

# **Upper Darby School District**

Financial Statements and  
Supplementary Information

June 30, 2013



# **Upper Darby School District**

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June 30, 2013

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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, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 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 *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, on pages 45-46, 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 January 10, 2014 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.

*ParenteBeard LLC*

Philadelphia, Pennsylvania  
January 10, 2014

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2013

This Management's Discussion and Analysis is intended to provide a narrative overview and analysis of the financial activities of the Upper Darby School District (the "District") as of and for the year ended June 30, 2013. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

## **Financial Highlights**

Total net position of the District increased \$8,017,724 in 2013. Net position of governmental activities from 2013 operations increased \$7,761,711. Net position of the business-type activity increased \$256,013, or 16.96%, from 2012.

The District had \$158,164,440 in expenditures related to governmental activities in 2013; only \$34,576,843 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidy) of \$128,054,124 were more than adequate to provide for these programs. In addition, the District recognized a increase of \$3,295,184 for a change in accounting estimate related to its capital assets in 2013. As a result, the District's governmental activities net position increased \$7,761,711 on a government-wide, full accrual basis in 2013.

In the District's business-type activity, net position increased by \$256,013 as a result of the net profit of the food service operation.

## **Overview of the Financial Statements**

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

### **Government-Wide Financial Statements**

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

# **Upper Darby School District**

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

The government-wide financial statements can be found on pages 14 and 15 of this report.

## **Fund Financial Statements**

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

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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 four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the District's major funds (General Fund and Capital Reserve Fund) and non-major funds (Debt Service Fund and General Welfare Fund). Non-major fund are reported under the caption "Non-major".

The basic governmental fund statements can be found on pages 16-19 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 20 of this report to demonstrate compliance with this budget.

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2013

## **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 21-23 of this report.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-44 of this report.

## **General Fund Budgetary Highlights**

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

The General Fund's approved budget for 2013 included \$156,396,763 of revenues and other financing sources and \$160,396,763 of expenditures and other financing uses. The District committed an additional \$4,000,000 to be used from the unassigned fund balance to cover the shortfall. The expenditure and revenue budgets were not amended during the year to account for the additional \$2 million of appropriations from the Commonwealth for Basic Education Funding (announced after the District's budget adoption), nor for reinstatement of furloughed positions resulting from this increase, nor for internal expenditure budget transfers.

The actual 2013 revenues and other financing sources were \$163,472,074, an increase of \$7.1 million, or 4.5%, above final budget. Significant positive variances were seen in local revenues: transfer taxes (\$244,355) and delinquent tax collections (\$536,834); in state revenues: Basic Education Funding (\$2,000,000), special education extraordinary subsidies (\$331,755), transportation (\$162,875) and other state subsidies due to increases in the District's aid ratio (\$390,532); and in federally funded programs: IDEA, Medical ACCESS Assistance and Administrative Reimbursement (\$412,574), School Improvement, Title I Set-Aside and Race to the Top grants (\$2,481,860). Other significant non-budgeted increases were from other sources including transfer from Food Service operations (\$418,460) and insurance recoveries (\$104,970).

Actual expenditures and other uses were \$161,019,892, or 0.4% over the final budget. The increase is primarily due to the expenditures of \$2.9 million related to certain federal grants (see above) corresponding with the receipt of an equal amount of revenue. The District was able to realize significant savings of \$2,320,881 in other budget areas resulting from cost containment of facility operations (\$722,878), including utility savings generated through an energy performance contract (\$355,923); unemployment costs savings (\$502,567) through rehiring of furloughed positions; reduction in extended day operations cost (\$332,970) offset by decreases in revenue: tuition reimbursement (\$252,785); and reductions in alternative educational programs (\$250,288).

# **Upper Darby School District**

Management's Discussion and Analysis  
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 June 30, 2013

The District's General Fund balance increased by \$2,452,182 in 2013. With the adoption of the 2012-2013 budget, the Board had committed \$4,000,000 of unassigned fund balance to cover the projected shortfalls for the 2012-2013 year. As these funds were not required to be used, they will be maintained and made available for future use. The unassigned fund balance as of June 30, 2013 is \$7,795,250, representing 4.7% of the 2013-14 expenditure budget of \$165,547,060.

## **Government-Wide Financial Analysis**

The District's condensed government-wide financial statements are presented comparatively as follows:

	Condensed Statement of Net Position (in 000's)							
	Governmental Activities		Business Type Activity		Totals		2013	2012
	2013	2012	2013	2012	2013	2012		
Current and other assets								
Capital assets	\$ 31,098 61,216	\$ 27,646 59,863	\$ 2,115 128	\$ 1,738 148	\$ 33,213 61,344	\$ 29,384 60,011	13.0 2.2	%
Total	<u>\$ 92,314</u>	<u>\$ 87,509</u>	<u>\$ 2,243</u>	<u>\$ 1,886</u>	<u>\$ 94,557</u>	<u>\$ 89,395</u>	<u>5.8</u>	%
Current liabilities								
Long-term liabilities:								
Due within one year	\$ 8,401	\$ 6,869	\$ 477	\$ 377	\$ 8,878	\$ 7,246	22.5	%
Due after one year	5,524 42,380	6,648 45,745	-	-	5,524 42,380	6,648 45,745	(16.9) (7.4)	%
Total liabilities	<u>56,305</u>	<u>59,262</u>	<u>477</u>	<u>377</u>	<u>56,782</u>	<u>59,639</u>	<u>(4.8)</u>	%
Net position:								
Net investment in capital assets	20,250	15,480	128	148	20,378	15,628	30.4	%
Restricted	610	1,585	-	-	610	1,585	(61.5)	%
Unrestricted	<u>15,149</u>	<u>11,182</u>	<u>1,638</u>	<u>1,361</u>	<u>16,787</u>	<u>12,543</u>	<u>33.8</u>	%
Total net position	<u>36,009</u>	<u>28,247</u>	<u>1,766</u>	<u>1,509</u>	<u>37,775</u>	<u>29,756</u>	<u>26.9</u>	%
Total	<u>\$ 92,314</u>	<u>\$ 87,509</u>	<u>\$ 2,243</u>	<u>\$ 1,886</u>	<u>\$ 94,557</u>	<u>\$ 89,395</u>	<u>5.8</u>	%

# Upper Darby School District

## Management's Discussion and Analysis

(Unaudited)

