

Upper Darby School District

Financial Statements and
Supplementary Information

June 30, 2017



BAKER TILLY

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Upper Darby School District

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Independent Auditors' Report

Board of School Directors
Upper Darby School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Upper Darby School District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 activity, each major fund and the aggregate remaining fund information of the Upper Darby School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 on pages 4 through 21, the schedule of funding progress - other postemployment benefits on page 58, the schedule of the District's proportionate share of the net pension liability on page 59, and the schedule of District contributions on page 60, 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 District's basic financial statements. The accompanying schedule of expenditures of federal awards on page 61, as required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017 on our consideration of the 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 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 District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 28, 2017

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

This Management's Discussion and Analysis ("MD&A") of the financial performance of the Upper Darby School District (the "District") provides an overview of the District's financial performance for fiscal year ended June 30, 2017. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

District Profile

The Upper Darby School District, Delaware County, Pennsylvania is located in southeastern Pennsylvania, adjacent to the City of Philadelphia, and consists of the Township of Upper Darby (91.6%) and the Boroughs of Clifton (7.57%) and Millbourne (0.67%) and covers approximately 8.6 square miles. The District consists of one high school (grades 9-12), two middle schools (grades 6-8), seven elementary schools (grades 1-5), three elementary schools (grades K-5) and one kindergarten center (grade K). During 2016-17, there were 1,782 employees (full/part time) in the District, consisting of 947 teachers/professional staff, 55 administrators, including general administration, principals and supervisors, and 780 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff, security staff, classroom and personal-care assistants, community services staff and crossing guards.

District Mission

The Upper Darby School District's mission is to provide "a comprehensive and challenging educational program which encourages all learners in a safe environment to respect others, value education, and appreciate and contribute to their community as confident, independent thinkers."

Financial Highlights

On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the District resulting in total "negative" net position at the close of the 2016-2017 fiscal year of \$187,397,243. The negative net position is due to the recognition of the District's net pension liability pursuant to GASB 68. The net pension liability will be detailed later in the report. During the 2016-2017 fiscal year, the District had a decrease in total net position of \$9,348,756. The net position of governmental activities decreased by \$9,676,368 and net position of business-type activities increased by \$327,612.

- The General Fund reported a decrease in fund balance of \$315,494, bringing the cumulative balance to \$23,899,363 at the conclusion of the 2016-2017 fiscal year.
- At June 30, 2017, the General Fund balance includes \$376,845 which is considered nonspendable; \$7,020,109 committed funds to balance the 2017-2018 General Fund expenditure budget; \$5,694,101 in assigned fund, including; \$1,880,287 for retirement rate stabilization, \$1,292,487 for other post-retirement benefits, \$1,000,000 for educational resources on sun-setting software programming; \$1,500,000 for reserve for emergency capital replacement; and \$21,327 for reserve for encumbrances; and unassigned amounts of \$10,808,308 or 5.427% of the \$199,146,490 2017-2018 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a district to maintain a maximum General Fund unassigned fund balance of 8% of the following year's expenditure budget.
- Total General Fund revenues and other financing sources were \$186,889,087 and total General Fund expenditures and other financing uses were \$187,204,581 and resulted in the net decrease in General Fund balance of \$315,494.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

Overview of the Financial Statements

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 private sector business. These statements are prepared using the accrual basis of accounting. The focus of the statements are for the long-term.

The Statement of Net Position (Deficit) presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 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 in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave and other post-retirement benefits).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation, administration, community service, interest and depreciation.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on pages 22 and 23 of this report.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

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. Unlike the government-wide financial statements however, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 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 two 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.

The basic governmental fund statements can be found on pages 24 through 27 of this report.

The District adopts an annual budget for its General Fund using the Executive Budget approach. A budgetary comparison statement for the General Fund has been provided on page 28 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 29 through 31 of this report.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship funds, student activity funds, and other agency funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on pages 32 and 33 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 financial statements.

The notes to the financial statements can be found on pages 34 through 57 of this report.

Government-Wide Financial Analysis

As noted above, net position may serve over time as a useful indicator of the District's financial condition. Effective June 30, 2015, the District was required to implement GASB Statement No. 68. Under this new reporting requirement, the District has recognized its proportionate share of the Commonwealth of Pennsylvania Public School Employees' Retirement System ("PSERS") net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. Decisions regarding the allocations are determined by the administrators of PSERS, not by the District.

At the close of the 2016-2017 fiscal year, the District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources resulting in a "negative" net position at the close of the 2016-2017 fiscal year of \$187,397,243, which includes an allocation of net pension liability and deferred inflows from resources, net of deferred outflows of resources of \$240,327,954 (representing approximately 0.6088%% of the total PSERS net pension liability). Please refer to the Notes to the Financial Statements for more information.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

The following table presents condensed information for the Statement of Net Position (Deficit) of the District at June 30, 2017 and 2016:

	Condensed Statement of Net Position							
	Governmental Activities		Business-Type Activities		Total		Net Change	% Change
	2017	2016	2017	2016	2017	2016		
	(In Thousands)							
Assets and deferred outflows of resources								
Current assets	\$ 56,407	\$ 56,383	\$ 2,808	\$ 2,690	\$ 59,215	\$ 59,073	\$ 142	0.24 %
Noncurrent assets	55,894	59,893	400	-	56,294	59,893	(3,599)	(6.01)
Deferred outflows of resources	80,277	51,581	-	254	80,277	51,835	28,442	54.87
Total assets and deferred outflows of resources	<u>\$ 192,578</u>	<u>\$ 167,857</u>	<u>\$ 3,208</u>	<u>\$ 2,944</u>	<u>\$ 195,786</u>	<u>\$ 170,801</u>	<u>\$ 24,985</u>	<u>14.63 %</u>
Liabilities								
Current liabilities	\$ 30,480	\$ 30,552	\$ 374	\$ 437	\$ 30,854	\$ 30,989	\$ (135)	(0.44) %
Noncurrent liabilities	333,428	292,256	-	-	333,428	292,256	41,172	14.09
Deferred inflows of resources	18,902	25,605	-	-	18,902	25,605	(6,703)	(26.18)
Total liabilities and deferred inflows of resources	<u>382,810</u>	<u>348,413</u>	<u>374</u>	<u>437</u>	<u>383,184</u>	<u>348,850</u>	<u>34,334</u>	<u>9.84</u>
Net Position								
Net investment in capital assets	26,970	25,321	400	254	27,370	25,575	1,795	7.02
Restricted	1,657	2,580	-	-	1,657	2,580	(923)	(35.78)
Unrestricted	(218,859)	(208,457)	2,434	2,253	(216,425)	(206,204)	(10,221)	4.96
Total net position	<u>(190,232)</u>	<u>(180,556)</u>	<u>2,834</u>	<u>2,507</u>	<u>(187,398)</u>	<u>(178,049)</u>	<u>(9,349)</u>	<u>5.25</u>
Total liabilities and net position	<u>\$ 192,578</u>	<u>\$ 167,857</u>	<u>\$ 3,208</u>	<u>\$ 2,944</u>	<u>\$ 195,786</u>	<u>\$ 170,801</u>	<u>\$ 24,985</u>	<u>14.63 %</u>

The District's total assets and deferred outflows of resources as of June 30, 2017 were \$195,786,188 of which \$38,761,134 or 19.80% consisted of cash and investments and \$55,978,896 or 28.59% consisted of the District's investment in capital assets. The District's total liabilities and deferred inflows of resources as of June 30, 2017 were \$383,183,431 of which \$24,965,733 or 6.52% consisted of general obligation debt used to acquire and construct capital assets and \$320,604,000 consisted of net pension liability and deferred inflows of resources or 83.67%.

The District has a total deficit net position of \$187,397,243 at June 30, 2017. The District's deficit net position increased \$9,348,756 over its deficit net position of \$178,048,487 in the prior year.

A portion of the District's net position reflects its restricted net position which totaled \$1,657,259 as of June 30, 2017. All of the District's restricted net position relates to amounts restricted for capital expenditures.

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2017

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2017, the District's net investment in capital assets was \$27,370,331, an increase of \$1,794,209 because the debt used to acquire the capital assets is being repaid faster than the capital assets are being depreciated.

The following table presents condensed information for the Statement of Activities of the District for 2017 and 2016:

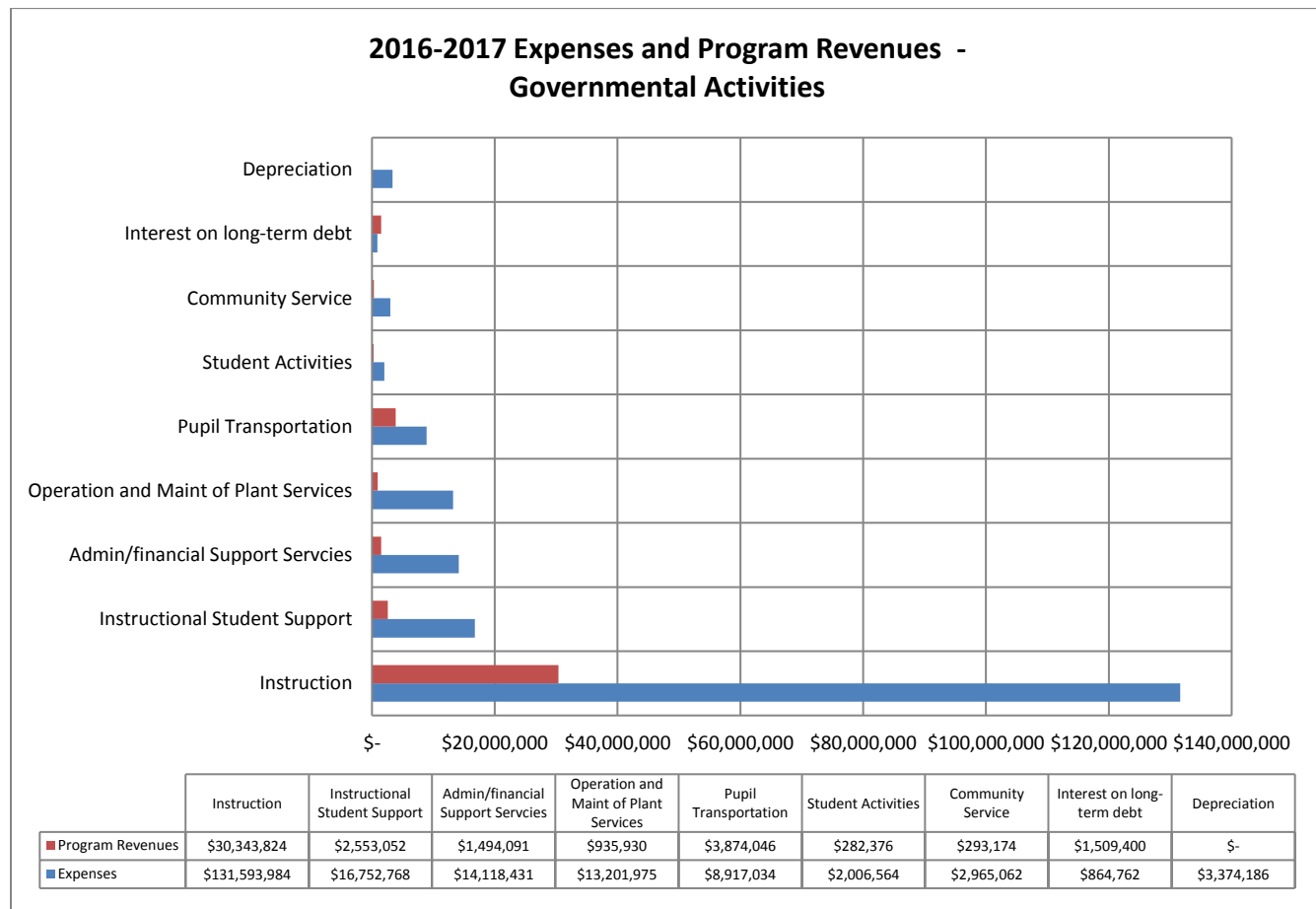
	Condensed Statement of Activities							
	Governmental Activities		Business-Type Activities		Total		Net Change	% Change
	2017	2016	2017	2016	2017	2016		
	(In Thousands)							
Program revenues:								
Charges for services	\$ 1,685	\$ 1,631	\$ 951	\$ 905	\$ 2,636	\$ 2,536	\$ 100	3.94 %
Operating grants and contributions	41,286	38,604	5,847	5,655	47,133	44,259	2,874	6.49
General revenues:								
Taxes levied for general purposes, net	103,292	104,166	-	-	103,292	104,166	(874)	(0.84)
Grants, subsidies and contributions not restricted	36,710	35,072	-	-	36,710	35,072	1,638	4.67
Other	1,146	1,159	(698)	(516)	448	643	(195)	(30.33)
Total revenues	184,119	180,632	6,100	6,044	190,219	186,676	3,543	1.90%
Program expenses:								
Instruction	131,594	123,896	-	-	131,594	123,896	7,698	6.21
Instructional student support	16,753	13,112	-	-	16,753	13,112	3,641	27.77
Administration and financial support services	14,118	13,261	-	-	14,118	13,261	857	6.46
Operation and maintenance of plant services	13,202	12,697	-	-	13,202	12,697	505	3.98
Pupil transportation	8,917	8,418	-	-	8,917	8,418	499	5.93
Student activities	2,007	1,936	-	-	2,007	1,936	71	3.67
Community services	2,965	2,946	-	-	2,965	2,946	19	0.64
Interest on long-term debt	865	1,039	-	-	865	1,039	(174)	(16.75)
Unallocated depreciation	3,374	3,287	-	-	3,374	3,287	87	2.65
Food service	-	-	5,773	5,723	5,773	5,723	50	.87
Total expenses	193,795	180,592	5,773	5,723	199,568	186,315	13,253	7.11
Change in net position	(9,676)	40	327	321	(9,349)	361	(9,710)	(2689.75)
Net position (deficit), beginning	(180,556)	(180,596)	2,507	2,186	(178,049)	(178,410)	361	(0.20)
Net position (deficit), ending	<u>\$ (190,232)</u>	<u>\$ (180,556)</u>	<u>\$ 2,834</u>	<u>\$ 2,507</u>	<u>\$ (187,398)</u>	<u>\$ (178,049)</u>	<u>\$ (9,349)</u>	<u>5.25 %</u>

