

Upper Darby School District

Financial Statements and
Supplementary Information

June 30, 2014



BAKER TILLY

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Upper Darby School District

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Independent Auditors' Report

Board of School Directors
Upper Darby School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Upper Darby School District (the "District"), as of and for the year ended June 30, 2014, 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, 2014, 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 43-44, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 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.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
November 24, 2014

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2014

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, 2014. 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 \$7,841,992 in 2014. Net position of governmental activities increased \$7,590,525, an increase of 21.1% over 2013. Net position of the business-type activity increased \$251,467, or 14.2%, from 2013.

The District had \$161,645,371 in expenditures related to governmental activities in 2014; only \$34,601,449 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidy) of \$134,634,447 were more than adequate to provide for these programs. As a result, the District's governmental activities net position increased \$7,590,525 on a government-wide, full accrual basis.

In the District's business-type activity, net position increased by \$251,467 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, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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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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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the District's major funds (General Fund and Capital Reserve Fund) and non-major fund (General Welfare Fund). Non-major funds 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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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 26-42 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 2014 included \$162,947,060 of revenues and other financing sources and \$165,547,060 of expenditures and other financing uses. The District committed an additional \$2,600,000 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 an additional \$2.6 million of appropriations from the Commonwealth for Basic Education Funding (announced after the District's budget adoption) as the District intention was to preserve its fund balance and to utilize this funding to cover the anticipated shortfall.

The actual 2014 revenues and other financing sources were \$170,854,774, or \$7.9 million and 4.8%, above final budget. Significant positive variances were seen in all revenue streams. The variance in local revenues is primarily resulting from current and delinquent tax collections, \$2,446,417, non-budgeted sources, \$387,860, including federally-funded, pass-thru programs, \$224,955. Positive variances in state revenues primarily resulted from an increase in the District's Basic Education Funding, \$2,600,000; a \$150,000 Special Ed subsidy for out-of-state reimbursement; and other state subsidies resulting from an increase in the District's aid ratio of \$307,335 (net of reduction due to discontinued support and unanticipated support of \$132,968). Additionally, the positive variance in federally funded programs resulted from non-budgeted programs of \$1,910,817, including Title I Set-Aside and School Improvement Grants, Medical ACCESS Assistance and Administrative Reimbursement. Other positive variances were from other sources including transfer from Food Service operations of \$229,534 and insurance recoveries of \$108,264.

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(Unaudited)
June 30, 2014

Actual expenditures and other uses were \$164,464,004, or \$1,083,055 (0.6%) under the final budget. The decrease is the result of the District's actual expenditures falling below budget by \$5,334,662 which were offset by non-budgeted expenditures (\$4,251,607), including transfer of \$2,000,000 surplus to the Capital Reserve Fund and \$2,251,607 of non-budgeted expenditures related primarily to federally funded grants (see federal revenue discussion above). Due to a significant amount of staff turnover, child-rearing leave of absences and movement of positions into non-budgeted federally funded programs, the District was able to realize approximately \$3.5 million in saving in salaries and benefits. The District is self-funded for all employee health benefits and budgets based on industry-wide actuarial rates and past experience. Significant savings of \$1.7 million were realized in 2014 as the actual usage for the plans, including the consumption of specialty drugs, fell below industry standards and prior year levels.

The District's General Fund Balance increased \$6,390,770 in 2014. With the adoption of the budget, the Board had committed \$2,600,000 of unassigned fund balance to cover the projected shortfalls for the 2013-2014 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, 2014 is \$13,243,766, representing 8.0% 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		% Change
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$ 49,735	\$ 31,098	\$ 2,386	\$ 2,115	\$ 52,121	\$ 33,213	56.9 %
Capital assets	58,581	61,216	154	128	58,735	61,344	4.3
Deferred outflows of resources	1,255	1,392	-	-	1,255	1,392	(9.8)
Total	\$ 109,571	\$ 93,706	\$ 2,540	\$ 2,243	\$ 112,111	\$ 95,949	16.8 %
Current liabilities	\$ 19,909	\$ 8,401	\$ 523	\$ 477	\$ 20,432	\$ 8,878	130.1 %
Long-term liabilities:							
Due within one year	5,887	5,524	-	-	5,887	5,524	6.6
Due after one year	40,176	43,772	-	-	40,176	43,772	(8.2)
Total liabilities	65,972	57,697	523	477	\$ 66,495	58,174	14.3
Net position:						\$	
Net investment in capital assets	19,451	20,250	154	128	19,605	20,378	3.8
Restricted	2,084	610	-	-	2,084	610	241.7
Unrestricted	22,064	15,149	1,863	1,638	23,927	16,787	42.5
Total net position	43,599	36,009	2,017	1,766	45,616	37,775	20.8
Total	\$ 109,571	\$ 93,706	\$ 2,540	\$ 2,243	\$ 112,111	\$ 95,949	16.8 %

