

# **Upper Darby School District**

Financial Statements and  
Supplementary Information

June 30, 2016



**BAKER TILLY**

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# Upper Darby School District

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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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **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, 2016, 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 20, the schedule of the District's proportionate share of the net pension liability on page 54, and the schedule of the District's contributions on page 55, 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, 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 23, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Baker Tilly Viechow Krause, LLP*

Philadelphia, Pennsylvania  
November 23, 2016

# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

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, 2016. 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 2015-16, there were 1,798 employees (full/part time) in the District, consisting of 926 teachers/professional staff, 57 administrators, including general administration, principals and supervisors, and 815 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 2015-2016 fiscal year of \$178,048,487. 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 2015-2016 fiscal year, the District had an increase in total net position of \$361,380. The net position of governmental activities increased by \$40,208 and net position of business-type activities increased by \$321,172.

- The General Fund reported an increase in fund balance of \$1,069,213, bringing the cumulative balance to \$24,214,857 at the conclusion of the 2015-2016 fiscal year.
- At June 30, 2016, the General Fund balance includes \$379,548 which is considered nonspendable; \$6,500,000 committed funds to balance the 2016-2017 General Fund expenditure budget; \$1,560,000 assigned to retirement rate stabilization, \$635,381 for other post-retirement benefits, and \$17,910 for reserve for encumbrances; and unassigned amounts of \$15,122,018 or 8.00% of the \$189,025,525 2016-2017 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a district to maintain a maximum General Fund balance of 8% of the following year's expenditure budget.
- Total General Fund revenues and other financing sources were \$181,868,490 or 2.85% more than budgeted amounts and total General Fund expenditures and other financing uses were \$180,799,277 or 0.82% more than budgeted amounts resulting in a net positive variance of \$1,069,213.

# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

## 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 21 and 22 of this report.



# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

## **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 23 through 26 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 27 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 28 through 30 of this report.

# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

## **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 31 and 32 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 33 through 53 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 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 2015-2016 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 2015-2016 fiscal year of \$178,048,487, which includes an allocation of net pension liability and deferred inflows from resources, net of deferred outflows of resources of \$231,566,540 (representing approximately 0.5946% 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, 2016

The following table presents condensed information for the Statement of Net Position (Deficit) of the District at June 30, 2016 and 2015:

	Condensed Statement of Net Position							
	Governmental Activities		Business-Type Activities		Total		Net Change	% Change
	2016	2015	2016	2015	2016	2015		
	(In Thousands)							
Assets and deferred outflows of resources								
Current assets	\$ 56,383	\$ 54,409	\$ 2,690	\$ 2,451	\$ 59,073	\$ 56,860	\$ 2,213	3.89 %
Noncurrent assets	59,893	59,079	-	199	59,893	59,278	615	1.04
Deferred outflows of resources	51,581	16,482	254	-	51,835	16,482	35,353	214.49
Total assets and deferred outflows of resources	<u>\$ 167,857</u>	<u>\$ 129,970</u>	<u>\$ 2,944</u>	<u>\$ 2,650</u>	<u>\$ 170,801</u>	<u>\$ 132,620</u>	<u>\$ 38,181</u>	<u>28.79 %</u>
Liabilities								
Current liabilities	\$ 30,552	\$ 28,048	\$ 437	\$ 464	\$ 30,989	\$ 28,512	\$ 2,477	8.69 %
Noncurrent liabilities	292,256	236,631	-	-	292,256	236,631	55,625	23.51
Deferred inflows of resources	25,605	45,887	-	-	25,605	45,887	(20,282)	(44.20)
Total liabilities and deferred inflows of resources	<u>\$ 348,413</u>	<u>\$ 310,566</u>	<u>\$ 437</u>	<u>\$ 464</u>	<u>\$ 348,850</u>	<u>\$ 311,030</u>	<u>\$ 37,820</u>	<u>12.16 %</u>
Net Position								
Net investment in capital assets	\$ 25,321	\$ 23,002	\$ 254	\$ 200	\$ 25,575	\$ 23,202	\$ 2,373	10.23 %
Restricted	2,580	3,282	-	-	2,580	3,282	(702)	(21.39)
Unrestricted	(208,457)	(206,880)	2,253	1,986	(206,204)	(204,894)	(1,310)	0.64
Total net position	<u>(180,556)</u>	<u>(180,596)</u>	<u>2,507</u>	<u>2,186</u>	<u>(178,049)</u>	<u>(178,410)</u>	<u>361</u>	<u>(0.20)</u>
Total liabilities and net position	<u>\$ 167,857</u>	<u>\$ 129,970</u>	<u>\$ 2,944</u>	<u>\$ 2,650</u>	<u>\$ 170,801</u>	<u>\$ 132,620</u>	<u>\$ 38,181</u>	<u>28.79 %</u>

The District's total assets and deferred outflows of resources as of June 30, 2016 were \$170,801,059 of which \$41,043,254 or 24.03% consisted of cash and investments and \$57,565,084 or 34.7% consisted of the District's investment in capital assets. The District's total liabilities and deferred inflows of resources as of June 30, 2016 were \$348,849,546 of which \$28,313,383 or 8.12% consisted of general obligation debt used to acquire and construct capital assets and \$283,148,000 consisted of net pension liability and deferred inflows of resources or 81.17%.

The District has a total unrestricted negative net position of \$206,204,610 at June 30, 2016. The District's unrestricted negative net position increased \$1,311,165 over its negative net position of \$204,893,445 in the prior year.

A portion of the District's net position reflects its restricted net position which totaled \$2,580,001 as of June 30, 2016. 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, 2016

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, 2016, the District's net investment in capital assets was \$25,576,122, an increase of \$2,374,546, because the debt used to acquire the capital assets was refunded and 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 2016 and 2015:

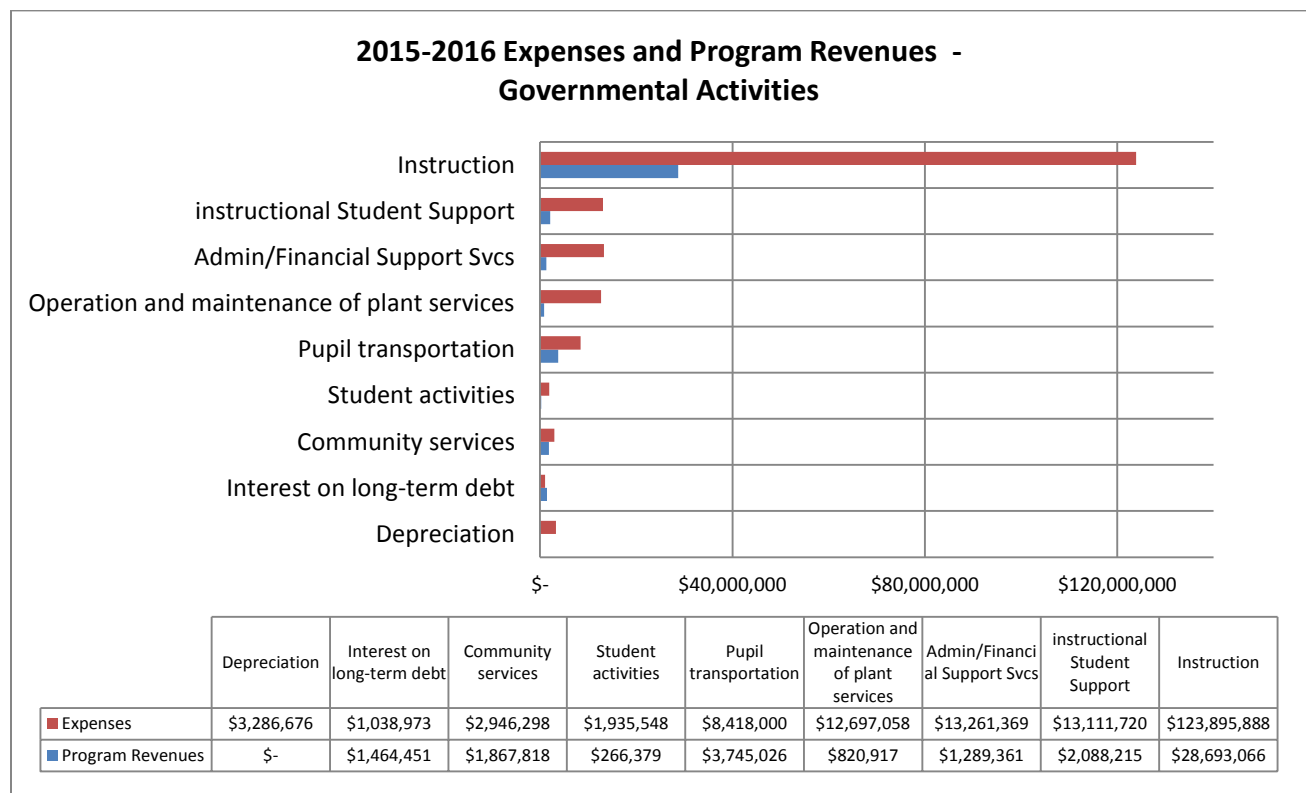
	Condensed Statement of Activities							
	Governmental Activities		Business-Type Activities		Total		Net Change	% Change
	2016	2015	2016	2015	2016	2015		
	(In Thousands)							
Program revenues:								
Charges for services	\$ 1,631	\$ 1,641	\$ 905	\$ 1,035	\$ 2,536	\$ 2,676	\$ (140)	(5.23) %
Operating grants and contributions	38,604	35,587	5,655	5,171	44,259	40,758	3,501	8.59
General revenues:								
Taxes levied for general purposes, net	104,166	101,650	-	-	104,166	101,650	2,516	2.48
Grants, subsidies and contributions not restricted	35,072	33,843	-	-	35,072	33,843	1,229	3.63
Other	1,159	683	(516)	(429)	643	254	389	153.15
<b>Total revenues</b>	<b>180,632</b>	<b>173,404</b>	<b>6,044</b>	<b>5,777</b>	<b>186,676</b>	<b>179,181</b>	<b>7,495</b>	<b>4.18</b>
Program expenses:								
Instruction	123,896	101,992	-	-	123,896	101,992	21,904	21.48
Instructional student support	13,112	10,917	-	-	13,112	10,917	2,195	20.11
Administration and financial support services	13,261	10,283	-	-	13,261	10,283	2,978	28.96
Operation and maintenance of plant services	12,697	11,809	-	-	12,697	11,809	888	7.52
Pupil transportation	8,418	6,882	-	-	8,418	6,882	1,536	22.32
Student activities	1,936	1,600	-	-	1,936	1,600	336	21.00
Community services	2,946	2,570	-	-	2,946	2,570	376	14.63
Interest on long-term debt	1,039	3,144	-	-	1,039	3,144	(2,105)	(66.95)
Unallocated depreciation	3,287	3,235	-	-	3,287	3,235	52	1.61
Food service	-	-	5,723	5,608	5,723	5,608	115	2.05
<b>Total expenses</b>	<b>180,592</b>	<b>152,432</b>	<b>5,723</b>	<b>5,608</b>	<b>186,315</b>	<b>158,040</b>	<b>28,275</b>	<b>17.89</b>
Change in net position	40	20,972	321	169	361	21,141	(20,780)	(98.29)
Net position (deficit), beginning	(180,596)	(201,568)	2,186	2,017	(178,410)	(199,551)	21,141	(10.59)
Net position (deficit), ending	<u>\$ (180,556)</u>	<u>\$ (180,596)</u>	<u>\$ 2,507</u>	<u>\$ 2,186</u>	<u>\$ (178,049)</u>	<u>\$ (178,410)</u>	<u>\$ 361</u>	<u>(0.20) %</u>

# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

Overall, the District's financial position has been improving, but challenges such as increased special education costs, charter school tuition, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. 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%.

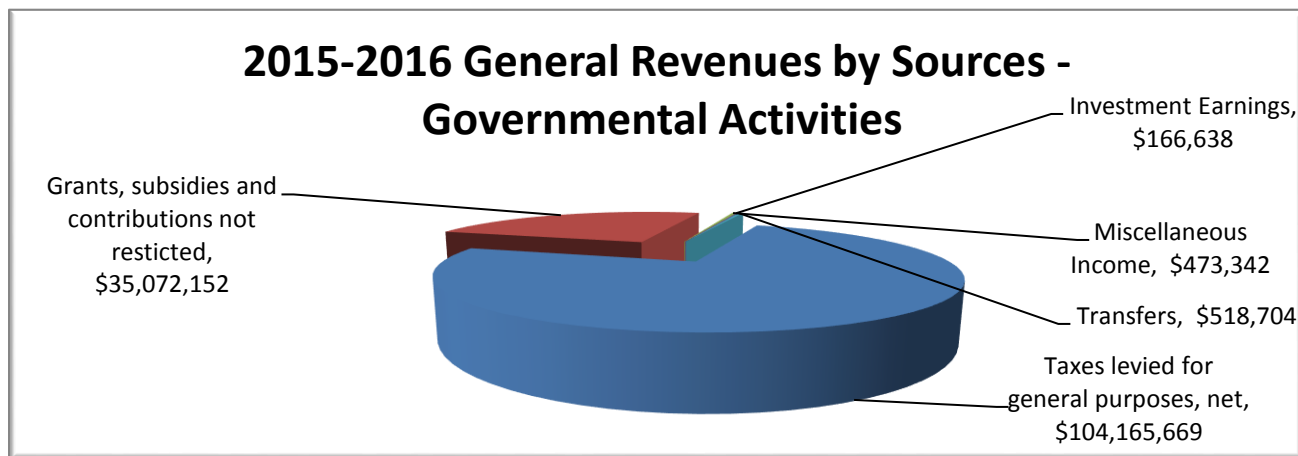
The Statement of Activities focuses on how the District finances its services. The Statement of Activities compares the cost of the District's functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph,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



## Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

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, 2016, the District's governmental funds reported a combined fund balance of \$26,794,858, which is an increase of \$367,212 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2016 and 2015 and the total 2016 change in governmental fund balances.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund	\$ 24,214,857	\$ 23,145,644	\$ 1,069,213
Capital Reserve Fund	2,580,001	3,282,002	(702,001)
Total	<u>\$ 26,794,858</u>	<u>\$ 26,427,646</u>	<u>\$ 367,212</u>

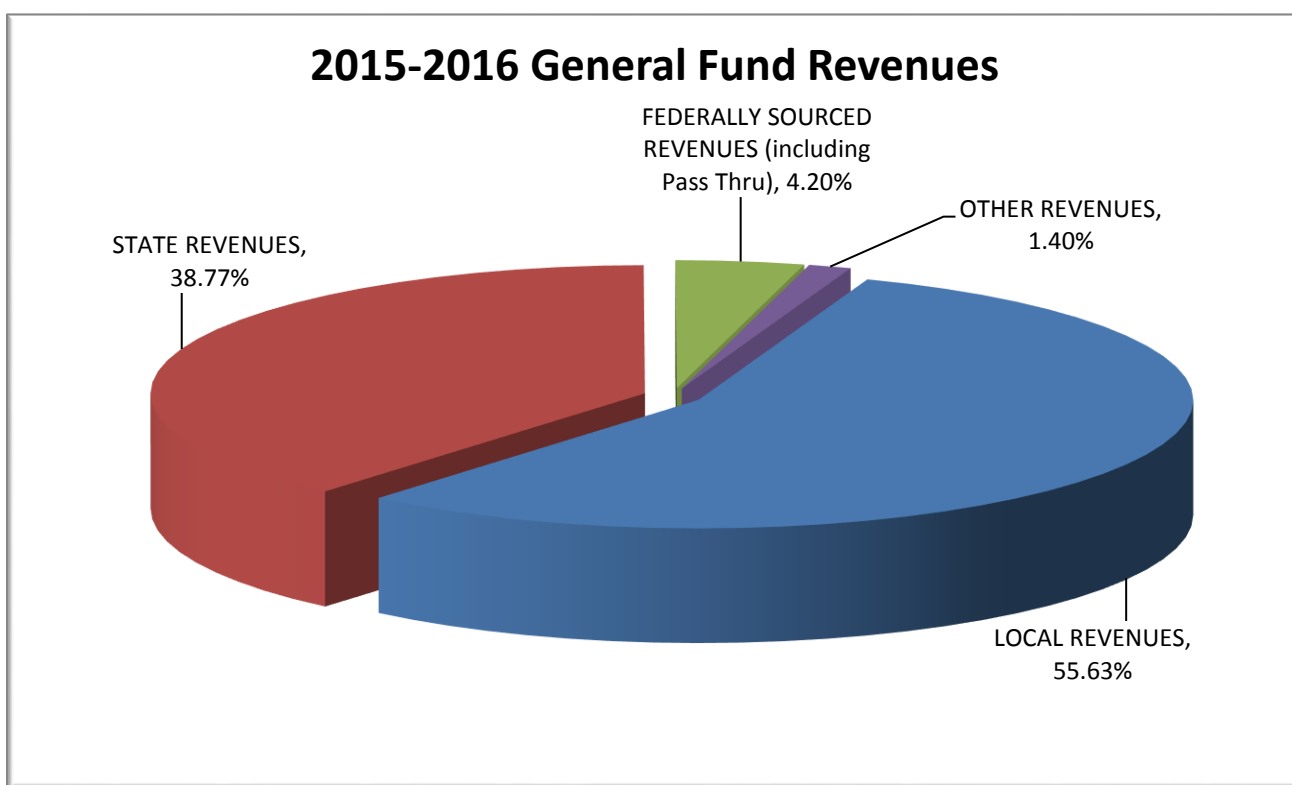
# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

## General Fund

The General Fund is the District's primary operating fund. At the conclusion of the 2015-2016 fiscal year, the General Fund "Fund Balance" was \$24,214,857 representing an increase of \$1,069,213 in relation to the prior year. The increase in the District's General Fund "Fund Balance" is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2015-2016 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 55.63% of General Fund revenues are derived from local taxes.