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

Overall, the District's financial position remained stable, however, challenges such as increased special education costs, charter school tuition, pension contributions, state-mandated programs, future contract negotiations and the need for financing to address infrastructure issues remain. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing or 73.8% of its tax base. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities or 16.7%.

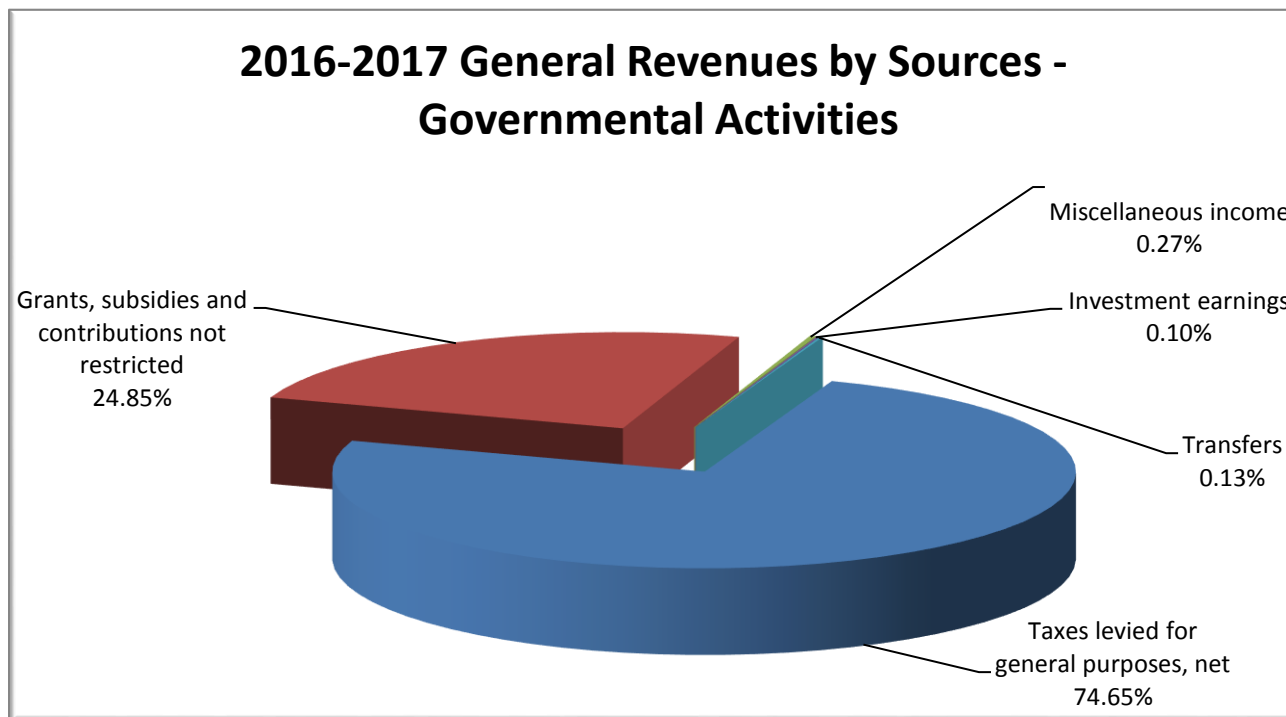
The Statement of Activities focuses on how the District finances its services. The Statement of Activities compares the cost of the District's functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, the District's governmental activities are not self-supporting.



Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

To the degree that the District's functions or programs cost more than they raise, the Statement of Activities shows how the District chose to finance the differences through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



Fund Financial Analysis

The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2017, the District's governmental funds reported a combined fund balance of \$25,556,622, which is a decrease of \$1,238,236 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2017 and 2016 and the total 2017 change in governmental fund balances.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
General Fund	\$ 23,899,363	\$ 24,214,857	\$ (315,494)
Capital Reserve Fund	1,657,259	2,580,001	(922,742)
Total	<u>\$ 25,556,622</u>	<u>\$ 26,794,858</u>	<u>\$ (1,238,236)</u>

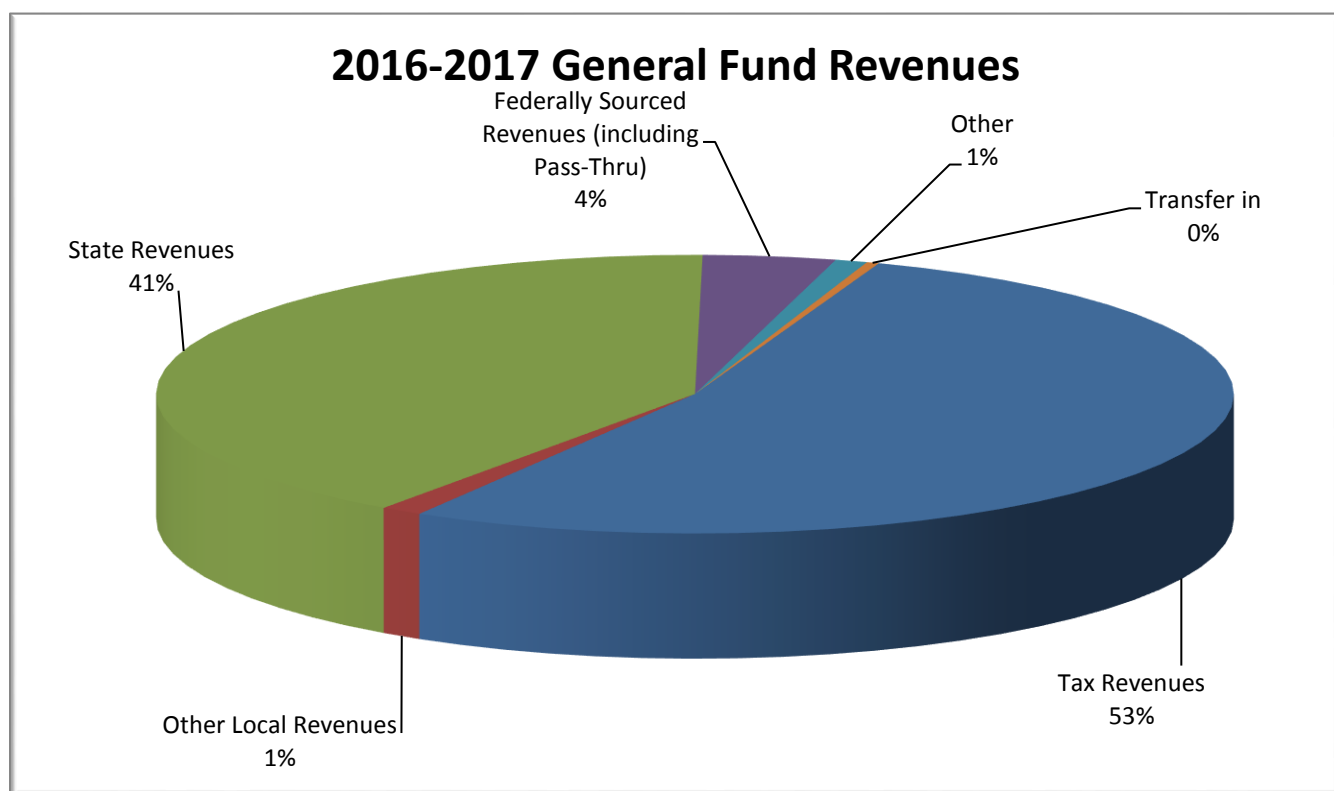
Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

General Fund

The General Fund is the District's primary operating fund. At the conclusion of the 2016-2017 fiscal year, the General Fund "Fund Balance" was \$23,899,363 representing a decrease of \$315,494 in relation to the prior year. The decrease in the District's General Fund "Fund Balance" fell well below the budgeted shortfall of \$6,500,000 and is the result from many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2016-2017 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 53% of General Fund revenues are derived from local taxes.



General Fund Revenues

	2017	2016	Net Change	% Change
Tax revenues	\$ 104,155,261	\$ 103,605,385	\$ 549,876	0.53 %
Other local revenues	2,340,255	2,704,084	(363,829)	(13.45)
State revenues	70,433,601	65,376,093	5,057,508	7.74
Federally sourced revenues (including pass-thru)	7,458,057	7,643,599	(185,542)	(2.43)
Other	1,798,432	2,020,625	(222,193)	(11.00)
Transfer in	703,481	518,704	184,777	35.62
Total	\$ 186,899,087	\$ 181,868,490	\$ 5,020,597	2.76 %

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

Net tax revenues increased by \$549,876 or by 0.53% in 2017. The District did not increase its tax millage in 2017. As such, the increase was primarily due to an increase in delinquent taxes collections which increased over the prior year by \$599,371 or 11.67%. However, local tax collection decrease by (\$53,974) or (0.06%) as a result of continued assessment appeals. The following table summarizes and compares the changes in the District's tax revenues for the 2017 and 2016 fiscal-years:

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>	<u>% Change</u>
Real estate tax	\$ 90,630,139	\$ 90,684,113	\$ (53,974)	(0.06) %
Interim real estate tax	71,819	81,504	(9,685)	(11.88)
PURTA tax	107,406	110,788	(3,382)	(3.05)
Transfer tax	2,467,349	2,450,179	17,170	(0.70)
Delinquent tax	5,736,005	5,136,634	599,371	11.67
State property tax reduction	5,142,543	5,142,167	376	0.01
Total	<u>\$ 104,155,261</u>	<u>\$ 103,605,385</u>	<u>\$ 549,876</u>	<u>0.53 %</u>

State revenues increased \$5,057,507 or 7.74% in 2017 due to several factors. The increase is primarily the result of additional Basic and Special Education funding due to implementation of a new funding formula and additional funding received for the state retirement subsidy which increased commensurate with the employer annual contribution rate (25.84% to 30.03%).