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2014

Condensed Statement of Activities (in 000's)

	Governmental Activities		Business Type Activity		Totals		% Change
	2014	2013	2014	2013	2014	2013	
Program revenues:							
Charges for services	\$ 2,274	\$ 2,336	\$ 1,129	\$ 1,140	\$ 3,403	\$ 3,476	(0.2) %
Operating grants and contributions	32,327	32,240	4,670	4,111	36,997	36,351	1.8
General revenues:							
Taxes levied for general purposes, net	99,919	96,725	-	-	99,919	96,725	3.3
Grants, subsidies and contributions not restricted	33,869	30,477	-	-	33,869	30,477	11.1
Change in accounting estimate - capital assets	-	3,295	-	-	-	3,295	(100.0)
Other	847	853	(428)	(417)	419	436	(0.3)
Total revenues	169,236	165,926	5,371	4,834	174,607	170,760	2.2 %
Program expenses:							
Instruction	106,081	103,496	-	-	106,081	103,496	2.5 %
Instructional student support	12,445	12,545	-	-	12,445	12,545	(0.8)
Administration and financial support services	11,533	11,266	-	-	11,533	11,266	0.2
Operation and maintenance of plant services	12,502	12,363	-	-	12,502	12,363	1.1
Pupil transportation	7,873	7,815	-	-	7,873	7,815	0.7
Student activities	2,360	2,532	-	-	2,360	2,532	(6.7)
Community services	2,707	2,700	-	-	2,707	2,700	0.2
Interest	1,990	1,850	-	-	1,990	1,850	7.6
Depreciation	4,155	3,597	-	-	4,155	3,597	15.5
Food service	-	-	5,120	4,577	5,120	4,577	11.9
Total expenses	161,646	158,164	5,120	4,577	166,766	162,741	2.5 %
Change in net position	7,590	7,762	251	257	7,841	8,019	(2.2) %
Net position, beginning	36,009	28,247	1,766	1,509	37,775	29,756	26.9
Net position, ending	<u>\$ 43,599</u>	<u>\$ 36,009</u>	<u>\$ 2,017</u>	<u>\$ 1,766</u>	<u>\$ 45,616</u>	<u>\$ 37,775</u>	<u>20.8 %</u>

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2014

Governmental Activities

The net position of the governmental activities increased by \$7,590,525 in 2014. Factors contributing to the increase are an additional \$2,600,000 from the Commonwealth for Basic Education Subsidy Funding; \$2,446,417 in unanticipated current and delinquent real estate tax collections; and other unanticipated increases in revenues and cost savings and transfers as discussed previously.

Business-Type Activity

The District's food service operation increased its net position by \$251,467 in 2014. 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 2013:

	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 99,306,926	\$ 95,266,196	\$ 4,040,730	4.2 %
State sources	62,083,360	57,225,252	4,858,108	8.5 %
Federal	7,213,683	8,580,039	(1,366,356)	(15.9) %
Total	<u>\$ 168,603,969</u>	<u>\$ 161,071,487</u>	<u>\$ 7,532,482</u>	<u>4.7 %</u>

Local Revenue Sources

Revenues from local sources increased by \$4,040,730 or 4.2% in 2014 as compared to 2013. The majority of the local revenue is derived through real estate tax collections and represents \$95.4 million, or 55.8% of the total revenues for 2014. Total real estate taxes increased by \$4,161,368 over 2013. Current real estate taxes increased \$2,580,411 due to a 2.9% increase in the millage rate and a better than expected collection rate. The collection rate for 2014 was 93.65%, as compared to 93.47% in 2013. In addition, delinquent real estate tax collections increased \$1,642,358. However, the District continues to be impacted by continuing economic stress and the lack of economic development within its region. The District experienced a reduction in net assessment value of \$6,957,319 as compared to 2013 resulting from court approved assessment appeals. In addition, transfer taxes fell from the previous year by \$171,934.