## General Fund Revenues

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>	<u>% Change</u>
Tax revenues	\$ 103,605,385	\$ 101,028,865	\$ 2,576,520	2.55 %
Other local revenues	2,704,084	2,303,482	400,602	17.39
State revenues	65,376,093	61,035,225	4,340,868	7.11
Federally sourced revenues (including pass-thru)	7,643,599	8,251,632	(608,033)	(7.37)
Other	2,020,625	1,969,967	50,658	2.57
Transfer in	518,704	444,262	74,442	16.76
<b>Total</b>	<u>\$ 181,868,490</u>	<u>\$ 175,033,433</u>	<u>\$ 6,835,057</u>	<u>3.91 %</u>

## Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

Net tax revenues increased by \$2,576,520 or by 2.55% in 2016 due to several factors: a millage increase of 1.80%; unanticipated transfer taxes related to sales of commercial properties and an increase in delinquent taxes collected. The following table summarizes and compares the changes in the District's tax revenues for the 2016 and 2015 fiscal-years:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>	<u>% Change</u>
Real estate tax	\$ 90,684,113	\$ 89,473,867	\$ 1,210,246	1.35 %
Interim real estate tax	81,504	15,356	66,148	430.76
PURTA tax	110,788	115,298	(4,510)	(3.91)
Transfer tax	2,450,179	1,375,531	1,074,648	78.13
Delinquent tax	5,136,634	4,906,267	230,367	4.70
State property tax reduction	<u>5,142,167</u>	<u>5,142,547</u>	<u>(380)</u>	<u>(0.01)</u>
Total	<u>\$ 103,605,385</u>	<u>\$ 101,028,866</u>	<u>\$ 2,576,519</u>	<u>2.55 %</u>

State revenues increased \$4,340,868 or 7.11% in 2016 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 (21.4% to 25.84%). Other significant increases are in the special education funding due to claims for extraordinary costs reimbursements and out-of-state reimbursements; increases in the block grant programs and transportation subsidy.

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>	<u>% Change</u>
Instruction/block and misc. grants	\$ 36,844,851	\$ 35,462,933	\$ 1,381,918	3.90 %
Special education	7,624,547	7,244,668	379,879	5.24
Transportation	2,758,311	2,469,875	288,436	11.68
Rental/leasing fund	1,217,712	1,616,488	(398,776)	(24.67)
Social security and retirement	16,310,743	13,597,916	2,712,827	19.95
Other	<u>619,930</u>	<u>643,345</u>	<u>(23,415)</u>	<u>(3.64)</u>
Total	<u>\$ 65,376,094</u>	<u>\$ 61,035,225</u>	<u>\$ 4,340,869</u>	<u>7.11 %</u>

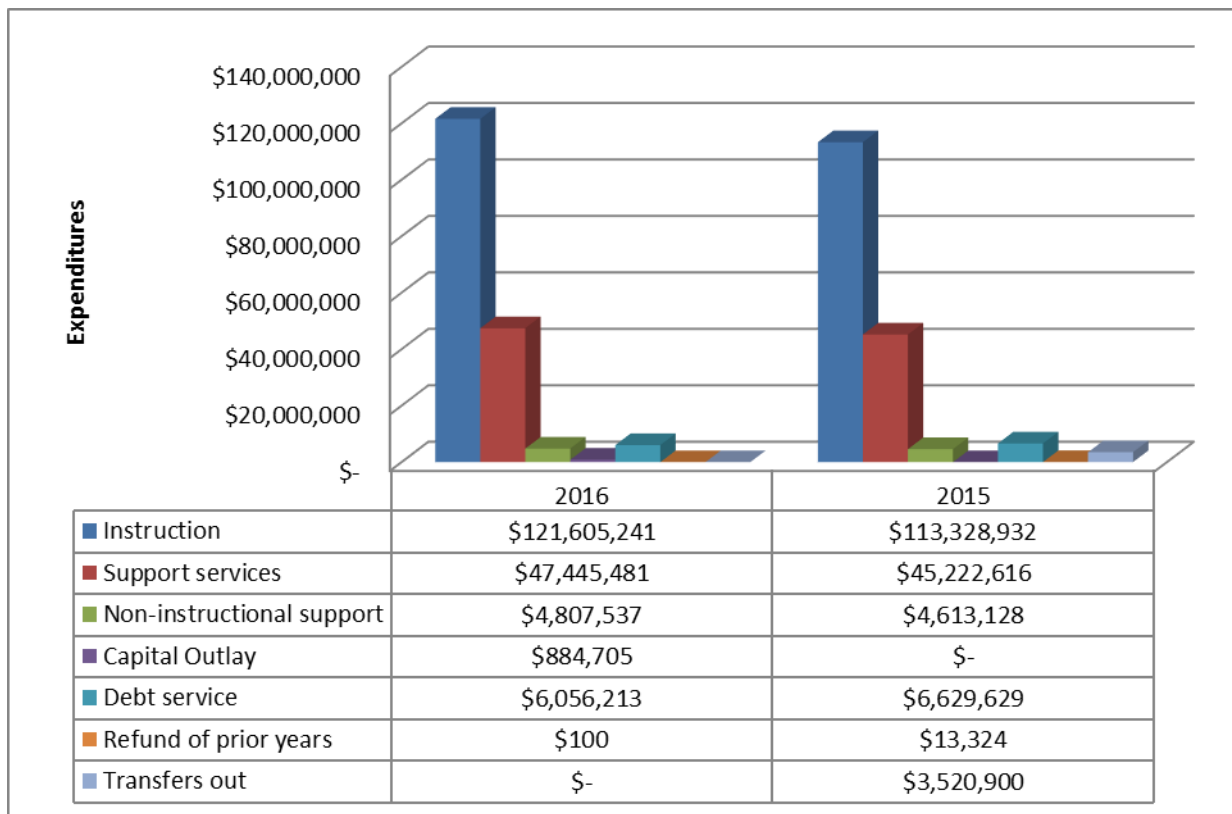
Federal revenue decreased \$608,033 or 7.37% in 2016 due to overall cuts in federal programs, primarily in the Medical Access Program.



# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

## General Fund Expenditures and Other Financing Uses



	2016	2015	Net Change	% Change
Instruction	\$ 121,605,241	\$ 113,328,932	\$ 8,276,309	6.81 %
Support services	47,445,481	45,222,616	2,222,865	4.69
Non-instructional support	4,807,537	4,613,128	194,409	4.04
Debt service	6,056,213	6,629,629	(573,416)	(9.47)
Capital outlay	884,705	-	884,705	100.00
Refund of prior years	100	13,324	(13,224)	-
Transfers out	-	3,520,900	(3,520,900)	-
<b>Total</b>	<b>\$ 180,799,277</b>	<b>\$ 173,328,529</b>	<b>\$ 7,470,748</b>	<b>4.13 %</b>

Expenditures increased \$7,470,748 in 2016. The most significant component of the increase relates to the increase in District retirement costs of \$4,022,298 which accounts for 53.84% of the increase over 2015. Other significant factors included \$2,451,244 in salaries, primarily the result of contractually obligated pay increases; \$2,119,476 in purchased services; \$2,440,897 in outside placements costs of special education students and charter school tuition. Offsetting factors to the above were transfers in the prior year (\$3,520,900) that did not occur in 2016 as well as lower debt service.

## **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

### **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 2015-2016, the Capital Reserve Fund reported a decrease in fund balance of \$702,001. The remaining fund balance of \$2,580,001 as of June 30, 2016 is restricted for capital expenditures.

There were no significant capital projects in progress at June 30, 2016.