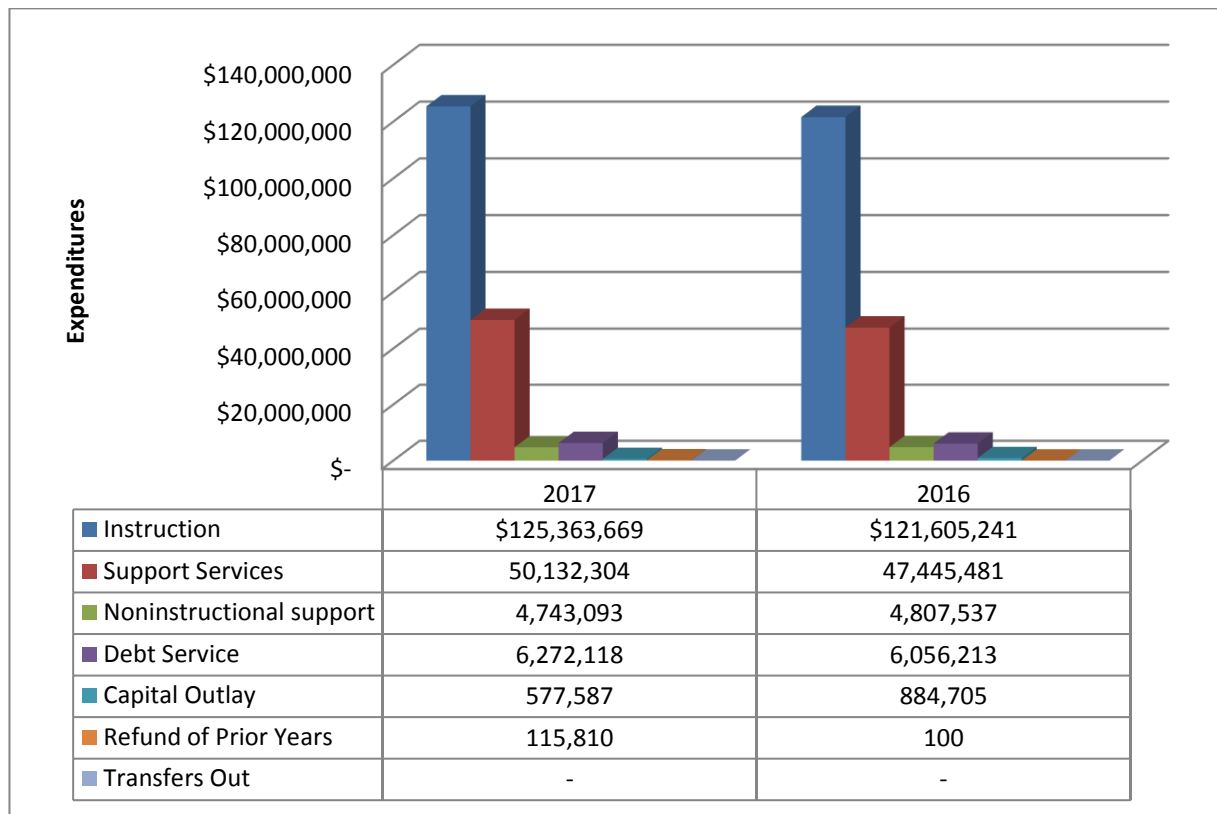
	<u>2017</u>	<u>2016</u>	<u>Net Change</u>	<u>% Change</u>
Instruction/block and misc. grants	\$ 38,854,077	\$ 36,844,851	\$ 2,009,226	5.45 %
Special education	7,738,306	7,624,547	113,759	1.49
Transportation	2,720,592	2,758,311	(37,719)	(1.37)
Rental/leasing fund	1,262,573	1,217,712	44,861	3.68
Social security and retirement	19,134,407	16,310,743	2,823,664	17.31
Other	723,646	619,930	103,716	16.73
Total	<u>\$ 70,433,601</u>	<u>\$ 65,376,094</u>	<u>\$ 5,057,507</u>	<u>7.74 %</u>

Federal revenue decreased \$185,542 or 2.43% in 2017 due to overall cuts in federal programs, primarily in the Medical Access Program.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

General Fund Expenditures and Other Financing Uses



	2017	2016	Net Change	% Change
Instruction	\$ 125,363,669	\$ 121,605,241	\$ 3,758,428	3.09 %
Support services	50,132,304	47,445,481	2,686,823	5.66
Non-instructional support	4,473,093	4,807,537	(334,444)	(6.96)
Debt service	6,272,118	6,056,213	215,905	3.57
Capital outlay	577,587	884,705	(307,118)	(34.71)
Refund of prior years	115,810	100	115,710	115,710.00
Transfers out	-	-	-	-
Total	\$ 186,934,581	\$ 180,799,277	\$ 6,135,304	3.39 %

Expenditures increased \$6,135,304 in 2017. The most significant component of the increase relates to the increase in District retirement costs of \$3,806,585 which accounts for 62.04% of the increase over 2016. As noted above, the pension rate increased from 25.84% to 30.03%, a 16.22% increase. Other significant increases included \$1,428,829 in salaries, primarily the result of contractually obligated pay increases; \$1,403,341 in technology infrastructure and instructional equipment; \$1,442,789 in tuition for alternative education and charter school tuition; and \$559,077 in due process hearing and other associated costs. Offsetting factors to the above were reductions of (\$665,874) in health care benefits; (\$357,658) in substitute services; and (\$1,109,350) in capital equipment due to shifts to technology upgrades and use of capital reserves.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

Capital Reserve Fund

The Capital Reserve Fund accounts for (1) monies transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the treasury of the LEA at the end of a fiscal year, and (3) interest earnings of the fund itself. Expenditures from this fund are limited to: capital improvements, replacement and additions to public works and improvements, for deferred maintenance, for the purchase of school buses, and for no other purpose.

During 2016-2017, the Capital Reserve Fund reported a decrease in fund balance of \$922,742. The remaining fund balance of \$1,657,259 as of June 30, 2017 is restricted for capital expenditures.

There were several capital projects in progress at June 30, 2017:

Network cabling (technology upgrades)	\$	237,787
UDHS Courtyard - concrete replacement		106,344
BHMS HVAC unit replacements		38,160
Facility study fees		70,007
Other professional fees		<u>38,535</u>
Total	\$	<u>490,833</u>

General Fund Budget Information

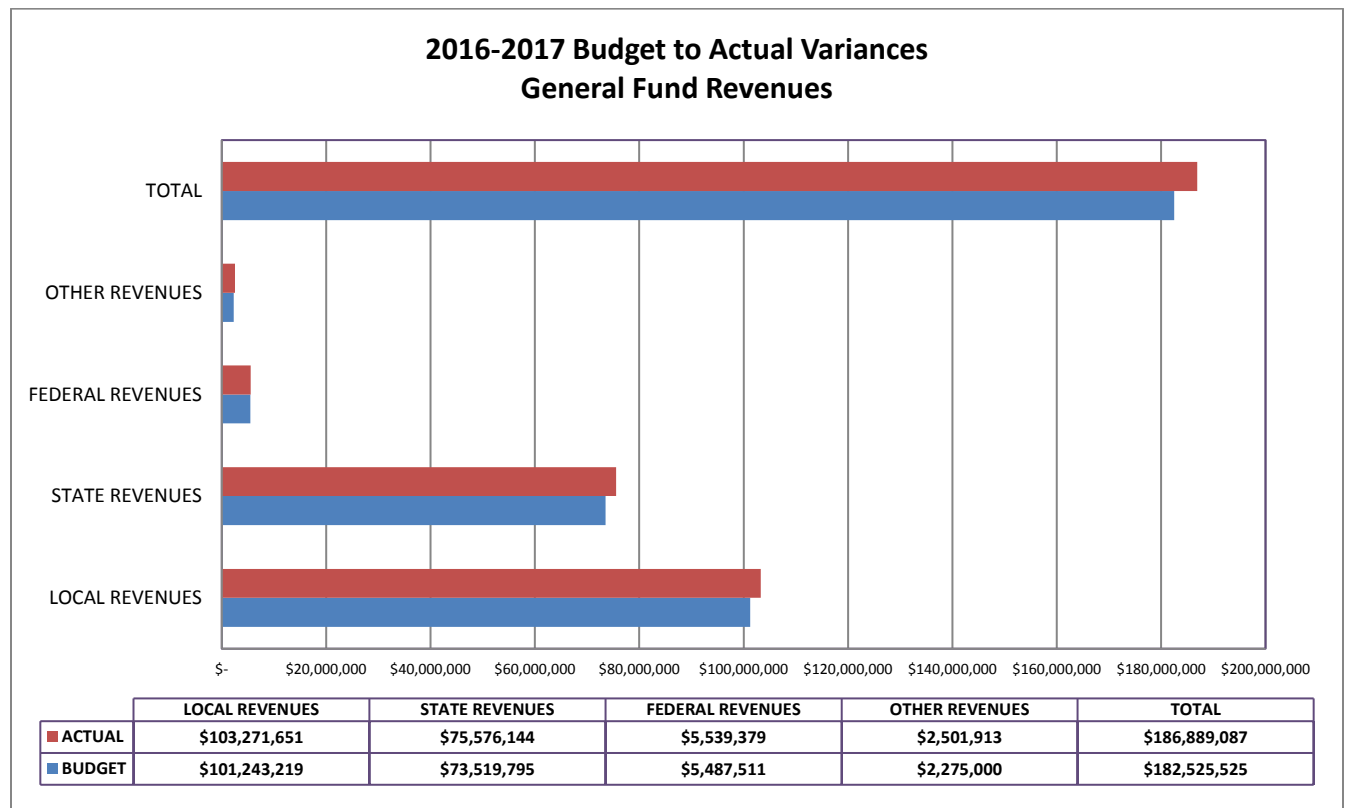
The District maintains its financial records and prepares its financial statements on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

The General Fund's approved budget for 2017 included \$182,525,525 of revenues and other financing sources and \$189,025,525 of expenditures and other financing uses. The District committed \$6,500,000 to be used from its unassigned fund balance to cover the shortfall.