Upper Darby School District

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(Unaudited)

June 30, 2014

State Revenue Sources

Revenues derived from state sources increased \$4,858,108, or 8.5%, in 2014 as compared to prior year. The increases are primarily related to a \$3,391,914 increase in Basic Education Funding, including an additional \$2,600,000 in appropriations as approved by the Commonwealth after the District had adopted its 2013-14 budget and an increase of \$2,016,406 in retirement reimbursement due to higher employer pension contributions rates. Pension rates increased from 12.36% in 2013 to 16.93% in 2014, a 37% increase. Reductions were seen in Rental and Sinking Fund Subsidy (\$297,213) due to the retirement of the 2004 bond issue in 2013 and in Special Education Subsidy (\$181,762) due to reduction in claims for extraordinary costs and out of state reimbursements.

Federal Revenue Sources

Revenues derived from federal sources decreased by \$1,366,356, or 15.9% in 2014 as compared to the prior year. The decreases are primarily related to overall federal program cuts but primarily in the Title I program.

The following represents a summary of General Fund Expenditures, by function, along with changes from the 2013 school year:

	<u>2014</u> <u>Amount</u>	<u>2013</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Instruction	\$ 106,084,230	\$ 104,326,919	\$ 1,757,311	1.7 %
Support services	44,937,464	44,607,237	330,227	0.7
Non-instructional services	4,385,025	4,510,659	(125,634)	(2.8)
Refund of prior year receipts	35,207	49,138	(13,931)	(28.3) %
Debt service	7,022,078	7,525,939	(503,861)	(6.7) %
Total	<u>\$ 162,464,004</u>	<u>\$ 161,019,892</u>	<u>\$ 1,444,112</u>	<u>0.9 %</u>

Instruction

Instruction expenditures increased \$1,757,311, or 1.7% in 2014. Significant components of the increases relate to non-salaried related expenditures in special education costs of \$1,557,151 (excluding charter school tuition costs); retirement costs of \$2,170,570 (see rate increase above) and both regular and special education costs for charter schools of \$779,619. Although contractual agreements were made prior to the start of the new school year which result in increases in salaries, the District realized a net reduction of \$1,575,454 in instructional salaries with 13 positions lost due to attrition and a high level of staff turnover. A byproduct of staffing changes was a reduction in benefit costs of \$522,959.

Upper Darby School District

Management's Discussion and Analysis
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Support Services

Expenses for support services increased \$330,227 or 0.7% in 2014. Significant components of the increase are primarily related to increased retirement costs of \$914,227 and transportation repairs, maintenance and supplies of \$120,638. Offsetting these costs were reductions in salaries and other benefits of \$782,412, resulting from attrition, turnover and decreases in federal funding.

Noninstructional Services

Non-instructional services decreased \$125,634 in 2014, primarily due to budgeted reductions in pay for extra duty.

Debt Service

Debt service in 2014 was \$7,022,078 representing a decrease of \$503,862 from 2013. The reduction is primarily due to the retirement of one bond issue and a refinancing of another bond issue in 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 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.

In 2014, the District completed various capital projects including the completion of the roof replacement at Aronimink Elementary School, and replacement of the public address system at the High School. Total expenditures from the Capital Reserve fund were \$526,583 in 2014.

The Board approved a transfer of surplus funds from the District's General Fund in the amount of \$2,000,000 effective June 30, 2014. As a result, the Capital Reserve Fund has a fund balance of \$2,083,910 reserved for future capital improvements. The funding will provide for several projects, including the replacement of the High School's hot water heater, roofing of the B-building and chilling towers, and the public address system in the Drexel Hill Middle School.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2014

Capital Assets

The District's capital assets at June 30, 2014 are summarized below:

	<u>Governmental Activities</u>	<u>Business Type Activity</u>	<u>Total</u>
Land and land improvements	\$ 6,357,580	\$ -	\$ 6,357,580
Buildings and improvements	10,7389,016	-	107,389,016
Furniture and equipment	26,660,939	861,650	27,522,589
Construction in progress	-	-	-
Total	140,407,535	861,650	141,269,185
Less: accumulated depreciation	<u>(81,826,696)</u>	<u>(703,222)</u>	<u>(82,529,918)</u>
Net	<u>\$ 58,580,839</u>	<u>\$ 158,428</u>	<u>\$ 58,739,267</u>

Long Term Debt

At July 1, 2013, the District's general obligation debt was \$38,680,477. During the year, the District made payment against principal of \$3,611,191. The ending balance of outstanding debt as of June 30, 2014 is \$35,069,286.