### **General Fund Budget Information**

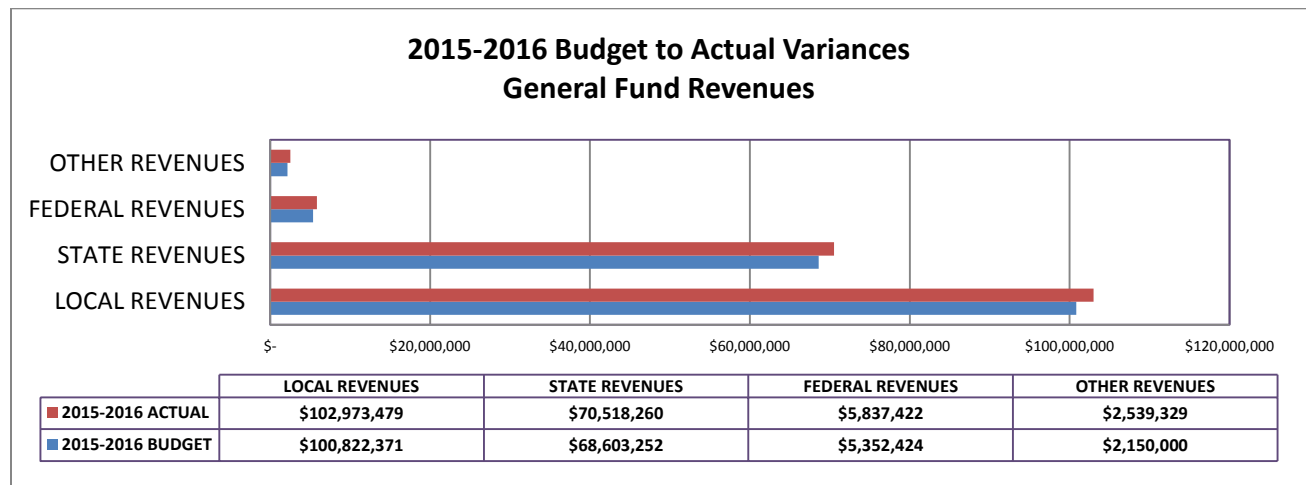
The District maintains its financial records and prepares its financial statements on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and 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 original approved budget for 2016 included \$176,928,047 of revenues and other financing sources and \$179,428,047 of expenditures and other financing uses. The District committed \$2,500,000 to be used from its unassigned fund balance to cover the shortfall.

# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

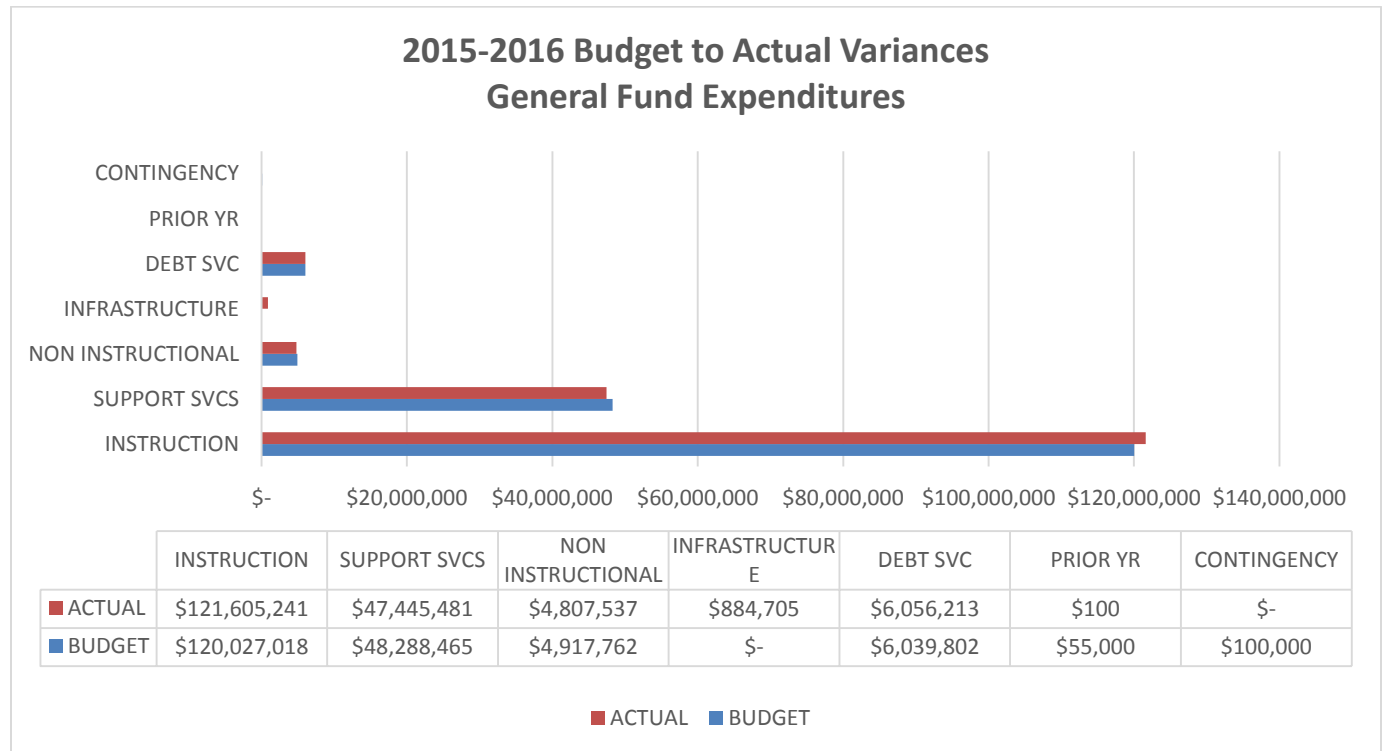
Actual revenues and other financing sources were \$4,940,443 more than the final budgeted amounts and actual expenditures and other financing uses were \$1,371,230 more than the final budgeted amounts resulting in a net overall positive variance of \$1,069,193 as the funds committed to cover the projected shortfall in the amount of \$2,500,000 were not used. Major budgetary highlights for 2015-2016 were as follows:



- Local revenues received were \$2,151,108 more than budgeted amounts primarily due to better than anticipated collection of transfer and delinquent taxes.
- State revenues received were \$1,915,008 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 \$484,998 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, 2016



- Total actual expenditures and other financing used were over budget by \$1,371,230.
- Actual expenditures for instruction were over budget by \$1,578,223. The main components under the area of instruction are Regular and Special Education.
  - In the area of Regular Education, the District realized a savings \$1,137,800 in salaries and benefits. Despite contractual increases, required increases in annual retirement contributions, and increased cost in purchased services related to staffing shortages, the savings was the result of a significant amount of staff turnover and leave of absences.
  - In the area of Special Education, the District exceeded budget by \$2,620,905. 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 in the increased cost of purchased services related to the service charges by the Delaware County Intermediate Unit (“DCIU”) in the performance of the special education service and early intervention contracts, \$201,922; an increase of \$737,828 in subcontracted staffing costs related to employee turnover and staffing shortages; and \$2,396,361 in tuition costs for charter school and outside placements.
  - Savings of \$162,410 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.

## Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

### 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 2015-2016, the net position of the business-type activity/proprietary fund increased by \$321,172. As of June 30, 2016, the business-type activity/proprietary fund had net position of \$2,507,044.

### Capital Assets

The District's capital assets at June 30, 2016 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	110,433,483	-	110,433,483
Furniture and equipment	27,942,055	1,042,858	28,984,913
Construction in progress	40,240	-	40,240
	<hr/>	<hr/>	<hr/>
Total	145,092,399	1,042,858	146,135,257
	<hr/>	<hr/>	<hr/>
Less accumulated depreciation	87,781,809	788,364	88,570,173
	<hr/>	<hr/>	<hr/>
Net capital assets	<u>\$ 57,310,590</u>	<u>\$ 254,494</u>	<u>\$ 57,565,084</u>

Current year capital additions, net of retirements, were \$2,340,404.

Major capital additions placed in service in 2016 included:

UDHS Roof Building B	\$ 553,333
UDHS Cooling Towers	701,089
UDHS Water Towers	428,424
Performing Arts Sound System	408,248
Primos Playground	190,000
(3) 72 Passenger Buses	271,650
(4) 48 Passenger Buses	389,580

### Long Term Debt

At July 1, 2015, the principal or face amount of the District's general obligation debt was \$29,985,095. During the year, the District made principal payments of \$3,002,190. The principal or face amount balance of outstanding debt at June 30, 2016 is \$26,982,905.

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 5.74% of its legal limit of \$396 million. In the 2016-2017 school year, \$3,177,190 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.

## Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2016

### 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 are being 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 is the 13<sup>th</sup> most underfunded school district in the State.
- The District adopted a 2016-2017 budget totaling \$189,025,525. The 2016-2017 budget included approximately \$538 thousand dollars (net of savings realized through attrition) in staffing needs and other academic supports to the District that had been previously cut over the course of the past five years. The real estate millage rate was not increased (remaining at 35.216) due to the level of prior year surpluses and anticipated surplus in the 2015-2016 year. \$6,500,000 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 expiring on June 30, 2018. The contract requires average salary increases of 2.7% in 2015-16, 1.3% in 2016-2017 and 4.3% in 2017-18. Employee medical contributions will increase by a maximum of 1% for both the 2016-17, and 2017-18 school years, if the District's cost increases.
- In September 2015, the Upper Darby Education Support Personnel Association ("UDESPA") agreed to a three year contract extension expiring on June 30, 2018. The contract provides for minimum increases of 3% for each year of the contract. Starting salaries have not been adjusted for over 25 years, which has resulted in a difficult hiring environment. Therefore, for full time UDESPA employees, minimum salary levels were developed over the course of the contract for current and new hires. New salary levels were also developed for 10-month UDESPA employees, along with a change for all new hires to receive single benefits only.
- The District negotiated a contract with the Transit Workers' Union ("TWU") whose contract expires on June 30, 2017. TWU bargains for maintenance, custodial and transportation employees. The contract calls for salary increases of 2.5% for 2016 and 2.2% for 2017.