Actual revenues and other financing sources were \$4,363,562 more than the budgeted amounts and actual expenditures and other financing uses were \$1,820,944 less than the final budgeted amounts. The actual net of expenditures over revenues was \$315,494. As such, funds committed to cover the projected shortfall in the amount of \$6,184,506 were not used. Major budgetary highlights for 2016-2017 were as follows:

Upper Darby School District

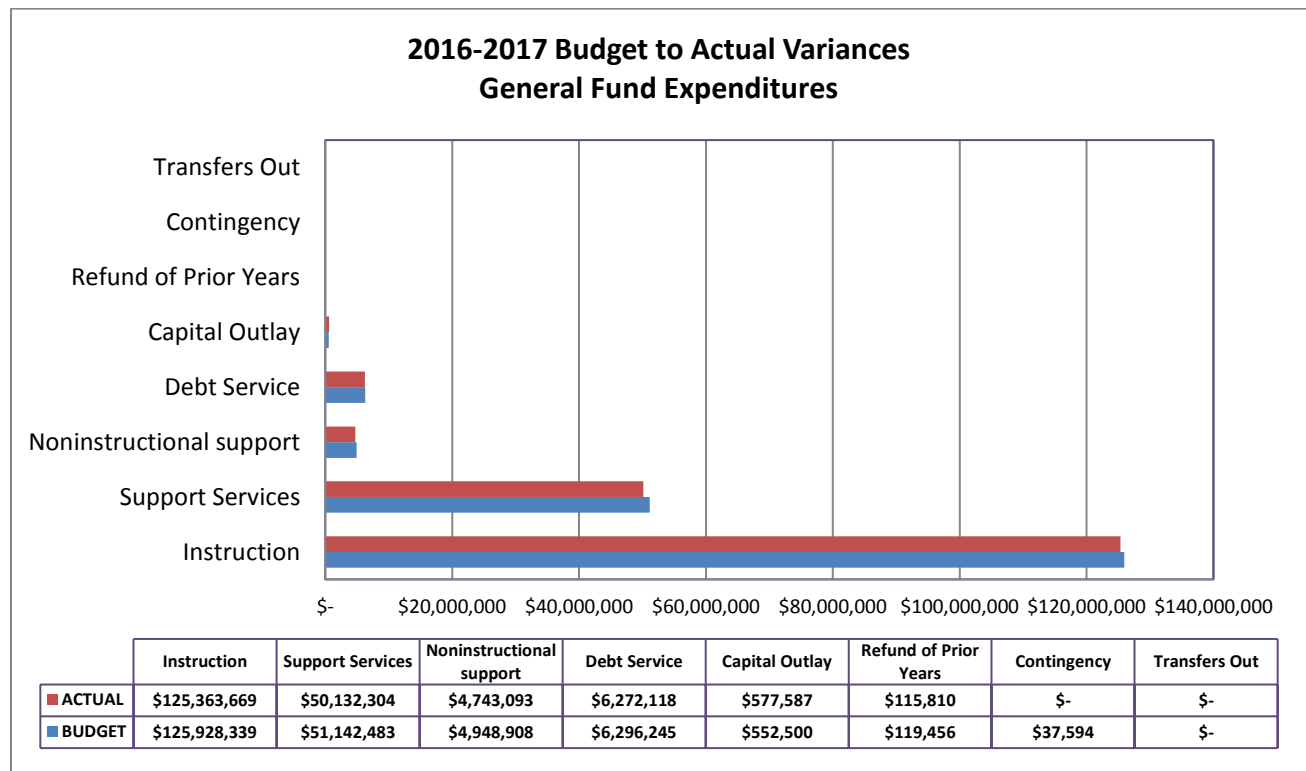
Management's Discussion and Analysis
(Unaudited)
June 30, 2017



- Local revenues received were \$2,028,432 more than budgeted due to better than anticipated collection of transfer and delinquent taxes.
- State revenues received were \$2,056,349 more than budgeted. The increase is primarily related to increases in the Basic and Special Education and Ready to Learn Block Grant subsidies resulting from implementation of a new funding formula; in the retirement reimbursement (due to higher District pension contribution rates) and other reimbursement rates (transportation and social security) due to an increasing aid ratio. Other increases in special education relate to claims for out-of-state and extraordinary cost reimbursements.
- Federal revenues received were \$51,868 more than budgeted. The increase relates to additional federal awards that were not reflected in the budget.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017



- Total actual expenditures and other financing used were under budget by \$1,820,944
- Actual expenditures for instruction were under budget by \$564,670. The main components under the area of instruction are Regular and Special Education.
 - In the area of Regular Education, cost fell below expectations by \$2,193,159. Contributing factor to costs falling below expectations include: \$1,965,644 in salaries and benefits and \$398,672 in staffing services. Despite contractual increases and required increases in annual retirement contributions, the cost reductions are related to a significant amount of staff turnover, changes in the demographics of the District's benefit pool and to staffing support shortages. Other cost reductions of \$136,935 were realized in supplies due to implementation of a requisition system and increased budgetary controls. Offset to the cost reductions was an increase of \$377,096 in charter school tuition due to expanding enrollment in cyber schools that exceeded projection trends.
 - In the area of Special Education, the District exceeded budget by \$1,202,842. The increase is primarily related to an increasing number of students for which the District is mandated to provide financial responsibility. The corresponding effect resulted from increased enrollment and cost of \$1,880,681 for tuition related to placement in approved and other private schools and charter schools and \$334,728 for staffing services. The excess costs were offset by a reductions in the number of actual students in program service charges by the Delaware County Intermediate Unit ("DCIU") in the performance of the special education service and early intervention contracts of \$639,085 as well as \$431,505 in salaries and benefits related to employee turnover.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

- In the area of Vocational Education, cost reductions of \$219,978 were realized in tuition for students attending Career and Technical Schools hosted by the DCIU. This was a result of lower than expected attendance levels than in budget projections used by the DCIU.
- In the area of Other Instructional Programs, costs exceeded budget by \$655,626. This was the result of increase costs of \$175,635 for homebound services and \$496,326 for court placement in private residential rehabilitation institutions.
- Actual expenditures for Support Services service were under budget by \$1,010,179. The main components consist of \$757,113 in salaries and benefits related to employee turnover and unfilled transportation and maintenance positions; and \$318,944 in lower than expected purchased services including staffing and professional services.
- Actual expenditures for Non-Instructional Support Services service were under budget by \$205,815. The main components consist of \$133,012 in salaries and benefits related to extra-curricular activities; and \$47,948 in supplies due to implementation of a requisition system and increased budgetary controls.

Business-Type Activity/Proprietary Fund

The District's business-type activity/proprietary fund consists of the District's food service program. The District's food service program is managed by an outside third party contractor. During 2016-2017, the net position of the business-type activity/proprietary fund increased by \$327,612. As of June 30, 2017, the business-type activity/proprietary fund had net position of \$2,834,656.

Capital Assets

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

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Totals</u>
Land and improvements	\$ 6,676,621	\$ -	\$ 6,676,621
Building and improvements	110,613,536	-	110,613,536
Furniture and equipment	28,666,114	1,248,654	29,914,768
Construction in progress	490,832	-	490,832
	<hr/>	<hr/>	<hr/>
Total	146,447,103	1,248,654	147,695,757
Less accumulated depreciation	90,868,417	848,444	91,716,861
	<hr/>	<hr/>	<hr/>
Net capital assets	<u>\$ 55,578,686</u>	<u>\$ 400,210</u>	<u>\$ 55,978, 896</u>

Current year capital additions, net of retirements, were \$1,560,500.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

Capital additions placed in service in 2017 included:

Transportation:	
(4) 48 Passenger, (1) 72 Passenger Bus and (1) Van	\$ 477,912
Technology: wiring and hardware	398,659
Food service equipment	205,796
UDHS server room HVAC	152,147
UDHS security system wiring and hardware	90,797
UDHS locker room	29,663
Other technology equipment	37,887
Maintenance equipment	4,625

Long Term Debt

At July 1, 2016, the principal or face amount of the District's general obligation debt was \$26,982,985. During the year, the District made principal payments of \$3,177,192. The principal or face amount balance of outstanding debt at June 30, 2017 is \$23,805,713.

State statutes limit the amount of general obligation debt the District may issue to 225% of its borrowing base capacity which is the annual arithmetic average of total revenues for the three preceding fiscal years. The long term debt amount for the District is approximately 6.14% of its legal limit of \$387 million. In the 2016-2017 school year, \$3,282,190 of this debt is scheduled for repayment. Additional information on the District's long-term debt can be found in the Notes to the Financial Statements.

Economic Condition and Outlook

At the time that these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's local revenue sources continue to be adversely impacted. The District continues to anticipate an increased burden on local taxpayers due to continued reductions in assessed taxable values and nominal return on investments. This trend reinforces expectation that greater local tax efforts will be required to be the mechanism to fund instructional programming.
- The District does not expect significant residential nor commercial business growth in the near future given the existing developed commercial and residential nature of the local economy and a lack of developable land remaining within the District. In fact, the District has experienced only decreases in the assessed values of residential and commercial properties within the District, which restricts the growth in tax revenues for the District.
- The Commonwealth implemented a new funding formula for the Basic and Special Education Subsidies. Yet the Upper Darby School District remains the 13th most underfunded school district in the State.
- The District made a large investment in technology in the 2016-2017 school year. Internet cabling projects, mostly subsidized by e-rate, were completed in all the schools over the summer 2017. In addition, over 4,000 Chrome books were purchased allowing technology to be brought into the classroom and new student assessment tools to meet the goals of the District's Comprehensive Plan.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2017

- The District adopted a 2017-18 budget totaling \$199,146,490. The 2017-2018 budget included approximately \$1.165 million dollars (net of savings realized through attrition) in staffing needs, other supports and security enhancements to the District. In addition, the District will open its own Cyber School in the 2017-2018 year as means to bring back students who have left the District's schools to go to outside cyber schools, to create efficiencies in delivery of homebound and alternative education, and to provide alternatives to our own students desiring this type of educational format. The real estate millage rate was increased by 2.89% or 1.0177 mills for a total millage rate of 36.2337. \$7,020,109 of General Fund balance was committed to cover the anticipated revenue shortfall.
- In August 2015, the Upper Darby Education Association agreed to a three year contract extension which expires June 30, 2018. The contract required average salary increases of 2.7% in 2015-16, 1.3% in 2016-2017 and 4.3% in 2017-18.
- In September 2015, the Upper Darby Education Support Personnel Association ("UDESPA") agreed to a three year contract extension which expires June 30, 2018. The contract provided for minimum increases of 3% for each year of the contract.
- In September 2017, the Transit Workers' Union ("TWU") agreed to a three year contract extension which expires June 30, 2020. TWU bargains for maintenance, custodial and transportation employees. The contract calls for salary increases of 2.5% in 2017-2018 and 2018-2019 and 2.6% for 2019-2020.
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("House Bill 2497") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the Public School Employees' Retirement System ("PSERS") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation the employer contribution rate for 2018-19 is projected at 34.18%. Currently, the employer contribution rate for 2017-2018 is 32.57%, which is an increase of 8.54% from the 2016-2017 employer contribution rate of 30.03%. It is estimated that the increase in the employer contribution rate for 2018-2019 will increase the District's net retirement expense by approximately \$1,646,577, of which the District's share is estimated at \$566,638.
- The District continues to face overcapacity issues. In June 2015, the Board of School Directors approved a resolution directing the proper officers to submit PlanCon Part A - Project Justification for the Phase I Project. However, the District did not include a facility study that resulted in the rejection of the submission. In March 2016, the District engaged Bonnett and Associates as the architect of record to complete a facility study.

A Facility Committee was formed and provided recommendations to the Board of School Directors with elementary class size guidelines which addressed current and future education specification needs for school planning. In February 2017, the Board of School Directors adopted a resolution for class size guidelines that allowed for the completion of the facility study document.

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2017

In November 2017, the Board of School Directors will be presented with financial information as to the cost of building capital replacement needs; projections of the costs to build a new elementary school; redistricting requirements; and capacity issues at the middle schools. Costs are estimated to range from \$100 to \$160 million dollars. It is expected that the Board of School Directors will set direction as to the future of capital planning in the next several months.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Upper Darby School District, 4611 Bond Avenue, Drexel Hill, PA 19026.