The long term debt amount for the School District is approximately 10.5% of its legal limit of \$368 million. \$3,746,189 of this debt is scheduled for repayment in 2014-2015. Additional information on the District's long-term debt can be found in Note 6 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 prospective, the continued reductions in Title I 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.

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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 \$2.6 million 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 2013-14 school year was not an isolated event. The District is anticipating revenue streams to stagnate and reduce even more. On the expenditure side, employer retirement costs are escalating from 16% to 30% by the 2016-17 school year. Charter school costs continue to drain District resources, and special education costs rise with no additional state or federal revenue increases.

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

The District is entering the final year of its contract with the Upper Darby Education Association, which bargains for the teaching professionals of the District. The contract expires June 30, 2015. The contract requires a salary increase of 2.25% in the 2014/15 school year while also providing for an increase in the employee medical premium contribution rate from 9.16% to 12%.

The District is also entering the final year of its contract with the Upper Darby Educational Support Personnel Association. The contract expires on June 30, 2015. The contract requires a \$650 salary increase in 2015.

The District's contract with the Transport Workers' Union, which bargains for maintenance, custodial and transportation employees expired on June 30, 2014. Subsequent to year-end, the District entered into a three year contract with the union.

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 DistrictStatement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 30,544,852	\$ 2,541,641	\$ 33,086,493
Investments	3,329,204	-	3,329,204
Taxes receivable, net	6,954,654	-	6,954,654
Due from other governments	6,478,628	246,486	6,725,114
Other receivables	1,504,984	479	1,505,463
Internal balances	429,534	(429,534)	-
Inventories	409,223	26,788	436,011
	<hr/>	<hr/>	<hr/>
Total current assets	49,651,079	2,385,860	52,036,939
Noncurrent Assets			
Capital assets	58,580,839	154,428	58,735,267
Restricted cash	83,910	-	83,910
	<hr/>	<hr/>	<hr/>
Total assets	108,315,828	2,540,288	110,856,116
Deferred Outflows of Resources			
Deferred loss on debt refundings	1,255,248	-	1,255,248
	<hr/>	<hr/>	<hr/>
Total	\$ 109,571,076	\$ 2,540,288	\$ 112,111,364
	<hr/>	<hr/>	<hr/>
Liabilities and Net Position			
Liabilities			
Current liabilities:			
Accounts payable	\$ 2,461,756	\$ 523,172	\$ 2,984,928
Current maturities of:			
Bonds and note payable	3,746,189	-	3,746,189
Capital lease obligations	1,239,480	-	1,239,480
Authority lease obligations	85,974	-	85,974
Accrued salaries and benefits	16,731,788	-	16,731,788
Accrued interest payable	246,467	-	246,467
Current portion of compensated absences	318,673	-	318,673
Current portion of special termination benefits	329,766	-	329,766
Current portion of postretirement benefits	166,143	-	166,143
Unearned revenues	469,444	-	469,444
	<hr/>	<hr/>	<hr/>
Total current liabilities	25,795,680	523,172	26,318,852
Bonds and note payable	32,208,523	-	32,208,523
Capital lease obligations	1,935,194	-	1,935,194
Authority lease obligations	1,849,199	-	1,849,199
Compensated absences	2,114,961	-	2,114,961
Special termination benefits	1,264,672	-	1,264,672
Postretirement benefits	803,526	-	803,526
	<hr/>	<hr/>	<hr/>
Total liabilities	65,971,755	523,172	66,494,927
Net Position			
Net investment in capital assets	19,451,453	154,428	19,605,881
Restricted	2,083,910	-	2,083,910
Unrestricted	22,063,958	1,862,688	23,926,646
	<hr/>	<hr/>	<hr/>
Total net position	43,599,321	2,017,116	45,616,437
	<hr/>	<hr/>	<hr/>
Total	\$ 109,571,076	\$ 2,540,288	\$ 112,111,364
	<hr/>	<hr/>	<hr/>

