportionate share of net HIPAP liability	\$ 1,086,000	\$ 956,000	\$ 947,000

HIPAP 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.ps.gov](http://www.psers.ps.gov).

**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 required to make contractual service payments to the Northeast Intermediate Unit Number 19, as well as contributions to finance the Unit's operations. The District's responsibilities for these payments are anticipated to continue into the future.

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

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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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 – RISK MANAGEMENT:**

The school district is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages for the fiscal year ending June 30, 2018.

**NOTE # 15 – ADOPTION OF NEW ACCOUNTING PRINCIPLE:**

Effective July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard revises and establishes new financial reporting requirements for other postemployment benefits provided for employees. The following is the adjustment to net position for governmental activities:

	<u>Governmental Activities &amp; Business-Type Activities</u>
Beginning net position (deficit) as previously reported at June 30, 2017	\$ (9,889,222)
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (measurement date)	(656,260)
Deferred inflows, net other postemployment benefit liability, District's contribution made during fiscal year 2017	(6,814)
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (HIPAP) (measurement date)	<u>(1,032,000)</u>
Total prior period adjustment	(1,695,074)
Net position (deficit) as restated, July 1, 2017	<u>\$ (11,584,296)</u>

**NOTE # 16- SUBSEQUENT EVENTS**

The District has evaluated events subsequent to the balance sheet date of June 30, 2018 through December 13, 2018, 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, 2018</u>	<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	0.0469%	0.0479%	0.0480%	0.0462%	0.0461%
District's proportionate share of the net pension liability	\$ 23,163,000	\$23,738,000	\$20,791,000	\$18,286,000	\$18,872,000
District's covered-employee payroll	\$ 6,240,139	\$ 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	371.19%	383.03%	336.38%	310.46%	318.71%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.49%

Amounts determined as of the cost-sharing plan's June 30, 2017 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, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	2,090,669	1,835,763	1,584,168	1,202,166	1,019,923
Contributions in relation to the contractually required contribution	2,090,669	1,835,763	1,584,168	1,202,166	1,019,923
Contribution deficiency (excess)			-	-	-
District's covered-employee payroll	6,240,139	6,197,448	6,180,775	5,892,563	5,889,880
Contributions as a percentage of covered-employee payroll	33.50%	29.62%	25.63%	20.40%	17.32%

Amounts determined as of the cost-sharing plan's June 30, 2017 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 CHANGES IN THE DISTRICT'S  
OPEB LIABILITY AND RELATED RATIOS  
(Required Supplementary Information)  
(unaudited)  
FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2018</u>
Total other postemployment benefit (OPEB) liability:	
Service Cost	\$ 25,899
Interest	29,397
Changes In assumptions	(7,338)
Benefit Payments	<u>(201,167)</u>
Net changes in total OPEB liability	(153,209)
Total OPEB liability - beginning	<u>1,263,683</u>
Total OPEB liability - ending	<u><u>\$ 1,110,474</u></u>
Covered-employee payroll	\$ 5,410,235
Total OPEB liability as percentage of covered-employee payroll	20.53%

Note to Schedule:

Changes of assumptions:

The discount rate changes from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

FOREST CITY REGIONAL SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET OPEB (HIPAP) LIABILITY  
(Required Supplementary Information)  
(unaudited)  
FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2018</u>
District's proportion of the net OPOEB (HIPAP) liability	0.4690%
District's proportionate share of the net OPEB (HIPAP) liability	\$ 956,000.00
District's covered-employee payroll	\$ 6,197,448.00
District's proportionate share of the net OPEB (HIPAP) liability as a percentage of its covered-employee payroll	15.43%
Plan fiduciary net position as a percentage of the total OPEB (HIPAP) liability	5.73%

See accompanying notes to the required supplementary information

FOREST CITY REGIONAL SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S OPEB (HIPAP) CONTRIBUTIONS  
(Required Supplementary Information)  
(unaudited)  
FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2018</u>
Contractually required contribution	\$ 52,000
Contributions in relation to the contractually required contribution	<u>52,000</u>
Contribution deficiency (excess)	-
District's covered payroll	\$ 6,197,448
Contributions as a percentage of covered-employee payroll	0.84%