June 30, 2013

### Condensed Statement of Activities (in 000's)

	Governmental Activities		Business Type Activity		Totals			
	2013	2012	2013	2012	2013	2012		
<b>Program revenues:</b>								
Charges for services	\$ 2,336	\$ 2,792	\$ 1,140	\$ 1,448	\$ 3,476	\$ 4,240	(18.0)	%
Operating grants and contributions	32,240	31,268	4,111	3,816	36,351	35,084	3.6	%
<b>General revenues:</b>								
Taxes levied for general purposes, net	96,725	93,444	-	-	96,725	93,444	3.5	%
Grants, subsidies and contributions not restricted	30,477	28,480	-	-	30,477	28,480	7.0	%
Change in accounting estimate – capital assets	3,295	-	-	-	3,295	-	100.0	%
Other	<u>853</u>	<u>814</u>	<u>(417)</u>	<u>(414)</u>	<u>436</u>	<u>400</u>	<u>8.8</u>	<u>%</u>
<b>Total revenues</b>	<u><u>165,926</u></u>	<u><u>156,798</u></u>	<u><u>4,834</u></u>	<u><u>4,850</u></u>	<u><u>170,760</u></u>	<u><u>161,648</u></u>	<u><u>5.6</u></u>	<u><u>%</u></u>
<b>Program expenses:</b>								
Instruction	103,496	102,607	-	-	103,496	102,607	0.9	%
Instructional student support	12,545	12,596	-	-	12,545	12,596	(0.4)	%
Administration and financial support services	11,266	11,006	-	-	11,266	11,006	2.4	%
Operation and maintenance of plant services	12,363	12,418	-	-	12,363	12,418	(0.4)	%
Pupil transportation	7,815	7,432	-	-	7,815	7,432	5.1	%
Student activities	2,532	2,698	-	-	2,532	2,698	(6.2)	%
Community services	2,700	2,877	-	-	2,700	2,877	(6.2)	%
Interest on long-term debt	1,850	2,216	-	-	1,850	2,216	(16.5)	%
Loss on disposal of asset	-	102	-	-	-	102	(100.0)	%
Unallocated depreciation	3,597	3,225	-	-	3,597	3,225	11.6	%
Food service	<u>-</u>	<u>-</u>	<u>4,577</u>	<u>4,761</u>	<u>4,577</u>	<u>4,761</u>	<u>(3.9)</u>	<u>%</u>
<b>Total expenses</b>	<u><u>158,164</u></u>	<u><u>157,177</u></u>	<u><u>4,577</u></u>	<u><u>4,761</u></u>	<u><u>162,741</u></u>	<u><u>161,938</u></u>	<u><u>0.5</u></u>	<u><u>%</u></u>
<b>Change in net position</b>	7,762	(379)	257	89	8,019	(290)	2,865.2	%
<b>Net position, beginning</b>	<u><u>28,247</u></u>	<u><u>28,626</u></u>	<u><u>1,509</u></u>	<u><u>1,420</u></u>	<u><u>29,756</u></u>	<u><u>30,046</u></u>	<u><u>(1.0)</u></u>	<u><u>%</u></u>
<b>Net position, ending</b>	<u><u>\$ 36,009</u></u>	<u><u>\$ 28,247</u></u>	<u><u>\$ 1,766</u></u>	<u><u>\$ 1,509</u></u>	<u><u>\$ 37,775</u></u>	<u><u>\$ 29,756</u></u>	<u><u>26.9</u></u>	<u><u>%</u></u>

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2013

## **Governmental Activities**

The net position of the governmental activities increased by \$7,761,711 in 2013. Factors contributing to the increase are an additional \$2,000,000 of Basic Education Subsidy funding which resulted through the efforts of local legislators, school board directors, administration and the community; a change in accounting estimate of \$3,295,184 related to capital assets was recognized upon completion of a District-wide inventory and reappraisal of capital assets; and unanticipated increases in revenues and cost containment initiatives as discussed previously.

## **Business-Type Activity**

The District's food service operation increased its net position by \$256,013 in 2013. The District continues to receive favorable increases in state and federal reimbursements due to greater participation in the National School Lunch and Breakfast Programs and costs savings in contracted services.

## **Financial Analysis of the Funds**

### **General Fund (Major)**

The following represents a summary of General Fund Revenue, by source, along with changes from 2012:

	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 95,266,196	\$ 92,126,716	\$3,139,480	3.4 %
State sources	57,225,252	53,252,589	3,972,663	7.5 %
Federal	<u>8,580,039</u>	<u>9,357,637</u>	<u>(777,598)</u>	<u>(8.3%)</u>
Total	<u><u>\$161,071,487</u></u>	<u><u>\$154,736,942</u></u>	<u><u>\$6,334,545</u></u>	<u><u>4.1 %</u></u>

### **Local Revenue Sources**

Revenues from local sources increased by \$3,139,480 or 3.4% in 2013 as compared to 2012. The majority of the local revenue is derived through tax collections and represent \$89.8 million, or 54.9% of the total revenues for 2013. Real estate tax revenues increased by \$2,691,152, the result of an increase in the millage rate to 32.85/mill, or a 3.5% increase from the prior year. The tax collection rate for 2013 was 93.74% as compared to 95.08% in the prior year. Transfer taxes rebounded after several years of decline, improving \$425,508, or 42%, over 2012. Delinquent tax collections remain strong and improved \$430,679, or 9.6%, over 2012. Conversely, delinquent accounts turned over to the county for collections increased \$338,000, or 7.9% over the prior year. Offsetting these gains, extended day care fees yielded \$273,800 less than 2012. In addition, the District's miscellaneous revenues fell \$322,980, of which related to one-time energy rebates in 2011-2012 of \$298,445.

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2013

## **State Revenue Sources**

Revenues derived from State sources increased \$3,972,663, or 7.5%, in 2013 as compared to prior year. The increases are primarily related to the additional \$2,000,000 in Basic Education Subsidy funds approved by the Commonwealth after the District had adopted its 2012-13 budget. The actions taken by the Commonwealth are directly attributable of the efforts to increase funding to the District by local legislators, school board directors, administration and the community. In addition, an increase of \$1,944,457 in retirement reimbursement resulted from a higher District contribution rate, which increased from 8.65% to 12.36% in the current year.

## **Federal Revenue Sources**

Revenues derived from federal sources decreased by (\$777,598), or (8.3%), in 2013 as compared to the prior year. The decreases are primarily related to overall federal programs cuts, reductions in students in charter schools who are eligible for Title programs, and the one time use of carry-over Title I funding in the 2011-2012 school year.

The following represents a summary of General Fund Expenditures, by function, along with changes from 2012:

	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Instruction	\$104,326,919	\$102,716,232	\$1,610,687	1.6 %
Support services	44,607,237	43,219,883	1,387,354	3.2 %
Non-instructional services	4,510,659	4,673,565	(162,906)	(3.5%)
Refund of prior year receipts	49,138	7,619	41,519	544.9 %
Debt service	<u>7,525,939</u>	<u>7,608,518</u>	<u>(82,579)</u>	<u>(1.1 %)</u>
Total	<u>\$161,019,892</u>	<u>\$158,225,817</u>	<u>\$2,794,075</u>	<u>1.8 %</u>

### **Instruction**

Instruction expenditures increased \$1,610,687, or 1.6% in 2012-2013. Significant components of the increases relate to special education costs: \$1,723,280 (net of increase in retirement contributions and including \$674,883 of charter school tuition costs which were charged in previous years to regular instruction); retirement costs: \$1,783,570; and investment in technology/lease purchase costs: \$805,456. Offsets to these increases were reductions in federally-funded instructional salaries (\$971,272); other reductions in salary expenditures resulting from restructuring of four instructional supervisors at the high school to administrative curriculum positions (support services) (\$360,708) and through re-alignment of the middle school schedule, and through savings in positions vacated by retirees (\$279,975). Other offsets can be found in reductions in unemployment cost (\$293,326); employee medical costs due to reduction in budgeted rates and covered employees (\$451,637); and reductions due to reconciliation of vocational programs (\$108,825).

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
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## **Support Services**

Expenses for support services increased \$1,387,354, or 3.2% in 2013. Significant components of the increase relate to retirement costs (\$789,742); investment in equipment/technology lease purchase costs (\$263,627); transportation costs (\$161,833, net of increase in retirement); and building repairs and maintenance (\$175,042). The District realized budgetary savings through reductions in elementary librarians and elimination of two positions, an accounting supervisor and grant coordinator. However, anticipated contractual obligations for salary and the restructuring of four instructional supervisors from the high school to administrative curriculum positions offset a majority of the savings.