## Upper Darby School District

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Management's Discussion and Analysis

(Unaudited)

June 30, 2016

- 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 2017-2018 is projected at 32.04%. Currently, the employer contribution rate for 2016-2017 is 30.024%, which is an increase of 16.18% from the 2015-2016 employer contribution rate of 25.84%. It is estimated that the increase in the employer contribution rate for 2017-2018 will increase the District's retirement expense by approximately \$2,575,000, of which the District's share is estimated at \$930,000.
- The District continues to face overcapacity issues. In June 2015, the School Board of Directors approved a resolution directing the proper officers to submit PlanCon Part A - Project Justification for the Phase I Project. However, District did not include a facility study that may result 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 has been formed and will be making recommendations to the School Board of Directors to complete Education Specification portion of the study in late 2016. It is anticipated that the facility study will be completed prior to the end of the 2016-2017 school year.

### 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, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 17,442,954	\$ 2,525,300	\$ 19,968,254
Investments	21,075,000	-	21,075,000
Taxes receivable, net	8,369,224	-	8,369,224
Due from other governments	7,871,075	181,814	8,052,889
Other receivables	299,233	436,362	735,595
Internal balances	518,704	(518,704)	-
Prepaid expenses	426,727	-	426,727
Inventories	379,548	64,887	444,435
	<u>56,382,465</u>	<u>2,689,659</u>	<u>59,072,124</u>
<b>Total current assets</b>			
<b>Noncurrent Assets</b>			
Capital assets	57,310,590	254,494	57,565,084
Restricted cash	2,582,391	-	2,582,391
	<u>59,892,981</u>	<u>254,494</u>	<u>60,147,475</u>
<b>Total noncurrent assets</b>			
<b>Total assets</b>			
	116,275,446	2,944,153	119,219,599
<b>Deferred Outflows of Resources - Pension</b>			
	<u>51,581,460</u>	<u>-</u>	<u>51,581,460</u>
<b>Total assets and deferred outflows of resources</b>			
	<u>\$ 167,856,906</u>	<u>\$ 2,944,153</u>	<u>\$ 170,801,059</u>
<b>Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)</b>			
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 2,507,049	\$ 418,518	\$ 2,925,567
Current maturities of:			
Bonds and note payable	3,177,190	-	3,177,190
Capital lease obligations	1,462,887	-	1,462,887
Authority lease obligations	125,504	-	125,504
Accrued salaries and benefits	20,676,579	-	20,676,579
Accrued interest payable	148,435	-	148,435
Other current liabilities	1,021,050	-	1,021,050
Current portion of compensated absences	275,520	-	275,520
Current portion of special termination benefits	458,856	-	458,856
Current portion of postretirement benefits	212,303	-	212,303
Unearned revenues	486,801	18,591	505,392
	<u>30,552,174</u>	<u>437,109</u>	<u>30,989,283</u>
<b>Total current liabilities</b>			
Bonds and note payable	25,136,193	-	25,136,193
Capital lease obligations	2,212,692	-	2,212,692
Authority lease obligations	2,549,433	-	2,549,433
Compensated absences	2,206,357	-	2,206,357
Special termination benefits	1,051,219	-	1,051,219
Postretirement benefits	1,547,657	-	1,547,657
Net pension liability	257,552,000	-	257,552,000
	<u>322,807,725</u>	<u>437,109</u>	<u>323,244,834</u>
<b>Total liabilities</b>			
<b>Deferred Inflows of Resources</b>			
Deferred gain on debt refundings	8,712	-	8,712
Pension	25,596,000	-	25,596,000
	<u>25,604,712</u>	<u>-</u>	<u>25,604,712</u>
<b>Total deferred inflows of resources</b>			
<b>Net Position (Deficit)</b>			
Net investment in capital assets	25,321,628	254,494	25,576,122
Restricted	2,580,001	-	2,580,001
Unrestricted	(208,457,160)	2,252,550	(206,204,610)
	<u>(180,555,531)</u>	<u>2,507,044</u>	<u>(178,048,487)</u>
<b>Total net position (deficit)</b>			
<b>Total liabilities, deferred inflows of resources, and net position (deficit)</b>			
	<u>\$ 167,856,906</u>	<u>\$ 2,944,153</u>	<u>\$ 170,801,059</u>

See notes to financial statements



# Upper Darby School District

Statement of Activities  
Year Ended June 30, 2016

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
<b>Governmental Activities</b>						
Instruction	\$ 123,895,888	\$ 119,960	\$ 28,573,106	\$ (95,202,822)		\$ (95,202,822)
Instructional student support	13,111,720	-	2,088,215	(11,023,505)		(11,023,505)
Administrative and financial support services	13,261,369	-	1,289,361	(11,972,008)		(11,972,008)
Operation and maintenance of plant services	12,697,058	-	820,917	(11,876,141)		(11,876,141)
Pupil transportation	8,418,000	27,500	3,717,526	(4,672,974)		(4,672,974)
Student activities	1,935,548	-	266,379	(1,669,169)		(1,669,169)
Community service	2,946,298	1,483,815	384,003	(1,078,480)		(1,078,480)
Interest on long-term debt	1,038,973	-	1,464,451	425,478		425,478
Depreciation	3,286,676	-	-	(3,286,676)		(3,286,676)
Total governmental activities	180,591,530	1,631,275	38,603,958	(140,356,297)		(140,356,297)
<b>Business-Type Activity, Food Service</b>	5,723,066	904,958	5,655,065	-	\$ 836,957	836,957
Total	<u>\$ 186,314,596</u>	<u>\$ 2,536,233</u>	<u>\$ 44,259,023</u>	<u>(140,356,297)</u>	<u>836,957</u>	<u>(139,519,340)</u>
<b>General Revenues</b>						
Real estate taxes levied for general purposes, net				104,165,669	-	104,165,669
Grants, subsidies and contributions not restricted				35,072,152	-	35,072,152
Miscellaneous income				473,342	-	473,342
Investment earnings				166,638	2,919	169,557
Transfers				518,704	(518,704)	-
Total general revenues				140,396,505	(515,785)	139,880,720
<b>Change in Net Position</b>				40,208	321,172	361,380
<b>Net Position (Deficit), Beginning</b>				(180,595,739)	2,185,872	(178,409,867)
<b>Net Position (Deficit), Ending</b>				<u>\$ (180,555,531)</u>	<u>\$ 2,507,044</u>	<u>\$ (178,048,487)</u>

See notes to financial statements

# Upper Darby School District

Balance Sheet

Governmental Funds

June 30, 2016

	Major Funds		Totals
	General	Capital Reserve	
<b>Assets</b>			
Cash and cash equivalents	\$ 17,442,954	\$ -	\$ 17,442,954
Restricted cash	-	2,582,391	2,582,391
Investments	21,075,000	-	21,075,000
Taxes receivable, net	8,369,224	-	8,369,224
Due from other governments	7,871,075	-	7,871,075
Other receivables	299,233	-	299,233
Due from other funds	518,704	-	518,704
Prepaid expenses	426,727	-	426,727
Inventories	379,548	-	379,548
Total	<u>\$ 56,382,465</u>	<u>\$ 2,582,391</u>	<u>\$ 58,964,856</u>
<b>Liabilities</b>			
Accounts payable	\$ 2,504,659	\$ 2,390	\$ 2,507,049
Accrued salaries and benefits	20,676,579	-	20,676,579
Unearned revenues	486,801	-	486,801
Other current liabilities	1,021,050	-	1,021,050
Total liabilities	<u>24,689,089</u>	<u>2,390</u>	<u>24,691,479</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenues - real estate taxes	<u>7,478,519</u>	<u>-</u>	<u>7,478,519</u>
<b>Fund Balances</b>			
Nonspendable	379,548	-	379,548
Restricted	-	2,580,001	2,580,001
Committed	6,500,000	-	6,500,000
Assigned	2,213,291	-	2,213,291
Unassigned	15,122,018	-	15,122,018
Total fund balances	<u>24,214,857</u>	<u>2,580,001</u>	<u>26,794,858</u>
Total	<u>\$ 56,382,465</u>	<u>\$ 2,582,391</u>	<u>\$ 58,964,856</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, 2016