See notes to financial statements

Upper Darby School District

Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities						
Instruction	\$ 106,081,382	\$ 85,882	\$ 23,965,911	\$ (82,029,589)		\$ (82,029,589)
Instructional student support	12,443,869	-	1,417,455	(11,026,414)		(11,026,414)
Administrative and financial support services	11,533,268	-	1,195,981	(10,337,287)		(10,337,287)
Operation and maintenance of plant services	12,501,593	-	390,188	(12,111,405)		(12,111,405)
Pupil transportation	7,873,041	31,500	3,038,075	(4,803,466)		(4,803,466)
Student activities	2,359,744	722,226	186,405	(1,451,113)		(1,451,113)
Community service	2,706,776	1,434,732	259,579	(1,012,465)		(1,012,465)
Interest on long-term debt	1,989,852	-	1,873,515	(116,337)		(116,337)
Depreciation	4,155,846	-	-	(4,155,846)		(4,155,846)
Total governmental activities	161,645,371	2,274,340	32,327,109	(127,043,922)		(127,043,922)
Business-Type Activity, Food Service	5,120,332	1,128,977	4,670,542		\$ 679,187	679,187
Total	<u>\$ 166,765,703</u>	<u>\$ 3,403,317</u>	<u>\$ 36,997,651</u>	(127,043,922)	679,187	(126,364,735)
General Revenues						
Taxes levied for general purposes, net				99,918,894	-	99,918,894
Grants, subsidies and contributions not restricted				33,869,130	-	33,869,130
Miscellaneous income				216,197	-	216,197
Investment earnings				92,428	1,814	94,242
Insurance reimbursement				108,264	-	108,264
Transfers				429,534	(429,534)	-
Total general revenues				134,634,447	(427,720)	134,206,727
Change in Net Position				7,590,525	251,467	7,841,992
Net Position, Beginning				36,008,796	1,765,649	37,774,445
Net Position, Ending				<u>\$ 43,599,321</u>	<u>\$ 2,017,116</u>	<u>\$ 45,616,437</u>

See notes to financial statements

Upper Darby School District

Balance Sheet
Governmental Funds
June 30, 2014

	<u>Major Funds</u>			
	<u>General</u>	<u>Capital Reserve</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 30,294,853		\$ 249,999	\$ 30,544,852
Restricted cash		\$ 83,910		83,910
Investments	3,329,204			3,329,204
Taxes receivable, net	6,954,654			6,954,654
Due from other governments	6,478,628			6,478,628
Other receivables	1,504,984			1,504,984
Due from other funds	429,534	2,000,000		2,429,534
Inventories	409,223			409,223
Total	<u>\$ 49,401,080</u>	<u>\$ 2,083,910</u>	<u>\$ 249,999</u>	<u>\$ 51,734,989</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	\$ 2,461,756			\$ 2,461,756
Accrued salaries and benefits	16,731,788			16,731,788
Unearned revenues	469,444			469,444
Due to other funds	2,000,000			2,000,000
Total liabilities	<u>21,662,988</u>			<u>21,662,988</u>
Deferred Inflows of Resources				
Unavailable revenues - real estate taxes	<u>6,297,352</u>			<u>6,297,352</u>
Fund Balances				
Nonspendable	409,223			409,223
Restricted		\$ 2,083,910		2,083,910
Committed	2,500,000		\$ 249,999	2,749,999
Assigned	5,287,751			5,287,751
Unassigned	13,243,766			13,243,766
Total fund balances	<u>21,440,740</u>	<u>2,083,910</u>	<u>249,999</u>	<u>23,774,649</u>
Total	<u>\$ 49,401,080</u>	<u>\$ 2,083,910</u>	<u>\$ 249,999</u>	<u>\$ 51,734,989</u>

See notes to financial statements

Upper Darby School District

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Total Fund Balances - Governmental Funds \$ 23,774,649

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 58,580,839

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 6,297,352

Deferred loss on debt refundings is included in the statement of
net position 1,255,248