## **Non-instructional Services**

Non-instructional services decreased (\$162,906) in 2012-2013, primarily due to cost containment of extended day services that corresponded to reduction in revenue .

## **Debt Service**

Debt service expense for 2012-2013 was \$7,525,939 representing a decrease (\$82,579) from the prior year. The reduction is primarily due to the authority lease obligation debt of the Delaware County Vocational-Technical Authority having been paid off, with no required payment in 2012-2013.

The District's continues participation in a lease-purchase program for the replacement of school busses, technology and other equipment.

## **Capital Reserve Fund (Major 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 2012-2013, the District completed various capital projects including the roof replacements at Bywood and Stonehurst Elementary schools, and installation of new lockers at the Beverly Hills Middle School. Contracts were also let for a roof replacement at the Kindergarten Center Elementary School which will be completed in 2014.

Expenditures in the Capital Reserve fund were \$975,868 in 2012-2013. As of June 30, 2013, the Capital Reserve Fund has a fund balance of \$609,880 reserved for future capital improvements.

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2013

## **Capital Assets**

The District's capital assets at June 30, 2013 are summarized below:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Totals</u>
Land and land improvements	\$ 6,401,340	\$ -	\$ 6,401,340
Buildings and improvements	107,023,239	-	107,023,239
Furniture and equipment	26,110,546	793,482	26,904,028
Construction in progress	<u>8,517</u>	-	<u>8,517</u>
 Total	 139,543,642	 793,482	 140,337,124
Less accumulated depreciation	<u>(78,328,166)</u>	<u>(665,710)</u>	<u>(78,993,876)</u>
 Net	 <u>\$ 61,215,476</u>	 <u>\$ 127,772</u>	 <u>\$ 61,343,248</u>

## **Long Term Debt**

At July 1, 2012, the District's general obligation debt was \$42,216,667. During the year, the District made principal payments of \$3,911,190. In addition, the District advanced refunded \$4,010,000 of its Series B of 2004, general obligation bonds during 2012-2013 by issuing \$4,385,000 of Series C of 2012 general obligation bonds. The District will realize savings of \$545,751 in debt service payment over the next ten years as a result of the refunding. The ending balance of outstanding debt as of June 30, 2013 is \$38,680,477.

The long term debt amount for the School District is approximately 10.8% of its legal limit of \$359 million. \$3,611,191 of this debt is scheduled for repayment in 2013-2014. Additional information on the District's long-term debt can be found in Note 7 on pages 38-39 of this report.

## **Economic Condition And Outlook**

The District faces many of the same economic impacts as other governmental agencies. The District's local revenue sources are being adversely impacted. As such, the District anticipates an increased burden on local taxpayers resulting from continued reductions in assessed taxable values, and nominal returns on investments, in the upcoming year.

In addition, the District is not expecting to receive increases from state and federal funding streams for the foreseeable future. Although state and federal funding has somewhat stabilized, the past elimination of the state's educational assistance program, subsidies for charter schools and homebound tuition have impacted our ability to adequately maintain our programming. From the federal revenue perspective, the continued reductions in Title funding and Access Reimbursement, and the lack of growth in our IDEA funding add to the problem of finding adequate funding streams without placing the burden solely on the local taxpayer.

# **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2013

The effects of the above were duly noted in the 2013-14 preliminary and tentative budget presentation whereby the District started the budget process with a \$9.7 million dollar deficit. The District contracted with the University of Pennsylvania to help run community forums to receive input on budget reductions. Difficult decisions were made to reduce personnel and programs. Fortunately, public outcry and support energized local state legislators to secure an additional \$2 million dollars of state funding. The additional funding was received after the budget adoption, and many, but not all of the reductions were reinstated. The District is finding it extremely difficult to maintain our existing programs, let alone fund the increasing needs of our diverse student population.

The budget challenges faced in the 2012-13 school year were not isolated events. The District is anticipating revenue streams to stagnate or decline. On the expenditure side, retirement contribution rates are scheduled to double over the next few years. Charter school costs continue to drain District resources, and special education costs rise with any additional state or federal revenue increases.

In addition to the economic challenges, the District continues to face overcapacity issues. Despite stable enrollment in 2012-2013, long-term solutions to alleviate our over-crowded schools will need to be identified.

The District successfully completed a contract with the Upper Darby Education Association which bargains for the teaching professionals of the District. The new contract is retroactive to July 1, 2012 and will expire on June 30, 2015. The new contract calls for a 0% increase (2012-13), and an annual increase of 2.25% in the 2013/14 and 2014/15 school years. In addition, the contract includes medical-premium contributions rates of 8% (2012/13), 9.16% (2013/14) and 12% (2014/15).

The District has also successfully completed a contract with the Upper Darby Educational Support Personnel Association. The new contract is retroactive to July 1, 2012, and will expire on June 30, 2015. The new contract calls for a 0% increase (2012-13), a \$550 increase (2013/14) and \$650 increase (2014/15) in salaries. In addition, the contract includes annual medical-premium contributions for single/other at \$180/\$360 respectively.

The District's contract with the Transport Workers' Union ("TWU"), which bargains for maintenance, custodial and transportation employees, has a 2.0% salary increase in 2013-14 and expires on June 30, 2014. The District will have upcoming negotiations with the TWU.

## **Requests for Information**

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

# Upper Darby School District

Statement of Net Position

June 30, 2013

	<b>Governmental Activities</b>	<b>Business-Type Activity</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 15,060,721	\$ 1,813,237	\$ 16,873,958
Investments	2,944,204		2,944,204
Taxes receivable, net	7,501,650		7,501,650
Due from other governments	3,460,500	259,592	3,720,092
Other receivables	519,418	447,279	966,697
Internal balances	418,460	(418,460)	-
Inventories	385,330	13,131	398,461
 Total current assets	 30,290,283	 2,114,779	 32,405,062
Capital assets	61,215,476	127,772	61,343,248
Restricted cash	609,880		609,880
Deferred charges	198,295		198,295
 Total	 \$ 92,313,934	 \$ 2,242,551	 \$ 94,556,485
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 2,830,111	\$ 476,902	\$ 3,307,013
Current maturities of:			
Bonds and note payable	3,611,190		3,611,190
Capital lease obligations	1,094,067		1,094,067
Authority lease obligations	102,509		102,509
Accrued salaries and benefits	4,236,984		4,236,984
Accrued interest payable	268,105		268,105
Current portion of compensated absences	251,320		251,320
Current portion of special termination benefits	336,637		336,637
Current portion of postretirement benefits	128,208		128,208
Deferred revenues	446,793		446,793
Other current liabilities	618,808		618,808
 Total current liabilities	 13,924,732	 476,902	 14,401,634
Bonds and note payable	34,650,160		34,650,160
Capital lease obligations	1,808,690		1,808,690
Authority lease obligations	1,840,277		1,840,277
Compensated absences	2,154,147		2,154,147
Special termination benefits	1,344,997		1,344,997
Postretirement benefits	582,135		582,135
 Total liabilities	 56,305,138	 476,902	 56,782,040
<b>Net Position</b>			
Net investment in capital assets	20,249,664	127,772	20,377,436
Restricted	609,880		609,880
Unrestricted	15,149,252	1,637,877	16,787,129
 Total net position	 36,008,796	 1,765,649	 37,774,445
 Total	 \$ 92,313,934	 \$ 2,242,551	 \$ 94,556,485