See accompanying notes to the required supplementary information

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**Year Ended June 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Expenditures</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUE &amp; OTHER FINANCING SOURCES</b>				
Local Sources	\$ 6,707,819	\$ 6,707,819	\$ 6,898,244	\$ 190,425
State Sources	6,896,660	6,896,660	6,909,727	13,067
Federal Sources	<u>549,123</u>	<u>549,123</u>	<u>455,241</u>	<u>(93,882)</u>
<b>TOTAL REVENUE &amp; OTHER FINANCING SOURCES</b>	<b>14,153,602</b>	<b>14,153,602</b>	<b>14,263,212</b>	<b>109,610</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTION</b>				
Regular Programs - Elementary / Secondary	6,069,981	\$ 6,069,981	6,200,579	(130,598)
Special Programs - Elementary / Secondary	1,702,123	1,702,123	1,849,744	(147,621)
Vocational Education Programs	566,127	566,127	562,329	3,798
Other Instructional Programs - Elementary / Secondary	<u>520,768</u>	<u>520,768</u>	<u>574,429</u>	<u>(53,661)</u>
<b>TOTAL INSTRUCTION</b>	<b>8,858,999</b>	<b>8,858,999</b>	<b>9,187,081</b>	<b>(328,082)</b>
<b>SUPPORT SERVICES</b>				
Pupil Personnel	362,840	362,840	383,046	(20,206)
Instructional Staff	437,177	437,177	516,139	(78,962)
Administration	916,578	916,578	899,733	16,845
Pupil Health	152,394	152,394	147,367	5,027
Business	312,148	312,148	292,469	19,679
Operation and Maintenance of Plant Services	956,153	956,153	950,089	6,064
Student Transportation Services	1,105,333	1,105,333	1,202,355	(97,022)
Central	416,410	416,410	293,081	123,329
Other Support Services	<u>22,320</u>	<u>22,320</u>	<u>13,617</u>	<u>8,703</u>
<b>TOTAL SUPPORT SERVICES</b>	<b>4,681,353</b>	<b>4,681,353</b>	<b>4,697,896</b>	<b>(16,543)</b>
<b>NON-INSTRUCTIONAL SERVICES</b>				
Student Activities	211,486	211,486	271,956	(60,470)
Debt Service	471,437	471,437	-	471,437
Community Services	<u>500</u>	<u>500</u>	<u>232</u>	<u>268</u>
<b>TOTAL NON-INSTRUCTIONAL SERVICES</b>	<b>683,423</b>	<b>683,423</b>	<b>272,188</b>	<b>411,235</b>
<b>OTHER FINANCING(SOURCES) AND USES</b>				
Transfers Out	<u>316,143</u>	<u>316,143</u>	<u>518,568</u>	<u>(202,425)</u>
<b>TOTAL OTHER FINANCING USES</b>	<b>316,143</b>	<b>316,143</b>	<b>518,568</b>	<b>(202,425)</b>
<b>TOTAL EXPENDITURES &amp; OTHER USES</b>	<b>14,539,918</b>	<b>14,539,918</b>	<b>14,675,733</b>	<b>(135,815)</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(386,316)</b>	<b>(386,316)</b>	<b>(412,521)</b>	<b>\$ (26,205)</b>
<b>FUND BALANCE - July 1, 2017</b>	<b>-</b>	<b>-</b>	<b>4,091,480</b>	<b>-</b>
<b>FUND BALANCE - June 30, 2018</b>	<b>\$ (386,316)</b>	<b>\$ (386,316)</b>	<b>\$ 3,678,959</b>	<b>\$ (26,205)</b>

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

**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, 2017 by The Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS). The plan is a cost-sharing plan. There were no changes in benefit terms and no changes in assumptions.

**3. Postemployment Benefits Plan**

The amounts reported in the schedule of District's proportionate share of the net other post-employment benefits liability are determined as of June 30, 2017 by The Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) (the costs sharing plan). There were no changes in benefit terms. The change in actuarial assumptions is the discount rate increased from 2.71% as of June 30, 2016 to 3.13% as of June 30, 2017.