Accrued interest payable is included in the statement of net
position (246,467)

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	(35,954,712)
Capital lease obligations	(3,174,674)
Authority lease obligations	(1,935,173)
Compensated absences	(2,433,634)
Special termination benefits	(1,594,438)
Other postretirement benefits	(969,669)

Total Net Position - Governmental Activities \$ 43,599,321

Upper Darby School District

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2014

	Major Funds			Total Governmental Funds
	General	Capital Reserve	Nonmajor Funds	
Revenues				
Local sources	\$ 99,306,926	\$ 613	\$ 722,227	\$ 100,029,766
State sources	62,083,360	-	-	62,083,360
Federal sources	7,213,683	-	-	7,213,683
Total revenues	168,603,969	613	722,227	169,326,809
Expenditures				
Instruction	106,084,230	-	-	106,084,230
Support services	44,937,464	-	-	44,937,464
Noninstructional services	4,385,025	-	688,989	5,074,014
Capital outlay	-	526,583	-	526,583
Refund of prior year receipts	35,207	-	-	35,207
Debt service	7,022,078	-	-	7,022,078
Total expenditures	162,464,004	526,583	688,989	163,679,576
Excess of Revenues Over (Under)				
Expenditures	6,139,965	(525,970)	33,238	5,647,233
Other Financing Sources (Uses)				
Insurance reimbursements	108,264	-	-	108,264
Proceeds from extended term financing	1,713,007	-	-	1,713,007
Transfers in	429,534	2,000,000	-	2,429,534
Transfers out	(2,000,000)	-	-	(2,000,000)
Other financing sources, net	250,805	2,000,000	-	2,250,805
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses				
	6,390,770	1,474,030	33,238	7,898,038
Fund Balance, Beginning	15,049,970	609,880	216,761	15,876,611
Fund Balance, Ending	\$ 21,440,740	\$ 2,083,910	\$ 249,999	\$ 23,774,649

See notes to financial statements

Upper Darby School District

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2014

Total Net Change in Fund Balances - Governmental Funds \$ 7,898,038

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	1,521,209	
Less: depreciation expense	<u>(4,155,846)</u>	(2,634,637)

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 (682,534)

Change in allowance for uncollectible taxes 89,031

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:

Amortization of debt issuance costs	(198,295)	
Amortization of bond premiums/discounts	88,311	
Amortization of deferred refunding charges	<u>(137,616)</u>	(247,600)

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	3,611,190	
Capital leases	1,441,090	
Authority leases	<u>137,895</u>	5,190,175

Proceeds from extended term financing is considered a current financial resource and reported in the funds but not in the statement of activities (1,713,007)

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 (130,282)

Change in accrued interest payable 21,638

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	(28,167)	
Special termination benefits	87,196	
Other postretirement benefits	<u>(259,326)</u>	<u>(200,297)</u>

Change in Net Position of Governmental Activities \$ 7,590,525

Upper Darby School District

Statement of Revenues, Expenditures, and Change in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2014

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Local sources	\$ 96,731,945	\$ 99,306,926	\$ 2,574,981
State sources	58,956,862	62,083,360	3,126,498
Federal sources	5,358,253	7,213,683	1,855,430
Total revenues	<u>161,047,060</u>	<u>168,603,969</u>	<u>7,556,909</u>
Expenditures			
Instruction	109,277,085	106,084,230	3,192,855
Support services	44,287,766	44,937,464	(649,698)
Noninstructional services	4,740,415	4,385,025	355,390
Debt service	7,018,794	7,022,078	(3,284)
Refund of prior year receipts	55,000	35,207	19,793
Total expenditures	<u>165,379,060</u>	<u>162,464,004</u>	<u>2,915,056</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,332,000)</u>	<u>6,139,965</u>	<u>10,471,965</u>
Other Financing Sources (Uses)			
Insurance reimbursements	-	108,264	108,264
Proceeds from extended term financing	1,700,000	1,713,007	13,007
Transfers in	200,000	429,534	229,534
Transfers out	(68,000)	(2,000,000)	(1,932,000)
Budgetary reserve	(100,000)	-	100,000
Total other financing sources, net	<u>1,732,000</u>	<u>250,805</u>	<u>(1,481,195)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(2,600,000)</u>	<u>6,390,770</u>	<u>8,990,770</u>
Fund Balance, Beginning	<u>8,177,414</u>	<u>15,049,970</u>	<u>6,872,556</u>
Fund Balance, Ending	<u>\$ 5,577,414</u>	<u>\$ 21,440,740</u>	<u>\$ 15,863,326</u>