*See notes to financial statements*

# Upper Darby School District

Statement of Activities

Year Ended June 30, 2013

	Program Revenues			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
<b>Governmental Activities</b>						
Instruction	\$ 103,495,802	\$ 121,875	\$ 24,173,327	\$ (79,200,600)		\$ (79,200,600)
Instructional student support	12,545,571		1,452,098	(11,093,473)		(11,093,473)
Administrative and financial support services	11,265,596		953,340	(10,312,256)		(10,312,256)
Operation and maintenance of plant services	12,363,147		300,970	(12,062,177)		(12,062,177)
Pupil transportation	7,814,827	23,500	2,786,965	(5,004,362)		(5,004,362)
Student activities	2,531,512	709,041	167,297	(1,655,174)		(1,655,174)
Community service	2,700,515	1,481,958	214,678	(1,003,879)		(1,003,879)
Interest on long-term debt	1,849,922		2,191,794	341,872		341,872
Depreciation	3,597,548			(3,597,548)		(3,597,548)
Total governmental activities	158,164,440	2,336,374	32,240,469	(123,587,597)		(123,587,597)
<b>Business-Type Activity, Food Service</b>						
	4,577,047	1,140,093	4,110,232		\$ 673,278	673,278
Total	<u>\$ 162,741,487</u>	<u>\$ 3,476,467</u>	<u>\$ 36,350,701</u>	<u>(123,587,597)</u>	<u>673,278</u>	<u>(122,914,319)</u>
<b>General Revenues</b>						
Taxes levied for general purposes, net				96,725,247		96,725,247
Grants, subsidies and contributions not restricted				30,477,216		30,477,216
Miscellaneous income				219,946		219,946
Investment earnings				108,285	1,195	109,480
Insurance reimbursement				104,970		104,970
Transfers				418,460	(418,460)	-
Total general revenues				128,054,124	(417,265)	127,636,859
<b>Change in Accounting Estimate - Capital Assets</b>						
				3,295,184	-	3,295,184
<b>Change in Net Position</b>						
				7,761,711	256,013	8,017,724
<b>Net Position, Beginning</b>						
				28,247,085	1,509,636	29,756,721
<b>Net Position, Ending</b>						
				<u>\$ 36,008,796</u>	<u>\$ 1,765,649</u>	<u>\$ 37,774,445</u>

See notes to financial statements

# Upper Darby School District

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Balance Sheet  
Governmental Funds  
June 30, 2013

	Major Funds			
	General	Capital Reserve	Nonmajor Funds	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 14,843,960		\$ 216,761	\$ 15,060,721
Restricted cash		\$ 609,880		609,880
Investments	2,944,204			2,944,204
Taxes receivable, net	7,501,650			7,501,650
Due from other governments	3,460,500			3,460,500
Other receivables	519,418			519,418
Due from other funds	418,460			418,460
Inventories	385,330			385,330
Total	<u>\$ 30,073,522</u>	<u>\$ 609,880</u>	<u>\$ 216,761</u>	<u>\$ 30,900,163</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,830,111			\$ 2,830,111
Accrued salaries and benefits	4,236,984			4,236,984
Deferred revenues	7,337,649			7,337,649
Other current liabilities	618,808			618,808
Total liabilities	<u>15,023,552</u>			<u>15,023,552</u>
<b>Fund Balances</b>				
Nonspendable	385,330			385,330
Restricted		\$ 609,880		609,880
Committed	2,600,000		\$ 216,761	2,816,761
Assigned	4,269,390			4,269,390
Unassigned	7,795,250			7,795,250
Total fund balances	<u>15,049,970</u>	<u>609,880</u>	<u>216,761</u>	<u>15,876,611</u>
Total	<u>\$ 30,073,522</u>	<u>\$ 609,880</u>	<u>\$ 216,761</u>	<u>\$ 30,900,163</u>

*See notes to financial statements*

## **Upper Darby School District**

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Reconciliation of the Balance Sheet of Governmental Funds

to the Statement of Net Position

June 30, 2013

<b>Total Fund Balances - Governmental Funds</b>	\$ 15,876,611
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	61,215,476
Bond and note issuance costs are deferred and amortized over the life of the debt in the statement of net position	198,295
Real estate taxes receivable will not be collected soon enough to pay for the current period's expenditures and therefore are deferred in the funds	6,890,856
Accrued interest payable is included in the statement of net position	(268,105)
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	(38,261,350)
Capital lease obligations	(2,902,757)
Authority lease obligations	(1,942,786)
Compensated absences	(2,405,467)
Special termination benefits	(1,681,634)
Other postretirement benefits	<u>(710,343)</u>
<b>Total Net Position - Governmental Activities</b>	<u>\$ 36,008,796</u>

# Upper Darby School District

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2013

	Major Funds			Total Governmental Funds
	General	Capital Reserve	Nonmajor Funds	
<b>Revenues</b>				
Local sources	\$ 95,266,196	\$ 1,097	\$ 709,042	\$ 95,976,335
State sources	57,225,252			57,225,252
Federal sources	8,580,039			8,580,039
Total revenues	<u>161,071,487</u>	<u>1,097</u>	<u>709,042</u>	<u>161,781,626</u>
<b>Expenditures</b>				
Instruction	104,326,919			104,326,919
Support services	44,607,237		89,434	44,696,671
Noninstructional services	4,510,659		737,409	5,248,068
Capital outlay		975,868		975,868
Refund of prior year receipts	49,138			49,138
Debt service	<u>7,525,939</u>			<u>7,525,939</u>
Total expenditures	<u>161,019,892</u>	<u>975,868</u>	<u>826,843</u>	<u>162,822,603</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>51,595</u>	<u>(974,771)</u>	<u>(117,801)</u>	<u>(1,040,977)</u>
<b>Other Financing Sources (Uses)</b>				
Insurance reimbursements	104,970			104,970
Proceeds from bond issuance		4,385,000		4,385,000
Bond discount		(28,297)		(28,297)
Payment to refunding bond escrow agent		(4,259,899)		(4,259,899)
Proceeds from extended term financing	1,869,787			1,869,787
Transfers in (out)	<u>425,830</u>		<u>(7,370)</u>	<u>418,460</u>
Other financing sources, net	<u>2,400,587</u>	<u>-</u>	<u>89,434</u>	<u>2,490,021</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<u>2,452,182</u>	<u>(974,771)</u>	<u>(28,367)</u>	<u>1,449,044</u>
<b>Fund Balance, Beginning</b>	<u>12,597,788</u>	<u>1,584,651</u>	<u>245,128</u>	<u>14,427,567</u>
<b>Fund Balance, Ending</b>	<u>\$ 15,049,970</u>	<u>\$ 609,880</u>	<u>\$ 216,761</u>	<u>\$ 15,876,611</u>

## **Upper Darby School District**

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Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
Year Ended June 30, 2013

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 1,449,044
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures.