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 26,794,858</b>
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	57,310,590
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	7,478,519
Deferred gain on debt refundings are included in the statement of net position	(8,712)
Accrued interest payable is included in the statement of net position	(148,435)
Deferred outflows of resources related to the net pension liability is included in the statement of net position	51,581,460
Deferred inflows of resources related to the net pension liability is included in the statement of net position	(25,596,000)
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	(28,313,383)
Capital lease obligations	(3,675,579)
Authority lease obligations	(2,674,937)
Compensated absences	(2,481,877)
Special termination benefits	(1,510,075)
Other postretirement benefits	(1,759,960)
Net pension liability	<u>(257,552,000)</u>
<b>Total Net Deficit - Governmental Activities</b>	<b><u><u>\$ (180,555,531)</u></u></b>

See notes to financial statements

# Upper Darby School District

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2016

	Major Funds		Total Governmental Funds
	General	Capital Reserve	
<b>Revenues</b>			
Local sources	\$ 102,973,479	\$ 3,569	\$ 102,977,048
State sources	70,518,260	-	70,518,260
Federal sources	5,837,422	-	5,837,422
Total revenues	179,329,161	3,569	179,332,730
<b>Expenditures</b>			
Instruction	121,605,241	-	121,605,241
Support services	47,445,481	-	47,445,481
Noninstructional services	4,807,537	-	4,807,537
Capital outlay	884,705	705,570	1,590,275
Refund of prior year receipts	100	-	100
Debt service	6,056,213	-	6,056,213
Total expenditures	180,799,277	705,570	181,504,847
<b>Revenues Under Expenditures</b>	(1,470,116)	(702,001)	(2,172,117)
<b>Other Financing Sources and Uses</b>			
Insurance recoveries	219,678	-	219,678
Proceeds from extended term financing	1,800,947	-	1,800,947
Transfers in	518,704	-	518,704
Other financing sources and uses, net	2,539,329	-	2,539,329
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	1,069,213	(702,001)	367,212
<b>Fund Balance, Beginning</b>	23,145,644	3,282,002	26,427,646
<b>Fund Balance, Ending</b>	\$ 24,214,857	\$ 2,580,001	\$ 26,794,858

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, 2016

**Total Net Change in Fund Balances - Governmental Funds** **\$ 367,212**

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	\$ 2,603,353	
Less: depreciation expense	<u>(3,286,676)</u>	(683,323)

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	469,193
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Change in allowance for uncollectible taxes	91,091
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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	3,002,190	
Capital leases	1,631,149	
Authority leases	<u>158,378</u>	4,791,717

Proceeds from extended term financing is considered a current financial resource and are reported in the funds but not in the statement of activities	(1,800,947)
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Change in accrued interest payable	45,680
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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	(3,089,136)	
Compensated absences	202,893	
Special termination benefits	164,305	
Other postretirement benefits	<u>(698,762)</u>	<u>(3,420,700)</u>

**Change in Net Position of Governmental Activities** **\$ 40,208**

## Upper Darby School District

Statement of Revenues, Expenditures, and Change in Fund Balance -  
Budget and Actual - General Fund  
Year Ended June 30, 2016

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Revenues</b>			
Local sources	\$ 100,822,371	\$ 102,973,479	\$ 2,151,108
State sources	68,603,252	70,518,260	1,915,008
Federal sources	5,352,424	5,837,422	484,998
Total revenues	<u>174,778,047</u>	<u>179,329,161</u>	<u>4,551,114</u>
<b>Expenditures</b>			
Instruction	120,027,018	121,605,241	(1,578,223)
Support services	48,288,465	47,445,481	842,984
Noninstructional services	4,917,762	4,807,537	110,225
Capital Outlay	-	884,705	(884,705)
Debt service	6,039,802	6,056,213	(16,411)
Refund of prior year receipts	55,000	100	54,900
Total expenditures	<u>179,328,047</u>	<u>180,799,277</u>	<u>(1,471,230)</u>
<b>Revenues Under Expenditures</b>	<u>(4,550,000)</u>	<u>(1,470,116)</u>	<u>3,079,884</u>
<b>Other Financing Sources (Uses)</b>			
Insurance recoveries	-	219,678	219,678
Proceeds from extended term financing	1,800,000	1,800,947	947
Transfers in	350,000	518,704	168,704
Budgetary reserve	(100,000)	-	100,000
Total other financing sources, net	<u>2,050,000</u>	<u>2,539,329</u>	<u>489,329</u>
<b>Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses</b>	<u>(2,500,000)</u>	<u>1,069,213</u>	<u>3,569,213</u>
<b>Fund Balance, Beginning</b>	<u>23,145,644</u>	<u>23,145,644</u>	<u>-</u>
<b>Fund Balance, Ending</b>	<u><u>\$ 20,645,644</u></u>	<u><u>\$ 24,214,857</u></u>	<u><u>\$ 3,569,213</u></u>

See notes to financial statements

# Upper Darby School District

Balance Sheet - Proprietary Fund

June 30, 2016

## Assets

### Current Assets

Cash and cash equivalents	\$ 2,525,300
Due from other governments	181,814
Other receivables	436,362
Inventories	<u>64,887</u>

Total current assets 3,208,363

### Capital Assets

254,494

Total assets \$ 3,462,857

## Liabilities and Net Position

### Liabilities

Current liabilities	
Accounts payable	\$ 418,518
Other current liabilities	18,591
Due to other funds	<u>518,704</u>

Total liabilities 955,813

### Net Position

Net investment in capital assets	254,494
Unrestricted net position	<u>2,252,550</u>

Total net position 2,507,044

Total liabilities and net position \$ 3,462,857

## Upper Darby School District

Statement of Revenues, Expenses, and Change in Net Position -  
Proprietary Fund  
Year Ended June 30, 2016

### Operating Revenues

Food service revenue	<u>\$ 904,958</u>
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### Operating Expenses

Purchased services	5,404,677
Donated commodities	258,235
Other	15,445
Depreciation	<u>44,709</u>

Total operating expenses	<u>5,723,066</u>
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<b>Operating Loss</b>	<b><u>(4,818,108)</u></b>
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### Nonoperating Revenues (Expenses)

Federal subsidies	5,390,914
State subsidies	264,151
Earnings on investments	2,919
Transfers out	<u>(518,704)</u>

Nonoperating revenues, net	<u>5,139,280</u>
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<b>Increase in Net Position</b>	<b>321,172</b>
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<b>Net Position, Beginning</b>	<b><u>2,185,872</u></b>
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<b>Net Position, Ending</b>	<b><u><u>\$ 2,507,044</u></u></b>
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## Upper Darby School District

### Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2016

#### Cash Flows From Operating Activities

Receipts from customers	\$ 908,248
Payments to suppliers	<u>(5,883,982)</u>
Net cash used in operating activities	<u>(4,975,734)</u>

#### Cash Flows from Noncapital Financing Activities

Transfers out	(430,485)
State subsidies	269,804
Federal subsidies	<u>5,192,613</u>
Net cash provided by noncapital financing activities	<u>5,031,932</u>

#### Cash Flows Used in Capital and Related Financing Activities

Acquisition of capital assets	<u>(99,726)</u>
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#### Cash Flows Provided by Investing Activities

Interest on investments	<u>2,919</u>
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#### Net Decrease in Cash

(40,609)

#### Cash, Beginning

2,565,909

#### Cash, Ending

\$ 2,525,300

#### Supplemental Disclosure of Noncash Transactions

USDA donated commodities	<u><u>\$ 296,816</u></u>
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#### Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (4,818,108)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	44,709
USDA donated commodities	296,816
Changes in:	
Other receivables	(433,371)
Inventories	(38,581)
Accounts payable	(30,218)
Other current liabilities	<u>3,019</u>
Net cash used in operating activities	<u><u>\$ (4,975,734)</u></u>

See notes to financial statements

# Upper Darby School District

## Statement of Net Position - Fiduciary Funds

June 30, 2016

	<u>Private Purpose Trust Fund</u>	<u>Activity Agency Fund</u>	<u>Other Agency Fund</u>
<b>Assets</b>			
Cash	<u>\$ 708,064</u>	<u>\$ 294,393</u>	<u>\$ 255,413</u>
<b>Liabilities and Net Position</b>			
Other current liabilities	\$ -	<u>\$ 294,393</u>	<u>\$ 255,413</u>
Net position restricted for scholarships	<u>708,064</u>		
Total liabilities and net position	<u>\$ 708,064</u>		

See notes to financial statements

## Upper Darby School District

### Statement of Changes in Net Position - Fiduciary Funds

Year Ended June 30, 2016

	<u>Private Purpose Trust Fund</u>
<b>Additions</b>	
Contribution income	\$ 224,522
Interest income	<u>1,384</u>
Total additions	225,906
<b>Deductions</b>	
Scholarships awarded	<u>229,828</u>
<b>Change in Net Position</b>	(3,922)
<b>Net Position, Beginning</b>	<u>711,986</u>
<b>Net Position, Ending</b>	<u><u>\$ 708,064</u></u>

See notes to financial statements

# Upper Darby School District

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Notes to Financial Statements

June 30, 2016

## 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

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Notes to Financial Statements

June 30, 2016

## **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

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Notes to Financial Statements

June 30, 2016

## **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

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Notes to Financial Statements

June 30, 2016

## **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

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Notes to Financial Statements

June 30, 2016

## **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, 2016

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.