See notes to financial statements

Upper Darby School District

Balance Sheet - Proprietary Fund

June 30, 2014

Assets

Current Assets

Cash and cash equivalents	\$ 2,541,641
Due from other governments	246,486
Other receivables	479
Inventories	<u>26,788</u>

Total current assets 2,815,394

Capital Assets

154,428

Total \$ 2,969,822

Liabilities and Net Position

Liabilities

Current liabilities	
Accounts payable	\$ 523,172
Due to other funds	<u>429,534</u>

Total liabilities 952,706

Net Position

Net investment in capital assets	154,428
Unrestricted net position	<u>1,862,688</u>

Total net position 2,017,116

Total \$ 2,969,822

See notes to financial statements

Upper Darby School District

Statement of Revenues, Expenses, and Change in Net Position -
Proprietary Fund
Year Ended June 30, 2014

Operating Revenues

Food service revenue	<u>\$ 1,128,977</u>
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Operating Expenses

Purchased services	4,795,411
Donated commodities	197,635
Other	89,773
Depreciation	<u>37,513</u>

Total operating expenses	<u>5,120,332</u>
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Operating Loss	<u>(3,991,355)</u>
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Nonoperating Revenues (Expenses)

Federal subsidies	4,437,090
State subsidies	233,452
Earnings on investments	1,814
Transfers out	<u>(429,534)</u>

Nonoperating revenues, net	<u>4,242,822</u>
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Increase in Net Position	251,467
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Net Position, Beginning	<u>1,765,649</u>
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Net Position, Ending	<u><u>\$ 2,017,116</u></u>
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Upper Darby School District

Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2014

Cash Flows From Operating Activities

Receipts from customers	\$ 1,132,396
Payments to suppliers	<u>(4,395,531)</u>
Net cash used in operating activities	<u>(3,263,135)</u>

Cash Flows From Noncapital Financing Activities

Transfers out	(418,460)
State subsidies	234,763
Federal subsidies	<u>4,237,591</u>
Net cash provided by noncapital financing activities	<u>4,053,894</u>

Cash Flows Used in Capital and Related Financing Activities

Acquisition of capital assets	<u>(64,169)</u>
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Cash Flows Provided by Investing Activities

Interest on investments	<u>1,814</u>
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Net Increase in Cash

728,404

Cash, Beginning

1,813,237

Cash, Ending

\$ 2,541,641

Supplemental Disclosure of Noncash Transactions

USDA donated commodities	<u><u>\$ 197,635</u></u>
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Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (3,991,355)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	37,513
USDA donated commodities	197,635
Changes in:	
Other receivables	446,801
Accounts payable	<u>46,271</u>
Net cash used in operating activities	<u><u>\$ (3,263,135)</u></u>

Upper Darby School District

Statement of Net Position - Fiduciary Funds

June 30, 2014

	<u>Private Purpose Trust Fund</u>	<u>Activity Fund</u>
Assets		
Cash	<u>\$ 425,201</u>	<u>\$ 269,734</u>
Liabilities and Net Position		
Other current liabilities	\$ -	<u>\$ 269,734</u>
Net position restricted for scholarships	<u>425,201</u>	
Total liabilities and net position	<u>\$ 425,201</u>	

See notes to financial statements

Upper Darby School District

Statement of Changes in Net Position - Fiduciary Funds
Year Ended June 30, 2014

	<u>Private Purpose Trust Fund</u>
Additions	
Contribution income	\$ 275,545
Interest income	542
	<hr/>
Total additions	276,087
	<hr/>
Deductions	
Scholarships awarded	215,104
Administrative costs and supplies	3,237
	<hr/>
Total deductions	218,341
	<hr/>
Change in Net Position	57,746
	<hr/>
Net Position, Beginning	367,455
	<hr/>
Net Position, Ending	<u>\$ 425,201</u>

See notes to financial statements

Upper Darby School District

Notes to Financial Statements

June 30, 2014

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

Notes to Financial Statements

June 30, 2014

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

Notes to Financial Statements

June 30, 2014

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

Notes to Financial Statements

June 30, 2014

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 unearned revenue in both the government-wide and fund financial statements. Unearned revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues may also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Allocation of Indirect Expenses

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

Upper Darby School District

Notes to Financial Statements

June 30, 2014

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.