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

Capital outlay	1,654,467
Less: depreciation expense	<u>(3,597,548)</u>

(1,943,081)

This amount represents a change in accounting estimate related to capital assets from prior year to the current year

3,295,184

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

422,620

Change in allowance for uncollectible taxes

(47,571)

Bond proceeds are current financial resources and are reported in the funds but not in the statement of activities

(4,385,000)

Payments to refunding bond escrow agent are reported in the funds but not in the statement of activities

4,259,899

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

Activity during the period is as follows:

Debt issuance costs paid	89,434
Bond discounts on issuance	28,297
Amortization of debt issuance costs	(25,169)
Amortization of bond premiums/discounts	87,670
Amortization of deferred refunding charges	<u>(138,722)</u>
	41,510

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

Bonds and notes	3,911,190
Capital leases	1,459,560
Authority leases	<u>127,922</u>
	5,498,672

Proceeds from extended term financing is considered a current financial resource and reported in the funds but not in the statement of activities

(1,869,787)

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

157,538

Change in accrued interest payable

70,859

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

Compensated absences	362,562
Special termination benefits	372,779
Other postretirement benefits	<u>76,483</u>
	811,824

**Change in Net Position of Governmental Activities**

\$ 7,761,711

## Upper Darby School District

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

Budget and Actual - General Fund

Year Ended June 30, 2013

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 94,200,946	\$ 95,266,196	\$ 1,065,250
State sources	54,308,401	57,225,252	2,916,851
Federal sources	<u>6,069,416</u>	<u>8,580,039</u>	<u>2,510,623</u>
Total revenues	<u>154,578,763</u>	<u>161,071,487</u>	<u>6,492,724</u>
<b>Expenditures</b>			
Instruction	103,674,760	104,326,919	(652,159)
Support services	43,932,892	44,607,237	(674,345)
Noninstructional services	4,909,570	4,510,659	398,911
Debt service	7,655,541	7,525,939	129,602
Refund of prior year receipts	<u>55,000</u>	<u>49,138</u>	<u>5,862</u>
Total expenditures	<u>160,227,763</u>	<u>161,019,892</u>	<u>(792,129)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>			
	<u>(5,649,000)</u>	<u>51,595</u>	<u>5,700,595</u>
<b>Other Financing Sources (Uses)</b>			
Insurance reimbursements	-	104,970	104,970
Proceeds from extended term financing	1,818,000	1,869,787	51,787
Transfers in	-	425,830	425,830
Transfers out	(69,000)	-	69,000
Budgetary reserve	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
Total other financing sources, net	<u>1,649,000</u>	<u>2,400,587</u>	<u>751,587</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>			
	<u>(4,000,000)</u>	<u>2,452,182</u>	<u>6,452,182</u>
<b>Fund Balance, Beginning</b>	<u>9,932,846</u>	<u>12,597,788</u>	<u>2,664,942</u>
<b>Fund Balance, Ending</b>	<u>\$ 5,932,846</u>	<u>\$ 15,049,970</u>	<u>\$ 9,117,124</u>

*See notes to financial statements*

# **Upper Darby School District**

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Balance Sheet - Proprietary Fund

June 30, 2013

## **Assets**

### **Current Assets**

Cash and cash equivalents	\$ 1,813,237
Due from other governments	259,592
Other receivables	447,279
Inventories	<u>13,131</u>
Total current assets	2,533,239

### **Capital Assets**

Total	<u>127,772</u>
	<u>\$ 2,661,011</u>

## **Liabilities and Net Position**

### **Liabilities**

Current liabilities	
Accounts payable	\$ 476,902
Due to other funds	<u>418,460</u>
Total liabilities	<u>895,362</u>

### **Net Position**

Net investment in capital assets	127,772
Unrestricted net position	<u>1,637,877</u>
Total net position	<u>1,765,649</u>
Total	<u>\$ 2,661,011</u>

# **Upper Darby School District**

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Statement of Revenues, Expenses, and Change in Net Position -  
Proprietary Fund  
Year Ended June 30, 2013

## **Operating Revenues**

Food service revenue	<u>\$ 1,140,093</u>
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## **Operating Expenses**

Purchased services	4,293,239
Donated commodities	191,937
Other	59,672
Depreciation	<u>32,199</u>

Total operating expenses	<u>4,577,047</u>
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## **Operating Loss**

(3,436,954)
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## **Nonoperating Revenues (Expenses)**

Federal subsidies	3,896,163
State subsidies	214,069
Earnings on investments	1,195
Transfers out	<u>(418,460)</u>

Nonoperating revenues, net	<u>3,692,967</u>
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<b>Increase in Net Position</b>	256,013
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<b>Net Position, Beginning</b>	<u>1,509,636</u>
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<b>Net Position, Ending</b>	<u>\$ 1,765,649</u>
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# **Upper Darby School District**

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Statement of Cash Flows - Proprietary Fund  
Year Ended June 30, 2013

## **Cash Flows From Operating Activities**

Receipts from customers	\$ 1,143,546
Payments to suppliers	(4,696,264)
Net cash used in operating activities	<u>(3,552,718)</u>

## **Cash Flows From Noncapital Financing Activities**

Transfers out	(414,654)
State subsidies	239,049
Federal subsidies	<u>4,022,579</u>
Net cash provided by noncapital financing activities	<u>3,846,974</u>

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

Acquisition of capital assets	<u>(11,534)</u>
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## **Cash Flows Provided by Investing Activities**

Interest on investments	<u>1,195</u>
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**Net Increase in Cash** 283,917

**Cash, Beginning** 1,529,320

**Cash, Ending** \$ 1,813,237

## **Supplemental Disclosure of Noncash Transactions**

USDA donated commodities	<u>\$ 191,937</u>
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## **Reconciliation of Operating Loss to Net Cash**

### **Used in Operating Activities**

Operating loss	\$ (3,436,954)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	32,199
USDA donated commodities	191,937
Changes in:	
Other receivables	(439,928)
Accounts payable	<u>100,028</u>
Net cash used in operating activities	<u>\$ (3,552,718)</u>

# **Upper Darby School District**

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Statement of Net Position - Fiduciary Funds

June 30, 2013

	<b>Private Purpose Trust Fund</b>	<b>Activity Fund</b>
<b>Assets</b>		
<b>Cash</b>	<u>\$ 367,455</u>	<u>\$ 294,322</u>
<b>Liabilities and Net Position</b>		
<b>Other current liabilities</b>	\$ -	<u>\$ 294,322</u>
<b>Net position restricted for scholarships</b>	<u>367,455</u>	
<b>Total liabilities and net position</b>	<u>\$ 367,455</u>	

*See notes to financial statements*

# **Upper Darby School District**

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

Year Ended June 30, 2013

	<b>Private Purpose Trust Fund</b>
<b>Additions</b>	
Contribution income	\$ 189,672
Interest income	<u>500</u>
Total additions	<u>190,172</u>
<b>Deductions</b>	
Scholarships awarded	168,469
Administrative costs and supplies	<u>2,337</u>
Total deductions	<u>170,806</u>
<b>Change in Net Position</b>	19,366
<b>Net Position, Beginning</b>	<u>348,089</u>
<b>Net Position, Ending</b>	<u><u>\$ 367,455</u></u>

# **Upper Darby School District**

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## Notes to Financial Statements

June 30, 2013

### **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, Capital Projects, and Special Revenue 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, 2013

## **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, liabilities, 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.

#### **Special Revenue Funds**

Special Revenue funds are used to account and report the proceeds of restricted or committed specific revenue sources that comprise a substantial portion of the fund and are for expenditure of a specific purposes other than debt service or capital projects. The District uses the following Special Revenue fund:

#### **General Welfare Fund (Nonmajor)**

The General Welfare Fund accounts for general welfare programs administered for the students of the District. Revenues for this fund have been committed by the Board of School Directors.

#### **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.

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

## **Debt Service Fund (Nonmajor)**

The Debt Service Fund accounts for resources that are restricted, committed, or assigned to expenditure for principal and interest on advance refunding of general long-term debt obligations.