Upper Darby School District

Statement of Net Position (Deficit)

June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 11,419,502	\$ 2,201,632	\$ 13,621,134
Investments	25,140,000	-	25,140,000
Taxes receivable, net	7,568,478	-	7,568,478
Due from other governments	8,386,545	795,970	9,182,515
Other receivables	2,407,614	433,194	2,840,808
Internal balances	703,481	(703,481)	-
Prepaid expenses	404,185	-	404,185
Inventories	376,845	80,788	457,633
Total current assets	<u>56,406,650</u>	<u>2,808,103</u>	<u>59,214,753</u>
Noncurrent Assets			
Capital assets	55,578,686	400,210	55,978,896
Restricted cash	315,378	-	315,378
Total noncurrent assets	<u>55,894,064</u>	<u>400,210</u>	<u>56,294,274</u>
Total assets	112,300,714	3,208,313	115,509,027
Deferred Outflows of Resources			
Deferred outflow - pension	80,276,046	-	80,276,046
Deferred loss on debt refundings	1,115	-	1,115
Total deferred outflows of resources	<u>80,277,161</u>	<u>-</u>	<u>80,277,161</u>
Total assets and deferred outflows of resources	<u>\$ 192,577,875</u>	<u>\$ 3,208,313</u>	<u>\$ 195,786,188</u>
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)			
Liabilities			
Current liabilities:			
Accounts payable	\$ 3,582,077	\$ 355,139	\$ 3,937,216
Current maturities of:			
Bonds and notes payable	3,282,190	-	3,282,190
Capital lease obligations	1,456,051	-	1,456,051
Authority lease obligations	125,998	-	125,998
Accrued salaries and benefits	19,583,055	-	19,583,055
Accrued interest payable	134,481	-	134,481
Other current liabilities	928,062	-	928,062
Current portion of compensated absences	292,750	-	292,750
Current portion of special termination benefits	209,363	-	209,363
Current portion of postemployment benefits	429,000	-	429,000
Unearned revenues	456,909	18,518	475,427
Total current liabilities	<u>30,479,936</u>	<u>373,657</u>	<u>30,853,593</u>
Bonds and notes payable	21,683,543	-	21,683,543
Capital lease obligations	2,186,781	-	2,186,781
Authority lease obligations	2,344,194	-	2,344,194
Compensated absences	2,486,060	-	2,486,060
Special termination benefits	968,182	-	968,182
Postemployment benefits	2,057,078	-	2,057,078
Net pension liability	301,702,000	-	301,702,000
Total liabilities	<u>363,907,774</u>	<u>373,657</u>	<u>364,281,431</u>
Deferred Inflow of Resources - Pension	<u>18,902,000</u>	<u>-</u>	<u>18,902,000</u>
Net Position (Deficit)			
Net investment in capital assets	26,970,121	400,210	27,370,331
Restricted	1,657,259	-	1,657,259
Unrestricted	<u>(218,859,279)</u>	<u>2,434,446</u>	<u>(216,424,833)</u>
Total net position (deficit)	<u>(190,231,899)</u>	<u>2,834,656</u>	<u>(187,397,243)</u>
Total liabilities, deferred inflows of resources, and net position (deficit)	<u>\$ 192,577,875</u>	<u>\$ 3,208,313</u>	<u>\$ 195,786,188</u>

See notes to financial statements

Upper Darby School District

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position (Deficit)		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities						
Instruction	\$ 131,593,984	\$ 155,095	\$ 30,343,824	\$ (101,095,065)		\$ (101,095,065)
Instructional student support	16,752,768	-	2,553,052	(14,199,716)		(14,199,716)
Administrative and financial support services	14,118,431	-	1,494,091	(12,624,340)		(12,624,340)
Operation and maintenance of plant services	13,201,975	-	935,930	(12,266,045)		(12,266,045)
Pupil transportation	8,917,034	29,000	3,874,046	(5,013,988)		(5,013,988)
Student activities	2,006,564	-	282,376	(1,724,188)		(1,724,188)
Community service	2,965,062	1,500,816	293,174	(1,171,072)		(1,171,072)
Interest on long-term debt	864,762	-	1,509,400	644,638		644,638
Depreciation	3,374,186	-	-	(3,374,186)		(3,374,186)
Total governmental activities	193,794,766	1,684,911	41,285,893	(150,823,962)		(150,823,962)
Business-Type Activity, Food Service	5,772,471	951,515	5,846,850	-	\$ 1,025,894	1,025,894
Total	<u>\$ 199,567,237</u>	<u>\$ 2,636,426</u>	<u>\$ 47,132,743</u>	(150,823,962)	1,025,894	(149,798,068)
General Revenues						
Real estate taxes levied for general purposes, net				103,292,045	-	103,292,045
Grants, subsidies and contributions not restricted				36,709,972	-	36,709,972
Miscellaneous income				162,184	-	162,184
Investment earnings				279,912	5,199	285,111
Transfers				703,481	(703,481)	-
Total general revenues				141,147,594	(698,282)	140,449,312
Change in Net Position				(9,676,368)	327,612	(9,348,756)
Net Position (Deficit), Beginning				(180,555,531)	2,507,044	(178,048,487)
Net Position (Deficit), Ending				<u>\$ (190,231,899)</u>	<u>\$ 2,834,656</u>	<u>\$ (187,397,243)</u>

See notes to financial statements

Upper Darby School District

Balance Sheet

Governmental Funds

June 30, 2017

	Major Funds		Totals
	General	Capital Reserve	
Assets			
Cash and cash equivalents	\$ 11,419,502	\$ -	\$ 11,419,502
Restricted cash	-	315,378	315,378
Investments	23,640,000	1,500,000	25,140,000
Taxes receivable, net	7,568,478	-	7,568,478
Due from other governments	8,386,545	-	8,386,545
Other receivables	2,407,614	-	2,407,614
Due from other funds	703,481	-	703,481
Prepaid expenses	404,185	-	404,185
Inventories	376,845	-	376,845
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 54,906,650</u>	<u>\$ 1,815,378</u>	<u>\$ 56,722,028</u>
Liabilities			
Accounts payable	\$ 3,423,958	\$ 158,119	\$ 3,582,077
Accrued salaries and benefits	19,583,055	-	19,583,055
Unearned revenues	456,909	-	456,909
Other current liabilities	928,062	-	928,062
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>24,391,984</u>	<u>158,119</u>	<u>24,550,103</u>
Deferred Inflows of Resources			
Unavailable revenues, real estate taxes	6,615,303	-	6,615,303
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Nonspendable	376,845	-	376,845
Restricted	-	1,657,259	1,657,259
Committed	7,020,109	-	7,020,109
Assigned	5,694,101	-	5,694,101
Unassigned	10,808,308	-	10,808,308
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>23,899,363</u>	<u>1,657,259</u>	<u>25,556,622</u>
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 54,906,650</u>	<u>\$ 1,815,378</u>	<u>\$ 56,722,028</u>

See notes to financial statements

Upper Darby School District

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

Total Fund Balances - Governmental Funds	\$ 25,556,622
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	55,578,686
Real estate taxes receivable will not be collected soon enough to pay for the current period's expenditures and therefore are deferred in the funds	6,615,303
Deferred loss on debt refundings are included in the statement of net position	1,115
Accrued interest payable is included in the statement of net position	(134,481)
Deferred outflows of resources related to the net pension liability is included in the statement of net position	80,276,046
Deferred inflows of resources related to the net pension liability is included in the statement of net position	(18,902,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Bonds and note payable	(24,965,733)
Capital lease obligations	(3,642,832)
Authority lease obligations	(2,470,192)
Compensated absences	(2,778,810)
Special termination benefits	(1,177,545)
Other postretirement benefits	(2,486,078)
Net pension liability	<u>(301,702,000)</u>
Total Net Deficit - Governmental Activities	<u><u>\$ (190,231,899)</u></u>

Upper Darby School District

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2017

	Major Funds		Total Governmental Funds
	General	Capital Reserve	
Revenues			
Local sources	\$ 103,271,651	\$ 6,769	\$ 103,278,420
State sources	75,576,144	-	75,576,144
Federal sources	5,539,379	-	5,539,379
Total revenues	184,387,174	6,769	184,393,943
Expenditures			
Instruction	125,363,669	-	125,363,669
Support services	50,132,304	-	50,132,304
Noninstructional services	4,743,093	-	4,743,093
Capital outlay	577,587	929,511	1,507,098
Refund of prior year receipts	115,810	-	115,810
Debt service	6,272,118	-	6,272,118
Total expenditures	187,204,581	929,511	188,134,092
Revenues Under Expenditures	(2,817,407)	(922,742)	(3,740,149)
Other Financing Sources			
Proceeds from extended term financing	1,798,432	-	1,798,432
Transfers in	703,481	-	703,481
Other financing sources	2,501,913	-	2,501,913
Revenues and Other Financing Sources Under Expenditures	(315,494)	(922,742)	(1,238,236)
Fund Balance, Beginning	24,214,857	2,580,001	26,794,858
Fund Balance, Ending	\$ 23,899,363	\$ 1,657,259	\$ 25,556,622

See notes to financial statements

Upper Darby School District

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds \$ (1,238,236)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures.

However, in the statement of activities, the costs of these assets are allocated over their estimated useful lives as depreciation expense. The amount of depreciation expense exceeding capital outlays in the period is:

Capital outlay	1,642,282	
Less: depreciation expense	<u>(3,374,186)</u>	(1,731,904)

Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds. This amount is the net change in real estate tax revenue accrued between the prior and current year (783,403)

Change in allowance for uncollectible taxes (79,813)

Bond premiums/discounts and refunding charges are reported in the funds when the debt is issued. However, premiums/discounts and refunding charges are deferred and amortized in the statement of activities.

Activity during the period is as follows:

Amortization of bond premiums/discounts	170,458	
Amortization of deferred refunding charges	<u>9,827</u>	180,285

Repayment of bonds and note payable and capital and authority lease obligations use current financial resources and are reported in the funds but not the statement of activities. Principal repayments were as follows:

Bonds and notes	3,177,192	
Capital leases	1,831,179	
Authority leases	<u>123,959</u>	5,132,330

Proceeds from extended term financing is considered a current financial resource and are reported in the funds but not in the statement of activities (1,798,432)

Other changes in authority lease obligations provide current financial resources and are reported in the funds but not in the statement of activities 80,786

Change in accrued interest payable 13,954

In the statement of activities, certain expenses are measured by the amounts incurred during the year. In the funds, these items are measured by the amounts paid. The net differences between these amounts are as follows:

Retirement	(8,761,414)	
Compensated absences	(296,933)	
Special termination benefits	332,530	
Other postretirement benefits	<u>(726,118)</u>	<u>(9,451,935)</u>

Change in Net Position of Governmental Activities \$ (9,676,368)

Upper Darby School District

Statement of Revenues, Expenditures, and Change in Fund Balance -

Budget and Actual - General Fund

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Local sources	\$ 101,243,219	\$ 101,243,219	\$ 103,271,651	\$ 2,028,432
State sources	73,519,795	73,519,795	75,576,144	2,056,349
Federal sources	5,487,511	5,487,511	5,539,379	51,868
Total revenues	<u>180,250,525</u>	<u>180,250,525</u>	<u>184,387,174</u>	<u>4,136,649</u>
Expenditures				
Instruction	127,211,611	125,928,339	125,363,669	564,670
Support services	49,651,320	51,142,483	50,132,304	1,010,179
Noninstructional services	4,989,186	4,948,908	4,743,093	205,815
Capital Outlay	628,963	552,500	577,587	(25,087)
Debt service	6,289,445	6,296,245	6,272,118	24,127
Refund of prior year receipts	55,000	119,456	115,810	3,646
Total expenditures	<u>188,825,525</u>	<u>188,987,931</u>	<u>187,204,581</u>	<u>1,783,350</u>
Revenues Under Expenditures	<u>(8,575,000)</u>	<u>(8,737,406)</u>	<u>(2,817,407)</u>	<u>5,919,999</u>
Other Financing Sources (Uses)				
Proceeds from extended term financing	1,800,000	1,800,000	1,798,432	(1,568)
Transfers in	475,000	475,000	703,481	228,481
Budgetary reserve	(200,000)	(37,594)	-	37,594
Total other financing sources, net	<u>2,075,000</u>	<u>2,237,406</u>	<u>2,501,913</u>	<u>264,507</u>
Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses	<u>(6,500,000)</u>	<u>(6,500,000)</u>	<u>(315,494)</u>	<u>6,184,506</u>
Fund Balance, Beginning	<u>20,645,644</u>	<u>20,645,644</u>	<u>24,214,857</u>	<u>3,569,213</u>
Fund Balance, Ending	<u>\$ 14,145,644</u>	<u>\$ 14,145,644</u>	<u>\$ 23,899,363</u>	<u>\$ 9,753,719</u>