### 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, 2016

### 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 School Board of Directors. These amounts cannot be used for any other purpose unless the School Board of Directors removes or changes the specific use by taking the same action it employed to previously commit the amounts. In June 2016, the Board of School Directors committed \$6,500,000 of fund balance to balance the 2016-2017 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 School Board of Directors has designated the Chief Financial Officer to assign fund balance amounts as deemed financially necessary and appropriate. At June 30, 2016, the Chief Financial Officer has assigned fund balance for compensated absences and retirement benefits - \$635,381, PSERS retirement contribution - \$1,560,000, and encumbrances - \$17,910.
- *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

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Notes to Financial Statements

June 30, 2016

## 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 has one type of item, deferred outflows of resources related to the net pension liability that qualifies for reporting 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 deferred gains on debt refundings and certain changes in its net pension liability in the government-wide statement of net position 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, 2016

### Accounting Principles Adopted in 2016

The District adopted GASB issued Statement No. 72, *Fair Value Measurement and Application*. The Statement addressed accounting and financial reporting issues related to fair value measurements and provided guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The effect of this adoption did not materially change the District's accounting and reporting policies.

## 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, 2016, the bank balance of the District's deposits with financial statements, including cash equivalents, was \$26,192,409 compared to the carrying amount of \$23,523,808. The difference is caused by items in-transit and outstanding checks. \$25,942,309 of the District's deposits were exposed to custodial credit risk at June 30, 2016 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, 2016, the carrying amount of the Fund was \$284,708.

#### 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	\$ 21,075,000	\$ 21,075,000	\$ -

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, 2016

### 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 2016. 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.

Delinquent real estate taxes receivable at June 30, 2016 totaled \$7,478,519 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$569,514. Taxes receivable also includes \$16,675 of interim taxes, \$2,221 of other taxes, \$236,882 of real estate transfer taxes receivable and \$634,927 of delinquent real estate taxes collected by Delaware County but not yet remitted to the District. Real estate tax revenue includes \$91,091 due to a decrease 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	\$ 7,043,191
Federal source revenues	814,036
Other school districts,	
Local source revenues	<u>13,848</u>
Total governmental activities	<u>\$ 7,871,075</u>
Business-type activity:	
Pennsylvania Department of Education:	
State source revenues	\$ 8,877
Federal source revenues	<u>172,937</u>
Total business-type activity	<u>\$ 181,814</u>

## Upper Darby School District

Notes to Financial Statements

June 30, 2016

### 5. Capital Assets

The changes in the District's capital assets in 2016 are summarized as follows:

	<u>Balance June 30, 2015</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2016</u>
Governmental activities:				
Cost:				
Land	\$ 680,000	\$ -	\$ -	\$ 680,000
Land improvements	5,677,580	319,041	-	5,996,621
Buildings and improvements	107,397,240	3,036,243	-	110,433,483
Furniture and equipment	27,297,303	1,007,430	(362,678)	27,942,055
Construction-in-progress	<u>1,799,601</u>	<u>40,240</u>	<u>(1,799,601)</u>	<u>40,240</u>
Total cost	<u>142,851,724</u>	<u>4,402,954</u>	<u>(2,162,279)</u>	<u>145,092,399</u>
Less accumulated depreciation:				
Land improvements	(4,193,691)	(170,817)	-	(4,364,508)
Buildings and improvements	(57,666,627)	(2,353,930)	-	(60,020,557)
Furniture and equipment	<u>(22,997,493)</u>	<u>(761,929)</u>	<u>362,678</u>	<u>(23,396,744)</u>
Total accumulated depreciation	<u>(84,857,811)</u>	<u>(3,286,676)</u>	<u>362,678</u>	<u>(87,781,809)</u>
Total	<u>\$ 57,993,913</u>	<u>\$ 1,116,278</u>	<u>\$ (1,799,601)</u>	<u>\$ 57,310,590</u>
Business-type activity:				
Furniture and equipment	\$ 943,132	\$ 99,726	\$ -	\$ 1,042,858
Less accumulated depreciation	<u>(743,655)</u>	<u>(44,709)</u>	<u>-</u>	<u>(788,364)</u>
Total	<u>\$ 199,477</u>	<u>\$ 55,017</u>	<u>\$ -</u>	<u>\$ 254,494</u>

# Upper Darby School District

## Notes to Financial Statements

June 30, 2016

### 6. Bonds and Notes Payable

The following summarizes the changes in the District's bonds and note payable in 2016:

	<u>Interest Rates</u>	<u>Current Portion</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>
Series of 2010, to finance capital projects. Matures March 1, 2026	5.00 %	\$ 339,333	\$ 3,732,666	\$ -	\$ (339,333)	\$ 3,393,333
Series A of 2011, to finance capital projects. Matures September 1, 2025	5.09 %	26,857	295,429	-	(26,857)	268,572
Series of 2012, to advance refund Series B of 2004. Matures February 15, 2024	1.0 - 2.10 %	5,000	4,370,000	-	(5,000)	4,365,000
Series of 2014, to partially refund Series of 2005. Matures May 1, 2024	2.12 %	1,000	1,877,000	-	(1,000)	1,876,000
Series of 2015, to refund remainder of Series of 2005. Matures May 1, 2024	3.0 - 5.0 %	<u>2,805,000</u>	<u>19,710,000</u>	<u>-</u>	<u>(2,630,000)</u>	<u>17,080,000</u>
Total		<u>\$ 3,177,190</u>	29,985,095	-	(3,002,190)	26,982,905
Bond and note premiums			<u>1,500,936</u>	<u>-</u>	<u>(170,458)</u>	<u>1,330,478</u>
Total			<u>\$ 31,486,031</u>	<u>\$ -</u>	<u>\$ (3,172,648)</u>	<u>\$ 28,313,383</u>

Total interest paid on these bonds and notes in 2016 was \$1,156,741. No interest was capitalized in 2016. 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 2016 was 89.9% on the Series of 2010 and 92.9% on the Series A of 2011. In 2016, the District received \$246,297 in interest subsidies which is included in federal source revenues.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2016

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2016:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,177,190	\$ 1,000,815	\$ 4,178,005
2018	3,282,191	916,593	4,198,784
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
2022-2026	<u>10,138,953</u>	<u>1,806,634</u>	<u>11,945,587</u>
Total	<u>\$ 26,982,905</u>	<u>\$ 5,911,752</u>	<u>\$ 32,894,657</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, 2016, the District's authority lease obligations consisted of the following:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>
Delaware County Community College	<u>\$ 2,833,315</u>	<u>\$ -</u>	<u>\$ (158,378)</u>	<u>\$ 2,674,937</u>

Interest expense on authority lease obligations was \$72,431 in 2016.



## Upper Darby School District

### Notes to Financial Statements

June 30, 2016

The aggregate maturities of authority lease obligations are as follows:

Years ending June 30:	
2017	\$ 228,664
2018	228,290
2019	228,188
2020	227,884
2021	227,527
2022-2026	1,017,932
2027-2031	977,591
2032-2035	<u>528,063</u>
Total lease payments	3,664,139
Less amount representing interest	<u>(989,202)</u>
Total authority lease obligations	<u>\$ 2,674,937</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 2016:

Balance, July 1, 2015	\$ 3,505,781
Additions	1,800,947
Payments	<u>(1,631,149)</u>
Balance, June 30, 2016	<u>\$ 3,675,579</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, 2016:

Years ending June 30:	
2017	\$ 1,502,996
2018	1,121,605
2019	771,707
2020	<u>369,537</u>
Total minimum lease payments	3,765,845
Less amount representing interest	<u>(90,266)</u>
Present value of net minimum lease payments	<u>\$ 3,675,579</u>

Interest expense on capital leases was \$35,324 in 2016.

# Upper Darby School District

## Notes to Financial Statements

June 30, 2016

### 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 \$526,062 in 2016. Future minimum payments under these leases are as follows:

Year ending June 30:		
2017	\$	513,117
2018		266,013
2019		266,013
2020		266,013
2021		33,123
Thereafter		<u>415,734</u>
Total minimum lease payments	\$	<u>1,760,013</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.state.pa.us](http://www.psers.state.pa.us).

### Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to 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.