## **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.

## **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.

## **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 and all liabilities associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the District's total net position.

### **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, 2013

### **Basis of Accounting**

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

#### **Accrual Basis**

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

#### **Modified Accrual Basis**

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. The District considers property and other taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures, other than principal and interest on bonds 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 deferred revenue in both the government-wide and fund financial statements. Deferred revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues may also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

### **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, 2013

## **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**

Investments consist of certificates of deposit and U.S. government agency obligations. 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.

## **Deferred Charges**

In the government-wide financial statements, deferred charges consist of debt issuance costs that are being amortized over the term of the debt using the straight-line method since the results are not significantly different from the effective interest method. In the fund financial statements, these costs are reported as expenditures when the related liability is incurred.

## **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.

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

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.

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

	<b>Governmental Activities</b>	<b>Business-Type Activity</b>
Land improvements	20 years	N/A
Buildings and improvements	45 years	N/A
Furniture and equipment	5-20 years	5 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 and support personnel specify the sick and vacation leave policies. Administrative personnel, while not party to these agreements, are provided similar benefits. 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.

## **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 General Fund have been restricted by a donor for library expenditures. Amounts reported in the Capital Reserve Fund are restricted by Pennsylvania law to expenditures for capital assets.

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

- 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 2013, the Board of School Directors committed \$2,600,000 of fund balance to balance the 2013-2014 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 Director of Business Management to assign fund balance amounts as deemed financially necessary and appropriate. At June 30, 2013, the Director of Business Management has assigned fund balance for compensated absences (\$2,405,467), PSERS retirement contribution (\$1,583,733), Charter Schools (\$245,005), and encumbrances (\$35,185).
- 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.

## **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.

# **Upper Darby School District**

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Notes to Financial Statements

June 30, 2013

## **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.

## **Accounting Principles Adopted in 2013**

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus*, for the year ended June 30, 2013. GASB No. 61 addresses certain issues with distinguishing a government's control over another government in the reporting of component units. The District implemented GASB No. 61 as of July 1, 2012. The adoption had no effect on the District's financial statements.

The District adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, for the year ended June 30, 2013. GASB No. 62 directly incorporates the applicable guidance from those FASB and AICPA pronouncements, issued prior to November 30, 1989, into the state and local government accounting and financial reporting standards. The District implemented the accounting and reporting requirement of GASB No. 62 as of July 1, 2012. The adoption had no effect on the District's financial statements.

The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, for the year ended June 30, 2013. GASB No. 63 standardized the presentation of deferred outflows of resources and deferred inflows of resources and their effect on net position. The District adopted the presentation requirements of GASB No. 63 as of July 1, 2012.

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

## **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, 2013, the bank balance of the District's deposits with financial statements, including cash equivalents, was \$20,383,642 compared to the carrying amount of \$18,143,236. The difference is caused by items in-transit and outstanding checks. \$20,133,542 of the District's deposits were exposed to custodial credit risk at June 30, 2013 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. At June 30, 2013, the carrying amount of the Fund was \$2,378.

#### **Investments**

The District's investments consist of the following:

	Maturities (in Years)			
	Fair Value	Less than 1 Year	1-5	6-10
Certificates of deposit	\$ 2,941,000	\$ 2,941,000	\$ -	\$ -
U.S. government agency obligations	3,204	-	3,204	-
Total	\$ 2,944,204	\$ 2,941,000	\$ 3,204	\$ -

The District was not exposed to custodial credit risk as all certificates of deposit were fully insured and the U.S. government guarantees the U.S. government agency obligations.

# **Upper Darby School District**

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## Notes to Financial Statements

June 30, 2013

### **3. Real Estate Taxes**

The tax on real estate, as levied by the Board of School Directors, was 32.85 mills (\$32.85 per \$1,000 of assessed valuation) for fiscal year 2013. Delaware County determines the assessed value of property and the tax collector is responsible for collection. The District's Director of Business Management 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, 2013 totaled \$7,598,676 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$707,820. Taxes receivable also includes \$1,916 of interim taxes, \$181,589 of real estate transfer taxes receivable and \$427,289 of delinquent real estate taxes collected by Delaware County but not yet remitted to the District.

Real estate tax revenue includes an offset of \$47,572 due to an increase in the allowance for doubtful accounts.

### **4. Due from Other Governments**

Due from other governments consists of the following:

Governmental activities:

Pennsylvania Department of Education:

State source revenues	\$ 2,426,666
Federal source revenues	974,421
Other school districts,	
Local source revenues	<u>59,413</u>

Total governmental activities \$ 3,460,500

Business-type activity:

Pennsylvania Department of Education:

State source revenues	\$ 14,135
Federal source revenues	<u>245,457</u>
Total business-type activity	<u>\$ 259,592</u>

# Upper Darby School District

## Notes to Financial Statements

June 30, 2013

### 5. Capital Assets

The changes in the District's capital assets in 2013 are summarized as follows:

	<u>Balance June 30, 2012</u>	<u>Transfers/ Additions</u>	<u>Change in Accounting Estimate</u>	<u>Balance June 30, 2013</u>
<b>Governmental activities:</b>				
Cost:				
Land	\$ -	\$ -	\$ 680,000	\$ 680,000
Land improvements	2,772,707	-	2,948,633	5,721,340
Buildings and improvements	106,213,704	1,017,114	(207,579)	107,023,239
Furniture and equipment	23,013,516	672,336	2,424,695	26,110,547
Construction-in-progress	43,500	(34,983)	-	8,517
Total cost	<u>132,043,427</u>	<u>1,654,467</u>	<u>5,845,749</u>	<u>139,543,643</u>
Less accumulated depreciation:				
Land improvements	(1,508,378)	(199,836)	(2,236,731)	(3,944,945)
Building and improvements	(50,400,168)	(2,433,365)	(205,698)	(53,039,231)
Furniture and equipment	(20,271,508)	(964,347)	(108,136)	(21,343,991)
Total accumulated depreciation	<u>(72,180,054)</u>	<u>(3,597,548)</u>	<u>(2,550,565)</u>	<u>(78,328,167)</u>
Total	<u>\$ 59,863,373</u>	<u>\$ (1,943,081)</u>	<u>\$ 3,295,184</u>	<u>\$ 61,215,476</u>
<b>Business-type activity:</b>				
Furniture and equipment	\$ 781,948	\$ 11,534	\$ -	\$ 793,482
Less accumulated depreciation	(633,511)	(32,199)	-	(665,710)
Total	<u>\$ 148,437</u>	<u>\$ (20,665)</u>	<u>\$ -</u>	<u>\$ 127,772</u>

In 2013, the District engaged an asset appraisal firm to conduct a District-wide inventory and appraisal of its capital assets. The last such inventory and appraisal was performed in 2000. The appraisal portion of the work involved the determination of the estimated historical cost of the capital assets as well as the estimated depreciation thereon. The District adjusts its records based on the results of the inventory and appraisal and considers any resulting change to be a change in accounting estimate. The adjustment required as a result of the inventory and appraisal was \$3,295,184 and is included in the statement of activities.