See notes to financial statements

Upper Darby School District

Balance Sheet - Proprietary Fund

June 30, 2017

Assets

Current Assets

Cash and cash equivalents	\$ 2,201,632
Due from other governments	795,970
Other receivables and prepaid expenses	433,194
Inventories	<u>80,788</u>

Total current assets 3,511,584

Capital Assets

400,210

Total assets \$ 3,911,794

Liabilities and Net Position

Liabilities

Current liabilities	
Accounts payable	\$ 355,139
Other current liabilities	18,518
Due to other funds	<u>703,481</u>

Total liabilities 1,077,138

Net Position

Net investment in capital assets	400,210
Unrestricted net position	<u>2,434,446</u>

Total net position 2,834,656

Total liabilities and net position \$ 3,911,794

Upper Darby School District

Statement of Revenues, Expenses, and Change in Net Position -
Proprietary Fund
Year Ended June 30, 2017

Operating Revenues

Food service revenue	<u>\$ 951,515</u>
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Operating Expenses

Purchased services	5,385,077
Donated commodities	304,859
Other	22,455
Depreciation	<u>60,080</u>

Total operating expenses	<u>5,772,471</u>
--------------------------	------------------

Operating Loss	<u>(4,820,956)</u>
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Nonoperating Revenues and Transfers

Federal subsidies	5,578,285
State subsidies	268,565
Earnings on investments	5,199
Transfers out	<u>(703,481)</u>

Nonoperating revenues and transfers	<u>5,148,568</u>
-------------------------------------	------------------

Increase in Net Position	327,612
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Net Position, Beginning	<u>2,507,044</u>
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Net Position, Ending	<u><u>\$ 2,834,656</u></u>
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Upper Darby School District

Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2017

Cash Flows From Operating Activities

Receipts from customers	\$ 954,828
Payments to suppliers	<u>(5,471,128)</u>
Net cash used in operating activities	<u>(4,516,300)</u>

Cash Flows from Noncapital Financing Activities

Transfers out	(518,704)
State subsidies	238,707
Federal subsidies	<u>4,673,226</u>
Net cash provided by noncapital financing activities	<u>4,393,229</u>

Cash Flows Used in Capital and Related Financing Activities

Acquisition of capital assets	<u>(205,796)</u>
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Cash Flows Provided by Investing Activities

Interest on investments	<u>5,199</u>
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Net Decrease in Cash

(323,668)

Cash, Beginning

2,525,300

Cash, Ending

\$ 2,201,632

Supplemental Disclosure of Noncash Transactions

USDA donated commodities	<u><u>\$ 320,760</u></u>
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Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (4,820,956)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	60,080
USDA donated commodities	320,761
Changes in:	
Other receivables and prepaid expenses	3,168
Inventories	(15,901)
Accounts payable	(63,379)
Other current liabilities	<u>(73)</u>
Net cash used in operating activities	<u><u>\$ (4,516,300)</u></u>

See notes to financial statements

Upper Darby School District

Statement of Net Position - Fiduciary Funds

June 30, 2017

	<u>Private Purpose Trust Fund</u>	<u>Activity Agency Fund</u>	<u>Other Agency Fund</u>
Assets			
Cash	<u>\$ 738,090</u>	<u>\$ 269,189</u>	<u>\$ 254,541</u>
Liabilities and Net Position			
Other current liabilities	\$ -	<u>\$ 269,189</u>	<u>\$ 254,541</u>
Net position restricted for scholarships	<u>738,090</u>		
Total liabilities and net position	<u>\$ 738,090</u>		

See notes to financial statements

Upper Darby School District

Statement of Changes in Net Position - Fiduciary Funds

Year Ended June 30, 2017

	<u>Private Purpose Trust Fund</u>
Additions	
Contribution income	\$ 237,794
Interest income	<u>2,138</u>
Total additions	239,932
Deductions	
Scholarships awarded	<u>209,906</u>
Change in Net Position	30,026
Net Position, Beginning	<u>708,064</u>
Net Position, Ending	<u><u>\$ 738,090</u></u>

See notes to financial statements

Upper Darby School District

Notes to Financial Statements

June 30, 2017

1. Nature of Operations and Summary of Significant Accounting Policies

The major accounting principles and practices followed by the Upper Darby School District (the "District") are summarized below:

Nature of Operations

The District provides elementary and secondary education to the residents of Upper Darby Township and the Boroughs of Clifton Heights and Millbourne, Pennsylvania. The District assesses taxpayers based upon taxing powers at its disposal. The ability of each of the District's taxpayers to honor their assessed obligations to the District is dependent upon economic and other factors affecting the taxpayers.

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended by Statements No. 39 and 61. The specific criteria used in determining whether other organizations should be included in the District's financial reporting entity are financial accountability, fiscal dependency and legal separation.

Based on these criteria, the District has determined that there are no related organizations that should be included in the District's financial statements.

Basis of Presentation - Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements report financial information for the District as a whole, excluding fiduciary activities, on a full accrual, economic resource basis. Individual funds are not displayed, but the statements distinguish governmental activities, supported by taxes and District general revenues, from business-type activities, financed in whole or in part with fees charged to customers. The District's General and Capital Projects Funds are classified as governmental activities. The District's Food Service Fund is classified as a business-type activity.

The statement of activities reports the expenses of a given function or program offset by program revenues directly connected with that function or program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services to users of the District's services, (2) operating grants and contributions that finance annual operating activities and (3) capital grants and contributions that fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Basis of Presentation - Fund Financial Statements

The accounts of the District are organized on the basis of funds, each of which constitutes a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The District uses the following fund types:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the District's governmental funds:

General Fund (Major)

The General Fund accounts for the general operations of the District and all financial transactions not accounted for in another fund.

Capital Projects Fund

Capital Projects fund accounts for financial resources that are restricted, committed, or assigned to expenditure for capital outlays. The District uses the following Capital Project fund:

Capital Reserve Fund (Major)

The Capital Reserve Fund was established under the Pennsylvania Municipal Code to account for (1) moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the District at the end of a fiscal year, and (3) interest earnings of the fund itself. Bond proceeds and other local, state and federal revenue may not be deposited in this fund. No transfers out of this fund are allowable for any purpose. Expenditures from this fund are limited to: capital improvements, replacement and additions to public works and improvements, for deferred maintenance, for the purchase or replacement of school buses, and for no other purpose.

Proprietary Fund Type

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, an Enterprise fund-type, which accounts for the food service operations of the District. The Food Service Fund distinguishes between operating revenues and expenses and non-operating 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 non-operating.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Fiduciary Fund Types

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or other governmental units. The funds included in this category are:

Activity Fund

The Activity Fund accounts for the collections and disbursements of assets of various student activities and clubs.

Private Purpose Trust Fund

The Private Purpose Trust Fund accounts for the activity of various scholarship accounts that provide scholarship grants to students of the District.

Other Agency Fund

The Other Agency Fund accounts for the collections and disbursements of assets of various programs administered for the general welfare of students.

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Upper Darby School District

Notes to Financial Statements

June 30, 2017

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. For exchange transactions, revenues are recognized when earned and expenses are recognized when incurred. Non-exchange transactions, in which the District receives value without directly giving equal value in return, requires tax revenues to be 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 and notes payable, compensated absences, postretirement obligations and claims and judgments, are recorded when the related fund liability is incurred. Principal and interest on bonds and notes payable, compensated absences, postretirement obligations and claims and judgments are recorded as fund liabilities when due and unpaid.

The District reports unearned revenue in both the government-wide and fund financial statements. Unearned revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned 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 unearned revenue is removed and revenue is recognized.

Allocation of Indirect Expenses

The District allocates certain building-related and operative and administrative costs to the Food Service Fund, and the Food Service Fund reimburses the General Fund for these expenses. It does not allocate any other indirect costs, including depreciation.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Budgetary Data

An operating budget is prepared 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 office, to prepare and submit a plan of financial operation to the School Board.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid asset funds, which are carried at cost. The District considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The District's investments are in certificates of deposit. Investments are carried at cost, which approximates fair value.

Inventories

General Fund inventories are valued at the lower of cost (first-in, first-out method) or market. A fund balance reserve equal to the value of the inventories is established to indicate that the inventories do not constitute expendable financial resources available for appropriation.

Food Service Fund inventories consist entirely of donated commodities, which are valued at fair market value as determined by the U.S. Department of Agriculture at the date of donation.

Capital Assets

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

All capital assets are stated at cost or estimated cost, net of accumulated depreciation. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,500. 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 are 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.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Depreciation is computed using the straight-line method (1/2 month convention) over the following estimated useful lives:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>
Land improvements	20 years	N/A
Buildings and improvements	45 years	N/A
Furniture and equipment	5-20 years	10 years

The District does not have any infrastructure capital assets.

If applicable, interest is capitalized on Food Service Fund 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. No interest was capitalized in 2017 and 2016.

Compensated Absences

The District's collective bargaining agreements with its professional, administrative, and support personnel specify the sick and vacation leave policies. The agreements provide for payment of accumulated sick leave, at retirement, based on years of service and days accumulated. The rate varies by position in accordance with collective bargaining agreements, compensation plans and individual employment agreements. Vacation leave is available only to administrative and twelve-month support employees. Vacation pay is earned in the year in which the service has been performed and generally must be used in the year earned.

Pensions

The District provides eligible employees with retirement benefits through the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan. PSERS was established as of July 18, 1917, under the provisions of Public Law 1043, No. 343.

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 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 the benefit terms and investments are reported at fair value.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Governmental Fund Balance Classifications

Fund balances are classified based on the level of constraints placed on the usage of fund resources.

- *Nonspendable* fund balances are amounts that cannot be spent because they are either not in spendable form or, are legally or contractually required to be maintained intact. Nonspendable fund balance consists entirely of inventories which are not considered to be in spendable form.
- *Restricted* fund balances are amounts that are restricted to specific purposes by constraints placed on their use that are externally imposed by creditors, grantors, contributions, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts reported in the Capital Reserve Fund are restricted by Pennsylvania law to expenditures for capital assets.
- *Committed* fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolution of the District's Board of School Directors. These amounts cannot be used for any other purpose unless the Board of School Directors removes or changes the specific use by taking the same action it employed to previously commit the amounts. In June 2017, the Board of School Directors committed \$7,020,109 of fund balance to balance the 2017-2018 budget.
- *Assigned* fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. The District's Board of School Directors has designated the Chief Financial Officer to assign fund balance amounts as deemed financially necessary and appropriate. At June 30, 2017, the Chief Financial Officer has assigned fund balance for compensated absences and retirement benefits - \$1,292,487, PSERS retirement contribution - \$1,880,287, educational resources - \$1,000,000, emergency capital replacement - \$1,500,000 and encumbrances - \$21,327.
- *Unassigned* fund balance is a residual classification and represents amounts that have not been assigned to other funds, and has not been restricted, committed or assigned to a specific purpose within the General Fund.