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

## Upper Darby School District

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### Notes to Financial Statements

June 30, 2016

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, 2016 was 25.84% 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 \$20,503,460 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$257,552,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2014 to June 30, 2015. 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, 2015, the District's proportion was 0.5946%, which was an increase from its proportion measured as of June 30, 2014 of 0.5030%.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$22,552,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,584,000
Changes in proportion and differences between District contributions and proportionate share of contributions	31,078,000	24,012,000
District contributions subsequent to the measurement date	<u>20,503,460</u>	<u>-</u>
Total	<u>\$ 51,581,460</u>	<u>\$ 25,596,000</u>

\$20,503,460 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, 2017.

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

Years ending June 30:	
2017	\$ (1,301,000)
2018	(1,301,000)
2019	(1,301,000)
2020	<u>9,385,000</u>
Total	<u>\$ 5,482,000</u>

### Actuarial Assumptions

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

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

## Upper Darby School District

### Notes to Financial Statements

June 30, 2016

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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Public markets global equity	22.5 %	4.8 %
Private markets (equity)	15	6.6
Private real estate	12	4.5
Global fixed income	7.5	2.4
U.S. long treasuries	3	1.4
TIPS	12	1.1
High yield	6	3.3
Cash	3	0.7
Absolute return (hedge funds)	10	4.9
Risk parity	10	3.7
MLPs (infrastructure)	5	5.2
Commodities	8	3.1
Financing (LIBOR)	(14)	1.1
	<u>100 %</u>	

The above was the 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, 2015.

### Discount Rate

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

## Upper Darby School District

Notes to Financial Statements

June 30, 2016

### 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 7.50%, 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 (6.50%) or 1% higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 317,459,000	\$ 257,552,000	\$ 207,202,000

## 10. Employee Benefits

### Compensated Absences

The changes in compensated absences in 2016 are summarized as follows:

Balance, July 1, 2015	\$ 2,684,770
Increases	13,298
Decreases	<u>(216,191)</u>
Balance, June 30, 2016	<u>\$ 2,481,877</u>

### Postretirement Benefits

Certain of the District's employees (that meet certain specified criteria) are eligible to receive health insurance benefits from the date of retirement until the individual becomes eligible for the federal government health insurance program.

The District chose not to adopt the provisions of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* with regards to these benefits due to the immateriality of the obligation to the government-wide financial statements taken as a whole. Benefits are funded on a pay-as-you-go basis. The District has recorded a liability of \$1,759,960 for these benefits based on the present value of the expected health insurance premium payments over the remaining term of the benefits.

### 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 \$1,510,075 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.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2016

Changes in the above liabilities in 2016 were as follows:

	<u>Postretirement Benefits</u>	<u>Special Termination Benefits</u>	<u>Total</u>
Balance, July 1, 2015	\$ 1,061,198	\$ 1,674,380	\$ 2,735,578
Increases	798,538	300,945	1,099,483
Payments and other decreases	(99,776)	(465,250)	(565,026)
Balance, June 30, 2016	<u>\$ 1,759,960</u>	<u>\$ 1,510,075</u>	<u>\$ 3,270,035</u>

### 11. Internal Balances/Interfund Balances and Transfers

At June 30, 2016, \$518,704 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 the interfund transfers in 2016:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund, Food Service Fund	\$ 518,704	\$ -
Food Service Fund, General Fund	-	518,704
Total	<u>\$ 518,704</u>	<u>\$ 518,704</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. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. To the extent applicable, the District is required to adopt Statement No. 73 for its fiscal 2017 financial statements.

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 postemployment benefits other than pensions (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 August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. To the extent applicable, the District is required to adopt Statement No. 75 for its fiscal 2017 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 the District's Proportionate Share of the Net Pension Liability (Unaudited)  
Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
District's proportion of the PSERS net pension liability	<u>0.5946%</u>	<u>0.5030%</u>
District's proportionate share of the PSERS net pension liability	<u>\$ 257,552,000</u>	<u>\$ 199,091,000</u>
District's covered-employee payroll	<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>336.65%</u>	<u>310.20%</u>

**Upper Darby School District**Schedule of District Contributions (Unaudited)  
Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 20,503,460	\$ 16,481,596
Contributions in relation to the contractually required contribution	<u>20,503,460</u>	<u>16,481,596</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 79,288,065</u>	<u>\$ 76,504,532</u>
Contributions as a percentage of covered-employee payroll	<u>25.86%</u>	<u>21.54%</u>

**Upper Darby School District**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Passed Through to Subrecipients</u>	<u>Accrued (Deferred) Revenue at 2015</u>	<u>Revenues Recognized</u>	<u>Federal Expenditures</u>	<u>Accrued or (Deferred) Revenue at 2016</u>
<b>U. S. DEPARTMENT OF EDUCATION</b>									
<b>Passed through Pennsylvania Department of Education:</b>									
Title I Grants to Local Educational Agencies	84.010	013-150448	\$4,092,515	\$ 623,576	\$ -	\$ 316,751	\$ 306,825	\$ 306,825	\$ -
Title I Grants to Local Educational Agencies	84.010	013-160448	3,805,825	3,051,987	-	-	3,687,482	3,687,482	635,495
Title I Grants to Local Educational Agencies	84.010	042-140448	149,398	29,880	-	20,661	9,219	9,219	-
Title I Grants to Local Educational Agencies	84.010	042-150448	163,307	134,488	-	-	144,890	144,890	10,402
Total Title I Grants to Local Educational Agencies				3,839,931	-	337,412	4,148,416	4,148,416	645,897
English Language Acquisition State Grants	84.365	010-140448	181,931	60,644	-	60,644	-	-	-
English Language Acquisition State Grants	84.365	010-150448	247,583	112,196	-	9,362	132,114	132,114	29,280
English Language Acquisition State Grants	84.365	010-160448	279,758	182,884	-	-	211,193	211,193	28,309
Total English Language Acquisition State Grants				355,724	-	70,006	343,307	343,307	57,589
Supporting Effective Instruction State Grant	84.367	020-150448	453,947	96,797	-	71,423	25,374	25,374	-
Supporting Effective Instruction State Grant	84.367	020-160448	448,671	389,294	-	-	436,549	436,549	47,255
Total Supporting Effective Instruction State Grant				486,091	-	71,423	461,923	461,923	47,255
School Improvement Grants	84.377	142-150448	128,016	98,474	-	-	103,827	103,827	5,353
<b>Special Education Cluster</b>									
<b>Passed through Delaware County Intermediate Unit</b>									
Special Education Grants to States (IDEA, Part B)	84.027	H027A110093	1,796,216	1,796,216	-	-	1,796,216	1,796,216	-
Special Education - Preschool Grants (IDEA Preschool)	84.173	H39211009	9,961	9,961	-	-	9,961	9,961	-
Total Special Education Cluster				1,806,177	-	-	1,806,177	1,806,177	-
<b>Passed through Delaware County Intermediate Unit</b>									
Race to the Top	84.413A	B413A120004	289,600	35,202	-	35,202	-	-	-
<b>Total U.S. Department of Education</b>				<b>6,621,599</b>	<b>-</b>	<b>514,043</b>	<b>6,863,650</b>	<b>6,863,650</b>	<b>756,094</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>									
<b>Child Nutrition Cluster</b>									
<b>Passed through Pennsylvania Department of Education:</b>									
School Breakfast Program	10.553	365	1,928,677	1,966,268	-	108,769	1,928,677	1,928,677	71,178
National School Lunch Program	10.555	362	3,165,421	3,226,348	-	162,686	3,165,421	3,165,421	101,759
<b>Passed through Pennsylvania Department of Agriculture,</b>									
Food Donation	10.555	N/A	296,816	296,816	-	-	296,816	296,816	-
<b>Total Child Nutrition Cluster/U.S. Department of Agriculture</b>				<b>5,489,432</b>	<b>-</b>	<b>271,455</b>	<b>5,390,914</b>	<b>5,390,914</b>	<b>172,937</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>									
<b>Passed through Pennsylvania Department of Public Welfare:</b>									
Medical Assistance Program	93.778	044-007448	89,580	43,293	-	11,655	89,580	89,580	57,942
<b>TOTAL</b>				<b>\$ 12,154,324</b>	<b>\$ -</b>	<b>\$ 797,153</b>	<b>\$ 12,344,144</b>	<b>\$ 12,344,144</b>	<b>\$ 986,973</b>

# Upper Darby School District

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Notes to the Schedule of Expenditures of Federal Awards

June 30, 2016

## 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, 2016. 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 23, 2016.

**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 Viechow Krause, LLP*

Philadelphia, Pennsylvania  
November 23, 2016

## **Independent Auditors' Report on Compliance for the 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 the 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 the District's major federal program for the year ended June 30, 2016. The District's major federal program is 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 the District's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

## Opinion on the 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 its major federal program for the year ended June 30, 2016.

## 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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Viechow Krause, LLP*

Philadelphia, Pennsylvania  
November 23, 2016



# Upper Darby School District

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016

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## 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 program:

- 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 program: 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 program:

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

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.