# Upper Darby School District

## Notes to Financial Statements

June 30, 2013

### **6. Bonds and Notes Payable**

The following summarizes the changes in the District's bonds and note payable in 2013:

	<u>Interest Rates</u>	<u>Current Portion</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Series A of 2004, to currently refund the Series of 1998. Matures February 3, 2013	3.25 %	\$ -	\$ 2,930,000	\$ -	\$ (2,930,000)	\$ -
Series B of 2004, advance refunded by Series of 2012	4.30 %	-	4,010,000	-	(4,010,000)	-
Series of 2005, to advance refund the Series of 1999. Matures May 1, 2024	2.85% - 5.00 %	% 3,240,000	30,150,000	-	(610,000)	29,540,000
Series of 2010, to finance capital projects. Matures March 1, 2026	5.00 %	339,333	4,750,667	-	(339,333)	4,411,334
Series A of 2011, to finance capital projects. Matures September 1, 2025	5.09 %	26,857	376,000	-	(26,857)	349,143
Series of 2012, to advance refund Series B of 2004. Matures February 15, 2024	1.0% - 2.1%	5,000	-	4,385,000	(5,000)	4,380,000
Total		<u>\$ 3,611,190</u>	42,216,667	4,385,000	(7,921,190)	38,680,477
Bond and note premiums			1,084,502	(28,297)	(82,468)	973,737
Deferred refunding charges			<u>(1,237,353)</u>	<u>(294,233)</u>	<u>138,722</u>	<u>(1,392,864)</u>
Total		<u>\$ 42,063,816</u>	<u>\$ 4,062,470</u>	<u>\$ (7,864,936)</u>	<u>\$ 38,261,350</u>	

Total interest paid on these bonds and notes in 2013 was \$1,877,127. No interest was capitalized in 2013. No interest is reported as a direct expense in the statement of activities.

# **Upper Darby School District**

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## **Notes to Financial Statements**

June 30, 2013

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 is 95.6% on the Series of 2010 and 100% on the Series A of 2011. In 2013, the District received \$264,178 in interest subsidies which is included in federal source revenues.

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2013:

Year ending June 30:	Principal	Interest	Total
2014	\$ 3,611,191	\$ 1,754,718	\$ 5,365,909
2015	3,746,190	1,625,068	5,371,258
2016	3,886,190	1,490,018	5,376,208
2017	4,056,191	1,314,218	5,370,409
2018	4,241,191	1,129,919	5,371,110
2019-2023	16,210,953	2,959,304	19,170,257
2024-2026	2,928,571	840,727	3,769,298
 Total	 \$ 38,680,477	 \$ 11,113,972	 \$ 49,794,449

With the proceeds of the Series of 2012 general obligation bonds, the District purchased U.S. government securities and placed them in a separate irrevocable trust fund. The securities and earnings thereon are considered sufficient to fully service the Series B of 2004 bonds until they mature. For financial reporting purposes, the Series B of 2004 bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. At June 30, 2013, the amount of defeased bonds outstanding but removed from the statement of net position was \$4,010,000.

The advance refunding decreased the District's total debt service payments over the next ten years by approximately \$546,000 and provided an economic gain (the difference between the present value of the debt service payments on the old and new debt) of approximately \$513,000.

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

## **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, 2013, the District's authority lease obligations consisted of the following:

	<b>Balance July 1, 2012</b>		<b>Additions</b>		<b>Reductions</b>		<b>Balance June 30, 2013</b>
Delaware County Vocational- Technical School Authority	\$ 57,994		\$ -		\$ (57,994)		\$ -
Delaware County Community College	2,170,252		115,435		(342,901)		1,942,786
Total	\$ 2,228,246		\$ 115,435		\$ (400,895)		\$ 1,942,786

Interest expense on authority lease obligations was \$94,121 in 2013.

The aggregate maturities of authority lease obligations are as follows:

Year ending June 30:

2014	\$ 179,943
2015	179,943
2016	143,959
2017	143,959
2018	143,959
Thereafter	1,984,171
 Total lease payments	2,775,934
 Less amount representing interest	(833,148)
 Total authority lease obligations	\$ 1,942,786

# **Upper Darby School District**

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## **Notes to Financial Statements**

June 30, 2013

### **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 2013:

Balance, July 1, 2012	\$ 2,492,530
Additions	1,869,787
Payments	<u>(1,459,560)</u>
Balance, June 30, 2013	<u>\$ 2,902,757</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, 2013:

Year ending June 30:	
2014	\$ 1,126,331
2015	920,446
2016	544,715
2017	<u>380,538</u>
Total minimum lease payments	2,972,030
Less amount representing interest	<u>(69,273)</u>
Present value of net minimum lease payments	<u>\$ 2,902,757</u>

Interest expense on capital leases was \$48,649 in 2013.

#### **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 \$435,525 in 2013. Future minimum payments under these leases are as follows:

Year ending June 30:	
2014	\$ 272,063
2015	272,063
2016	272,063
2017	272,063
2018	33,123
Thereafter	<u>515,103</u>
Total minimum lease payments	<u>\$ 1,636,478</u>

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

## **9. Employee Benefits**

### **Pension Plan**

All full-time and certain part-time employees of the District participate in the Commonwealth of Pennsylvania Public School Employees' Retirement System ("PSERS"), a governmental cost sharing, multi-employer defined benefit plan.

PSERS provides retirement and disability, legislative mandated ad hoc cost-of-living adjustments and health care insurance premium assistance to qualifying annuitants. The District's and its employees' obligation to contribute to PSERS are established by authority of Act 96 of the Public School Employees' Retirement Code. Benefit provisions are established and amended by the PSERS board of trustees. PSERS issues a comprehensive annual financial report that includes stand-alone financial statements and required supplementary information for the plan. A copy may be obtained from the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us) under Publications.

The District's contribution rate was 12.36% in 2013, 8.65% in 2012, and 5.64% in 2011 of covered payroll. The District's contributions were approximately \$9,553,000 in 2013, \$6,849,000 in 2012, and \$4,650,000 in 2011. The employees' contribution rates range from 5.25% to 10.3%, depending on date of hire and whether they elected to participate in the TD membership class.

### **Compensated Absences**

The changes in compensated absences in 2013 are summarized as follows:

Balance, July 1, 2012	\$ 2,768,029
Increases	98,630
Decreases	<u>(461,192)</u>
Balance, June 30, 2013	<u>\$ 2,405,467</u>

### **Postretirement Benefits**

In prior years, the District's personnel agreements included a provision for retiring individuals (that met certain specified criteria) to receive health insurance benefits from the date of retirement until the individual becomes eligible for the federal government health insurance program. The current agreements no longer provide such a benefit.

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 for these benefits based on the present value of the expected health insurance premium payments over the remaining term of the benefits.

# **Upper Darby School District**

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Notes to Financial Statements  
June 30, 2013

## **Special Termination Benefits**

The District's current agreement with its administrators includes a retirement incentive provision (must retire with ten years of service 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 for this benefit based on the present value of the expected retirement incentive amount and the probability that the administrator will receive such incentive. The benefit is funded on a pay-as-you-go basis.

Changes in the above liabilities in 2013 were as follows:

	<b>Postretirement Benefits</b>	<b>Special Termination Benefits</b>	<b>Total</b>
Balance, July 1, 2012	\$ 786,826	\$ 2,054,413	\$ 2,841,239
Increases	109,653	16,675	126,328
Payments and other decreases	(186,136)	(389,454)	(575,590)
Balance, June 30, 2013	<u>\$ 710,343</u>	<u>\$ 1,681,634</u>	<u>\$ 2,391,977</u>

## **10. Internal Balances/Interfund Balances and Transfers**

At June 30, 2013, \$418,460 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 2013:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund:		
Food Service Fund	\$ 418,460	\$ -
Debt Service		7,370
Food Service Fund, General Fund		418,460
Debt Service, General Fund	-	7,370
Total	<u>\$ 425,830</u>	<u>\$ 425,830</u>

# **Upper Darby School District**

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## Notes to Financial Statements

June 30, 2013

### **11. 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.

### **12. Pending Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District is required to adopt Statement No. 65 for its fiscal year 2014 financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District is required to adopt Statement No. 66 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The District is required to adopt Statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. To the extent applicable, the District is required to adopt Statement No. 69 for its fiscal year 2015 financial statements.