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 position.

Use of Restricted Net Position/Fund Balances

When an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to use restricted amounts first, and then unrestricted amounts as needed.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the net pension liability and deferred losses on debt refunding in this category.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Under the modified accrual basis of accounting, the District has an item that qualifies for reporting in this category. Accordingly, the item, unavailable revenues, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from real estate taxes not yet collected which are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also reports certain changes related to the net pension liability in this category.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Joint Ventures

The District participates with other school districts in Delaware County in the following joint ventures:

Delaware County Vocational-Technical School Authority

The Delaware County Vocational-Technical School Authority ("Vo-Tech Authority") is responsible for acquiring, holding, constructing, improving, and maintaining the vocational-technical school buildings used in providing vocational-technical education to students of Delaware County. The District is responsible for an allocated portion of the outstanding debt of the Vo-Tech Authority. The Vo-Tech Authority's financial statements are available from the Vo-Tech Authority, 200 Yale Avenue, Morton, PA 19070.

Community College of Delaware County Authority

The Community College of Delaware County Authority ("Authority") was responsible for acquiring, holding, constructing, improving and maintaining the Delaware County Community College facilities. During 1993, the Authority released all the land, building and furniture to the Delaware County Community College and as of December 31, 1993, the Authority is on "inactive status." The District is responsible for an allocated portion of the outstanding debt of the Community College of Delaware County and has included such in the accompanying statement of net position.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

2. Deposits and Investments

The Pennsylvania Public School Code of 1949, as amended, permits the District to invest only in certain types of investments. The District's deposits and investments adhere to these statutes.

Deposits with Financial Institutions and PSDLAF

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The District does not have a policy for custodial credit risk. At June 30, 2017, the bank balance of the District's deposits with financial institutions, including cash equivalents, was \$17,176,532 compared to the carrying amount of \$12,905,223. The difference is caused by items in-transit and outstanding checks. \$16,926,432 of the District's deposits were exposed to custodial credit risk at June 30, 2017 and were uninsured but 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.

The Pennsylvania School District Liquid Asset Fund ("Fund") contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each school district owns shares of the Fund, which invests the pooled assets. Since the Fund has the characteristics of a mutual fund, it is not subject to the disclosure requirements noted above. Due to the short term nature and liquidity of the investments held within these pools, the fair value of the underlying investments approximates amortized cost. Shares with PSDLAF can be withdrawn at any time in any amount, with no liquidity fees or redemption gates. At June 30, 2017, the carrying amount of the Fund was \$2,293,109.

Investments

The District's investments consist of the following:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>
Certificates of deposit	\$ 25,140,000	\$ 25,140,000	\$ -

The District was not exposed to custodial credit risk as all certificates of deposit were fully insured.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

3. Real Estate Taxes

The tax on real estate, as levied by the Board of School Directors, was 35.216 mills (\$35.216 per \$1,000 of assessed valuation) for fiscal year 2017. Delaware County determines the assessed value of property and the tax collector is responsible for collection. The District's Chief Financial Officer is the tax collector. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 31	10% penalty period
February 1	Lien date

In accordance with Act 1 of 2006, the District offers its taxpayers an installment option for paying real estate taxes. Under this option, taxpayers are allowed to pay the face amount (no discount allowed) of the tax bill in three installments: August 31, September 30 and October 31. If the taxpayer elects the installment option and then fails to make an installment by the required due date noted above, a 10% penalty is assessed on any delinquent installment.

The District does not maintain or participate in any tax abatement programs.

Delinquent real estate taxes receivable at June 30, 2017 totaled \$6,615,304 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$649,328. Taxes receivable also includes \$507 of interim taxes, \$280,786 of real estate transfer taxes receivable and \$671,881 of delinquent real estate taxes collected by Delaware County but not yet remitted to the District. Real estate tax revenue includes an offset of \$79,813 due to an increase in the allowance for doubtful accounts.

4. Due from Other Governments

Due from other governments consists of the following:

Governmental activities:	
Pennsylvania Department of Education:	
State source revenues	\$ 7,478,846
Federal source revenues	855,157
Other school districts,	
Local source revenues	<u>52,542</u>
Total governmental activities	<u>\$ 8,386,545</u>
Business-type activity:	
Pennsylvania Department of Education:	
State source revenues	\$ 38,735
Federal source revenues	<u>757,235</u>
Total business-type activity	<u>\$ 795,970</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2017

5. Capital Assets

The changes in the District's capital assets in 2017 are summarized as follows:

	<u>Balance June 30, 2016</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2017</u>
Governmental activities:				
Cost:				
Land	\$ 680,000	\$ -	\$ -	\$ 680,000
Land improvements	5,996,621	-	-	5,996,621
Buildings and improvements	110,433,483	180,053	-	110,613,536
Furniture and equipment	27,942,055	1,011,637	(287,578)	28,666,114
Construction-in-progress	<u>40,240</u>	<u>1,642,282</u>	<u>(1,191,690)</u>	<u>490,832</u>
Total cost	<u>145,092,399</u>	<u>2,833,972</u>	<u>(1,479,268)</u>	<u>146,447,103</u>
Less accumulated depreciation:				
Land improvements	(4,364,508)	(178,794)	-	(4,543,302)
Buildings and improvements	(60,020,557)	(2,429,232)	-	(62,449,789)
Furniture and equipment	<u>(23,396,744)</u>	<u>(766,160)</u>	<u>287,578</u>	<u>(23,875,326)</u>
Total accumulated depreciation	<u>(87,781,809)</u>	<u>(3,374,186)</u>	<u>287,578</u>	<u>(90,868,417)</u>
Total	<u>\$ 57,310,590</u>	<u>\$ (540,214)</u>	<u>\$ (1,191,690)</u>	<u>\$ 55,578,686</u>
Business-type activity:				
Furniture and equipment	\$ 1,042,858	\$ 205,796	\$ -	\$ 1,248,654
Less accumulated depreciation	<u>(788,364)</u>	<u>(60,080)</u>	<u>-</u>	<u>(848,444)</u>
Total	<u>\$ 254,494</u>	<u>\$ 145,716</u>	<u>\$ -</u>	<u>\$ 400,210</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2017

6. Bonds and Notes Payable

The following summarizes the changes in the District's bonds and note payable in 2017:

	<u>Interest Rates</u>	<u>Current Portion</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>
Series of 2010, to finance capital projects. Matures March 1, 2026	5.00 %	\$ 339,333	\$ 3,393,333	\$ -	\$ (339,335)	\$ 3,053,998
Series A of 2011, to finance capital projects. Matures September 1, 2025	5.09 %	26,857	268,572	-	(26,857)	241,715
Series of 2012, to advance refund Series B of 2004. Matures February 15, 2024	1.00 - 2.10 %	5,000	4,365,000	-	(5,000)	4,360,000
Series of 2014, to partially refund Series of 2005. Matures May 1, 2024	2.12 %	1,000	1,876,000	-	(1,000)	1,875,000
Series of 2015, to refund remainder of Series of 2005. Matures May 1, 2024	1.25 - 5.00 %	<u>2,910,000</u>	<u>17,080,000</u>	<u>-</u>	<u>(2,805,000)</u>	<u>14,275,000</u>
Total		<u>\$ 3,282,190</u>	26,982,905	-	(3,177,192)	23,805,713
Bond and note premiums			<u>1,330,478</u>	<u>-</u>	<u>(170,458)</u>	<u>1,160,020</u>
Total			<u>\$ 28,313,383</u>	<u>\$ -</u>	<u>\$ (3,347,650)</u>	<u>\$ 24,965,733</u>

Total interest paid on these bonds and notes in 2017 was \$1,000,794. No interest was capitalized in 2017. No interest is reported as a direct expense in the statement of activities.

The District issued the Series of 2010 and Series A of 2011 general obligation notes to the state Public School Building Authority to participate in the Authority's qualified school construction bond program. Under the program, the Authority issued qualified school construction bonds and loaned a portion of the proceeds to the District as secured by the general obligation notes. Interest on these notes is subsidized by the federal government. The District's subsidy rate for 2017 was 89.9% on the Series of 2010 and 93.1% on the Series A of 2011. In 2017, the District received \$246,827 in interest subsidies which is included in federal source revenues.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2018	\$ 3,282,190	\$ 916,593	\$ 4,198,783
2019	3,372,190	800,035	4,172,225
2020	3,442,190	750,088	4,192,278
2021	3,570,191	637,587	4,207,778
2022	3,048,190	490,422	3,538,612
2023-2026	<u>7,090,762</u>	<u>1,316,212</u>	<u>8,406,974</u>
Total	<u>\$ 23,805,713</u>	<u>\$ 4,910,937</u>	<u>\$ 28,716,650</u>

7. Authority Lease Obligations

The District's portion of authority bonds is allocated to the District based on the annual usage of the facility, as required by lease agreements. The agreements provide that, if the individual authorities retire all of the bonds issued to finance school facilities or accumulate sufficient reserves to retire the bonds, the subsequently scheduled rental payments need not be made. Since annual rentals include reserve funds that are either invested by the authorities or used for advance retirement of obligations, it is anticipated that less than the presently scheduled rentals will eventually be paid. At June 30, 2017, the District's authority lease obligations consisted of the following:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>
Delaware County Community College	<u>\$ 2,674,937</u>	<u>\$ -</u>	<u>\$ (204,745)</u>	<u>\$ 2,470,192</u>

Interest expense on authority lease obligations was \$99,960 in 2017.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

The aggregate maturities of authority lease obligations are as follows:

Years ending June 30:	
2018	\$ 221,205
2019	221,096
2020	220,801
2021	220,445
2022	212,652
2023-2027	963,006
2028-2032	947,487
2033-2035	<u>322,000</u>
Total lease payments	3,328,692
Less amount representing interest	<u>(858,500)</u>
Total authority lease obligations	<u>\$ 2,470,192</u>

8. Leases

Capital Lease Obligations

The District leases certain equipment under the terms of lease agreements that have been classified as capital leases. The following summarizes the changes in capital lease obligations in 2017:

Balance, July 1, 2016	\$ 3,675,579
Additions	1,798,432
Payments	<u>(1,831,179)</u>
Balance, June 30, 2017	<u>\$ 3,642,832</u>

The following is a schedule of future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments as of June 30, 2017:

Years ending June 30:	
2018	\$ 1,489,731
2019	1,139,833
2020	737,719
2021	<u>368,182</u>
Total minimum lease payments	3,735,465
Less amount representing interest	<u>(92,633)</u>
Present value of net minimum lease payments	<u>\$ 3,642,832</u>

Interest expense on capital leases was \$39,197 in in 2017.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Operating Leases

The District leases buildings for use as elementary schools and a recreation center. These leases have been accounted for as operating leases. Rent expense under these leases was \$512,412 in 2017. Future minimum payments under these leases are as follows:

Year ending June 30:		
2018	\$	520,585
2019		520,585
2020		520,585
2021		282,631
2022		33,123
Thereafter		<u>382,611</u>
Total minimum lease payments	\$	<u>2,260,120</u>

9. Retirement Plan

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in PSERS 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.pa.gov.

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied times the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of 5 years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Participants are eligible for disability retirement benefits after completion of 5 years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final 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 disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least 1 year of credited service (age 65 with at least 3 years of credited service for Class T-E and Class T-F members) or who has at least 5 years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS 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 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.5% (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 PSERS 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 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

District Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were \$24,310,046 for the year ended June 30, 2017.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017, the District reported a liability of \$301,702,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.6088%, which was an increase from its proportion measured as of June 30, 2015 of 0.5946%.