## **SUPPLEMENTARY INFORMATION**



**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Schedule of Expenditure-Federal Awards**  
**June 30, 2018**

Grantor/Project Title	Source	Revenue Code	Grantors Number	CFDA Number	Grant Period	Grant Award	Receipts July 1, 2017 to June 30, 2018	Accrued (Deferred) July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) June 30, 2018
<b>U.S. DEPARTMENT OF EDUCATION</b>											
<u>Passed through the PA Dept of Education</u>											
Title I - Improving Basic Programs	Indirect	8514	013-180150	84.010	10-17 to 9-18	\$ 233,810	\$ 279,200	\$ 45,390	\$ 233,810	\$ 233,810	\$ -
Title II - Improving Teacher Quality	Indirect	8515	020-180150	84.367	10-17 to 9-18	36,760	36,760	(6,862)	43,622	43,622	-
Rural and Low Income Schools	Indirect	8519	007-180150	84.358B	10-17 to 9-18	16,132	11,660	5,560	6,100	6,100	-
						10,000	11,660	5,560	6,100	6,100	-
<u>Passed through Intermediate Units</u>											
IDEA - B	Indirect	8708		84.027	10-16 to 9-17	157,047	152,278	152,278	157,047	157,047	157,047
Special Education Cluster							152,278	152,278	157,047	157,047	157,047
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>							<b>479,898</b>	<b>196,366</b>	<b>440,579</b>	<b>440,579</b>	<b>157,047</b>
<b>U.S. DEPARTMENT OF HEALTH AND SOCIAL SERVICES</b>											
<u>Passed through the PA Department of Public Welfare</u>											
Medical Assistance - Access	Indirect	8810	044-007150	93.778	10-16 to 9-17	161,709	144,154	1,535	161,709	161,709	19,090
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND SOCIAL SERVICES</b>							<b>144,154</b>	<b>1,535</b>	<b>161,709</b>	<b>161,709</b>	<b>19,090</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>											
<u>Passed through the Penna. Dept of Education</u>											
National School Lunch Program				10.555	7-16 to 6-17		216,154	37,461	219,591	219,591	40,898
School Breakfast Program				10.553	7-16 to 6-17		85,360	15,210	88,266	88,266	18,116
Donated Commodities				10.555	7-16 to 6-17		38,674	-	38,674	38,674	-
Child Nutrition Cluster							340,188	52,671	346,531	346,531	59,014
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						\$ -	<b>340,188</b>	<b>52,671</b>	<b>346,531</b>	<b>346,531</b>	<b>59,014</b>
<b>TOTAL FEDERAL ASSISTANCE</b>							<b>\$ 964,240</b>	<b>\$ 250,572</b>	<b>\$ 948,819</b>	<b>\$ 948,819</b>	<b>\$ 235,151</b>
<u>Testing requirement - 20% Rule</u>											
Total Expenditures (Listed Above)										\$	948,819
20 % - Testing Requirement										\$	237,205
<u>Programs Tested</u>											
IDEA B										\$	157,047
Academic Enrichment Program											6,100
Title I											233,818
<b>TOTAL TESTED</b>										<b>\$</b>	<b>396,965</b>
PERCENT TESTED											42%

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2018**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Forest City Regional School District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with 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). This schedule only presents a selected portion of the operations of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost of principles contained in the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited to reimbursement.
2. Pass-through entity identifying numbers are presented where available.

**NOTE 3 – PROGRAM DISCLOSURE- FOOTNOTES**

1. All major and non-major federal grant activity of the Wilkes-Barre Area School District is included in the accompanying Schedule of Expenditures of Federal Awards.
2. 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.
3. District is a sub-recipient of Federal Funds from the Luzerne Intermediate Unit. The federal cognizant agency is the United States Department of Education.

**NOTE 4 – FOOD DONATION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District used food commodities totaling \$38,674.

**NOTE 5 – MEDICAL ASSISTANCE**

Access reimbursement received under CFDA #93.778, revenue code 8810 are classified as fee-for-service revenues and are not recognized as federal awards for the purpose of the Schedule of Expenditures of Federal Awards.

## 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, 2018, 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 January 28, 2019.

#### 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.

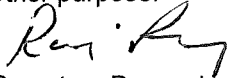
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink, appearing to read "R. R.", is positioned above the printed text.

Scranton, Pennsylvania  
January 28, 2019

## 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, 2018. 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, 2018.

#### **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.

A handwritten signature in black ink, appearing to read 'R. R.', is positioned above the typed name and date.

Scranton, Pennsylvania  
January 28, 2019

**FOREST CITY REGIONAL SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2018**

**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
84.010	Title I
84.027	IDEA B
84.358B	Academic Enrichment Program

**FOREST CITY REGIONAL SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2018**

There were no prior year audit findings.