## **Upper Darby School District**

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### Notes to Financial Statements

June 30, 2013

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. To the extent applicable, the District is required to adopt Statement No. 70 for its fiscal year 2015 financial statements.

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

**Upper Darby School District**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2012	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2013
<b>U. S. DEPARTMENT OF EDUCATION</b>								
Passed through Pennsylvania Department of Education:								
Title I, Part A Cluster	84.010	013-120448	\$ 4,142,701	\$ 1,102,975	\$ 466,190	\$ 636,785	\$ 636,785	\$ -
Title I Grants to Local Educational Agencies	84.010	013-130448	3,751,523	2,782,549	-	3,486,255	3,486,255	703,706
Title I Grants to Local Educational Agencies	84.010	042-110449	112,360	12,484	12,484	-	-	-
Title I Grants to Local Educational Agencies	84.389	042-120449	116,872	116,872	-	116,872	116,872	-
Title I Grants to Local Educational Agencies, Recovery Act								
Total Title I, Part A Cluster				4,014,880	478,674	4,239,912	4,239,912	703,706
Twenty-First Century Community Learning Centers	84.287	FC4100052378	180,000	29,612	29,612	-	-	-
Foreign Language Assistance	84.293	T2938 1 222 13	91,197	15,530	13,209	2,321	2,321	-
English Language Acquisition State Grants	84.365	010-120448	226,196	87,744	(8,026)	95,770	95,770	-
English Language Acquisition State Grants	84.365	010-130448	202,059	107,765	-	138,870	138,870	31,105
Total English Language Acquisition State Grants				195,509	(8,026)	234,640	234,640	31,105
Improving Teacher Quality State Grants	84.367	020-120448	492,634	67,103	(10,069)	77,172	77,172	-
Improving Teacher Quality State Grants	84.367	020-130448	484,343	322,420	-	399,886	399,886	77,466
Total Improving Teacher Quality State Grants				389,523	(10,069)	477,058	477,058	77,466
School Improvement Grants	84.377	142-110448	1,983,780	305,197	(242,995)	548,192	548,192	-
School Improvement Grants	84.377	142-122448	1,868,030	1,618,959	-	1,767,007	1,767,007	148,048
Total School Improvement Grants				1,924,156	(242,995)	2,315,199	2,315,199	148,048
Education Jobs Fund, Recovery Act	84.410	S410A10039	32,457	32,457	32,457	-	-	-
Special Education Cluster								
<b>Passed through Lancaster-Lebanon Intermediate Unit</b>	84.027	113-762-0006-00	9,988	-	-	9,988	9,988	9,988
Special Education Grants to States								
<b>Passed through Delaware County Intermediate Unit</b>	84.027	062-110025	1,825,366	1,825,366	-	1,825,366	1,825,366	-
Special Education Grants to States	84.392	H39211009	16,779	16,779	-	16,779	16,779	-
Special Education - Preschool Grants, Recovery Act	84.392	H39211009	17,107	17,107	-	17,107	17,107	-
Special Education - Preschool Grants, Recovery Act				1,859,252	-	1,869,240	1,869,240	9,988
Total Special Education Cluster								
<b>Passed through Delaware County Intermediate Unit</b>	84.413A	B413A120004	289,600	38,532	-	49,788	49,788	11,256
Race to the Top - Phase III (RTT3)				8,499,451	292,862	9,188,158	9,188,158	981,569
<b>Total U.S. Department of Education</b>								

**Upper Darby School District**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2012	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2013
<b>U.S. DEPARTMENT OF AGRICULTURE</b>								
Child Nutrition Cluster								
<b>Passed through Pennsylvania Department of Education:</b>								
School Breakfast Program	10.553	365	\$ 333,611	\$ 343,399	\$ 32,647	\$ 333,611	\$ 333,611	\$ 22,859
School Breakfast Program	10.553	367	887,285	950,582	127,115	887,285	887,285	63,818
National School Lunch Program	10.555	362	2,497,604	2,726,386	387,562	2,497,604	2,497,604	158,780
Special Milk Program for Children	10.556	364	13,306	2,212	2,212	-	-	-
<b>Passed through Pennsylvania Department of Agriculture,</b>								
Food Donation	10.555		213,334	177,663	-	177,663	177,663	-
<b>Total Child Nutrition Cluster/U.S. Department of Agriculture</b>				4,200,242	549,536	3,896,163	3,896,163	245,457
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>								
<b>Passed through Pennsylvania Department of Education:</b>								
Refugee and Entrant Assistance Discretionary Grants	93.576	41000-55-734	98,620	98,620	98,620	-	-	-
<b>Passed through Pennsylvania Department of Public Welfare:</b>								
Medical Assistance Program	93.778	044-007448		63,780	26,257	51,619	51,619	14,096
<b>Total U.S. Department of Health and Human Services</b>				162,400	124,877	51,619	51,619	14,096
<b>TOTAL</b>				\$ 12,862,093	\$ 967,275	\$ 13,135,940	\$ 13,135,940	\$ 1,241,122

Note: The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2014.

**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 of 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.

*ParenteBeard LLC*

Philadelphia, Pennsylvania  
January 10, 2014

**Independent Auditors' Report on Compliance  
for Each Major Federal Program and Report  
on Internal Control Over Compliance  
Required by OMB Circular A-133**

Board of School Directors  
Upper Darby School District

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

We have audited Upper Darby School District's (the "District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*ParenteBeard LLC*

Philadelphia, Pennsylvania  
January 10, 2014

# **Upper Darby School District**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

## **Section I – Summary of Auditors’ Results**

### **Financial Statements**

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	<input type="checkbox"/>	yes	X no
Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	X none reported
Noncompliance material to financial Statements noted?	<input type="checkbox"/>	yes	X no

### **Federal Awards**

Internal control over major programs:			
Material weakness(es) identified?	<input type="checkbox"/>	yes	X no
Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	X none reported
Type of auditors' report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<input type="checkbox"/>	yes	X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553/10.555/10.556	Child Nutrition Cluster
84.367	Title II - Improving Teacher Quality State Grants
Dollar threshold used to distinguish between Type A and Type B programs:	\$394,078
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

## **Upper Darby School District**

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Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

### **Section II – Financial Statement Findings**

None.

### **Section III - Federal Award Findings and Questioned Costs**

None.

### **Section IV – Summary Schedule of Prior Year Audit Findings**

#### **Finding 2012-01 – U.S. Department of Agriculture, Passed Through the Pennsylvania Department of Education, Child Nutrition Cluster–CFDA #10.553/10.555/10.556 2011-2012**

##### **Condition**

The District performed verification testing on 219 applications. From this population, we selected a sample of 40 for review. In 2 of the 40 selected, we noted the District had incorrectly approved a student for free price meals when the verified income had supported a reduced price classification.

##### **Recommendation**

The District should have a second individual review the conclusion of the verifying individual.

##### **Status**

No similar finding in 2013.