For the year ended June 30, 2017, the District recognized pension expense of \$31,985,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 16,815,000	\$ 2,513,000
Changes in assumptions	10,891,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	28,260,000	16,389,000
District contributions subsequent to the measurement date	<u>24,310,046</u>	<u>-</u>
Total	<u>\$ 80,276,046</u>	<u>\$ 18,902,000</u>

\$24,310,046 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2018	\$ 6,235,000
2019	6,235,000
2020	17,022,000
2021	<u>7,572,000</u>
Total	<u>\$ 37,064,000</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2017

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 assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016

- The Investment Rate of return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Health Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to 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 change in assumptions resulted in an increase of \$10,891,000 which will be recognized in pension expense over the next four years.

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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity (hedged)	22.5 %	5.3 %
Fixed income	28.5	2.1
Commodities	8.0	2.5
Absolute return (HF)	10.0	3.3
Risk parity	10.0	3.9
Infrastructure/MLPs	5.0	4.8
Real estate	12.0	4.0
Alternative investments (PE)	15.0	6.6
Cash	3.0	0.2
Financing (LIBOR)	(14.0)	0.5
	100.0 %	

The above was the PSERS 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 plan 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 District's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.20%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 369,063,000	\$ 301,702,000	\$ 245,099,000

Upper Darby School District

Notes to Financial Statements

June 30, 2017

10. Employee Benefits

Compensated Absences

The changes in compensated absences in 2017 are summarized as follows:

Balance, July 1, 2016	\$ 2,481,877
Increases	396,095
Decreases	<u>(99,162)</u>
Balance, June 30, 2017	<u>\$ 2,778,810</u>

Special Termination Benefits

The District's current agreement with its administrators includes a retirement incentive provision (must be employed as an administrator prior to July 1, 2012 and must retire with a minimum ten years of service as an administrator to the District) equal to 75% of the administrator's final salary. Payments made under this provision are non-elective employer contributions to the employees' 403(b) accounts in accordance with IRS regulations. The District has recorded a liability of \$1,177,545 for this benefit based on the present value of the expected retirement incentive amount and the probability that the administrator will receive such incentive. The benefit is funded on a pay-as-you-go basis.

Changes in the special termination benefits in 2017 were as follows:

Balance, July 1, 2016	\$ 1,510,075
Increases	534,679
Payments and other decreases	<u>(867,209)</u>
Balance, June 30, 2017	<u>\$ 1,177,545</u>

Other Postemployment Benefits ("OPEB")

Plan Description

The District provides postemployment healthcare benefits for certain administrative employees who qualify to retire under PSERS and for other administrative employees who meet minimum District and PSERS service requirements. Such benefits are provided until age 65. Subsequent to age 65, coverage may be continued by paying 102% of the cost of such coverage. In addition, retired teachers and support staff may participate by paying 102% of the cost of such coverage. The plan is unfunded and no financial report is prepared.

In 2017, the District engaged an actuary to calculate its OPEB amounts. Prior to 2017, the District calculated such amounts internally. As such, no prior year information is available. The effect of the change in calculation is not considered material to the District's financial statements.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of School Directors. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees.

Annual OPEB Cost and Net OPEB Obligation

The annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution of the District ("ARC"), an actuarially determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The District is amortizing the unfunded actuarial liabilities over 16 years. The following shows the components of the annual OPEB cost for 2017, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Annual required contribution	\$ 1,163,267
Interest on net OPEB obligation	79,198
Adjustment to annual required contribution	<u>(108,047)</u>
Annual OPEB cost	1,134,418
Contributions made (estimated)	<u>(408,300)</u>
Increase in net OPEB obligation	726,118
Net OPEB obligation at July 1, 2016	<u>1,759,960</u>
Net OPEB obligation at June 30, 2017	<u>\$ 2,486,078</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Years Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 1,134,418	36%	\$ 2,486,078

Upper Darby School District

Notes to Financial Statements

June 30, 2017

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability ("AAL")	\$ 9,213,259
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability ("UAAL")	<u>\$ 9,213,259</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll	<u>\$ 73,248,712</u>
UAAL as a percentage of covered payroll	<u>12.6%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided under the terms of the District's retirement benefits plan at the time of the valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, the entry age normal cost method was used. Under this method, the normal cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The actuarial accrued liability is the excess of the present value of future benefits over the present value of future normal cost. The difference between the actuarial liability and the funds accumulated as of the valuation date is referred to as the unfunded actuarial liability.

The actuarial assumptions included a 4.5% investment rate of return, which is the expected rate to be earned on the District's deposits and investments. The health care cost trend rate is 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

11. Internal Balances/Interfund Balances and Transfers

At June 30, 2017, \$703,481 was due from the Food Service Fund to the General Fund. The amount due to the General Fund represents reimbursement of maintenance, utility, operative and administrative salaries and benefits. This balance was paid in the subsequent year. The following summarizes interfund transfers in 2017:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund, Food Service Fund	\$ 703,481	\$ -
Food Service Fund, General Fund	-	703,481
Total	<u>\$ 703,481</u>	<u>\$ 703,481</u>

12. Contingencies

The District is involved, from time to time, in various lawsuits. 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.

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 any expenditure that may be disallowed pursuant to the terms of these grant programs. The District is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

13. Pending Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. To the extent applicable, the District is required to adopt Statement No. 75 for its fiscal 2018 financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution requirements. The District is required to adopt Statement No. 82 for its fiscal 2018 financial statements.

Upper Darby School District

Notes to Financial Statements

June 30, 2017

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The District is required to adopt Statement No. 84 for its fiscal 2020 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). To the extent applicable, the District is required to adopt Statement No. 85 for its fiscal 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The District is required to adopt Statement No. 86 for its fiscal 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that all long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying asset. The District is required to adopt Statement No. 87 for its fiscal 2021 financial statements.

District management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the District's financial statements.

Upper Darby School District

Schedule of Funding Progress - Other Postemployment Benefits

Year Ended June 30, 2017

(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2016	\$ -	\$ 9,213,259	\$ 9,213,259	0%	\$ 73,248,712	12.6%

Upper Darby School District

Schedule of the District's Proportionate Share of the Net Pension Liability

Year Ended June 30, 2017

(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the PSERS net pension liability	<u>0.6088%</u>	<u>0.5946%</u>	<u>0.5030%</u>
District's proportionate share of the PSERS net pension liability	<u>\$ 301,702,000</u>	<u>\$ 257,552,000</u>	<u>\$ 199,091,000</u>
District's covered-employee payroll	<u>\$ 78,840,087</u>	<u>\$ 76,504,532</u>	<u>\$ 64,181,628</u>
District's proportionate share of the PSERS net pension liability as a percentage of its covered-employee payroll	<u>382.7%</u>	<u>336.6%</u>	<u>310.2%</u>

Upper Darby School District

Schedule of District Contributions

Year Ended June 30, 2017

(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 24,310,046	\$ 20,503,460	\$ 16,481,596
Contributions in relation to the contractually required contribution	<u>24,310,046</u>	<u>20,503,460</u>	<u>16,481,596</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 80,753,245</u>	<u>\$ 79,288,065</u>	<u>\$ 76,504,532</u>
Contributions as a percentage of covered-employee payroll	<u>30.1%</u>	<u>25.9%</u>	<u>21.5%</u>

Upper Darby School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Program or Award Amount	Total Received for the Year	Passed Through to Subrecipients	Accrued (Deferred) Revenue at July 1, 2016	Revenue Recognized	Total Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2017
U. S. DEPARTMENT OF EDUCATION									
Passed through Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-160448	\$ 3,805,825	\$ 753,838	\$ -	\$ 635,495	\$ 118,343	\$ 118,343	\$ -
Title I Grants to Local Educational Agencies	84.010	013-170448	4,174,248	3,105,396	-	-	3,759,746	3,759,746	654,350
Title I Grants to Local Educational Agencies	84.010	042-150448	163,307	28,819	-	10,402	18,417	18,417	-
Title I Grants to Local Educational Agencies	84.010	042-160448	169,662	107,155	-	-	150,010	150,010	42,855
Total Title I Grants to Local Educational Agencies				3,995,208	-	645,897	4,046,516	4,046,516	697,205
English Language Acquisition State Grants	84.365	010-150448	247,583	29,280	-	29,280	-	-	-
English Language Acquisition State Grants	84.365	010-160448	279,858	96,874	-	28,309	68,565	68,565	-
English Language Acquisition State Grants	84.365	010-170448	276,104	147,255	-	-	162,781	162,781	15,526
Total English Language Acquisition State Grants				273,409	-	57,589	231,346	231,346	15,526
Supporting Effective Instruction State Grant	84.367	020-160448	448,671	59,377	-	47,255	12,122	12,122	-
Supporting Effective Instruction State Grant	84.367	020-170448	437,385	351,305	-	-	437,365	437,365	86,060
Total Supporting Effective Instruction State Grant				410,682	-	47,255	449,487	449,487	86,060
School Improvement Grants	84.377	0142-150448	128,016	29,542	-	5,353	24,189	24,189	-
School Improvement Grants	84.377	0142-160448	121,916	81,277	-	-	87,118	87,118	5,841
Total School Improvement Grants				110,819	-	5,353	111,307	111,307	5,841
Special Education Cluster									
Passed through Delaware County Intermediate Unit:									
Special Education Grants to States (IDEA, Part B)	84.027	H027A110093	1,901,640	1,901,640	-	-	1,901,640	1,901,640	-
Special Education - Preschool Grants (IDEA Preschool)	84.173	H39211009	7,305	7,305	-	-	7,305	7,305	-
Passed through PaTTAN Intermediate Unit 1:									
Special Education Grants to States (IDEA, Part B)	84.027	062-17-0-0032	10,000	-	-	-	9,733	9,733	9,733
Total Special Education Cluster				1,908,945	-	-	1,918,678	1,918,678	9,733
Total U.S. Department of Education				6,699,063	-	756,094	6,757,334	6,757,334	814,365
U.S. DEPARTMENT OF AGRICULTURE									
Child Nutrition Cluster									
Passed through Pennsylvania Department of Education:									
School Breakfast Program	10.553	365	2,053,238	1,832,022	-	71,178	2,053,237	2,053,237	292,393
National School Lunch Program	10.555	362	3,204,286	2,841,204	-	101,759	3,204,286	3,204,286	464,841
Passed through Pennsylvania Department of Agriculture:									
Food Donation	10.555	N/A	320,761	320,761	-	-	320,761	320,761	-
Total Child Nutrition Cluster/U.S. Department of Agriculture				4,993,987	-	172,937	5,578,284	5,578,284	757,234
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Pennsylvania Department of Public Welfare:									
Medical Assistance Program/Medicaid Cluster	93.778	044-007448	103,865	111,312	-	57,942	103,895	103,895	50,525
Total				\$ 11,804,362	\$ -	\$ 986,973	\$ 12,439,513	\$ 12,439,513	\$ 1,622,124

See notes to schedule of expenditures of federal awards

Upper Darby School District

Notes to Schedule of Expenditures of Federal Awards

June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Upper Darby School District (the "District") under programs of the federal government for the year ended June 30, 2017. 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"). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. If applicable, negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The District elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Independent Auditors' 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***

Board of School Directors
Upper Darby 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 activity, each major fund, and the aggregate remaining fund information of the Upper Darby School District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 28, 2017

**Independent Auditors' Report on Compliance
for Each Major Federal Program and Report
on Internal Control Over Compliance
Required by the Uniform Guidance**

Board of School Directors
Upper Darby School District

Report on Compliance for Each Major Federal Program

We have audited Upper Darby School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 28, 2017

Upper Darby School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) _____ yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 84.027, 84.173	Title I Grants to Local Educational Agencies Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.