Capital Assets

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

All capital assets are stated at cost or estimated cost, net of accumulated depreciation. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets except land are depreciated. Construction-in-progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins.

Upper Darby School District

Notes to Financial Statements

June 30, 2014

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

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

The District does not have any infrastructure capital assets.

If applicable, interest is capitalized on Food Service Fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Compensated Absences

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

Fund Balance Classifications

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

- Nonspendable fund balances are amounts that cannot be spent because they are either not in spendable form or, are legally or contractually required to be maintained intact. Nonspendable fund balance consists entirely of inventories which are not considered to be in spendable form.
- Restricted fund balances are amounts that are restricted to specific purposes by constraints placed on their use that are externally imposed by creditors, grantors, contributions, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts reported in the Capital Reserve Fund are restricted by Pennsylvania law to expenditures for capital assets.
- Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolution of the District's School Board of Directors. These amounts cannot be used for any other purpose unless the School Board of Directors removes or changes the specific use by taking the same action it employed to previously commit the amounts. In June 2014, the Board of School Directors committed \$2,500,000 of fund balance to balance the 2014-2015 budget.

Upper Darby School District

Notes to Financial Statements

June 30, 2014

- 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, 2014, the Director of Business Management has assigned fund balance for compensated absences (\$2,433,634), PSERS retirement contribution (\$2,383,127), charter schools (\$420,000), and encumbrances (\$50,990).
- 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the deferred loss on debt refundings reported in the government-wide statement of net position.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenues, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from real estate taxes not yet collected which are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

Notes to Financial Statements

June 30, 2014

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 2014

The District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement provides financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as changes in the use of the term deferred in financial statement presentations. In addition, this statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to more consistently align with asset, liability, deferred inflows of resources and deferred outflow of resources definitions. The adoption of GASB No. 65 did not have a material effect on the District’s financial statements.

The District adopted GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* for the year ended June 30, 2014. GASB No. 66 provides technical corrections to resolve conflicting guidance related to accounting for risk financing activities and the treatment of leases with scheduled rent increases. The adoption of GASB No. 66 had no effect on the District’s financial statements.

Upper Darby School District

Notes to Financial Statements

June 30, 2014

The District adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The adoption of GASB No. 70 had no effect on the District's financial statements.

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, 2014, the bank balance of the District's deposits with financial statements, including cash equivalents, was \$36,504,843 compared to the carrying amount of \$33,862,845. The difference is caused by items in-transit and outstanding checks. \$36,254,743 of the District's deposits were exposed to custodial credit risk at June 30, 2014 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, 2014, the carrying amount of the Fund was \$2,650.

Investments

The District's investments consist of the following:

	Fair Value	Maturities (in Years)		
		Less than 1 Year	1-5	6-10
Certificates of deposit	\$ 3,326,000	\$ 3,326,000	\$ -	\$ -
U.S. government agency obligations	3,204	-	3,204	-
Total	<u>\$ 3,329,204</u>	<u>\$ 3,326,000</u>	<u>\$ 3,204</u>	<u>\$ -</u>

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

Notes to Financial Statements

June 30, 2014

3. Real Estate Taxes

The tax on real estate, as levied by the Board of School Directors, was 33.815 mills (\$33.815 per \$1,000 of assessed valuation) for fiscal year 2014. 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, 2014 totaled \$6,297,352 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$618,791. Taxes receivable also includes \$6,378 of interim taxes, \$97,099 of real estate transfer taxes receivable and \$553,825 of delinquent real estate taxes collected by Delaware County but not yet remitted to the District.

Real estate tax revenue includes an offset of \$89,030 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	\$ 3,232,785
Federal source revenues	3,162,567
Other school districts,	
Local source revenues	<u>83,276</u>
Total governmental activities	<u>\$ 6,478,628</u>
Business-type activity:	
Pennsylvania Department of Education:	
State source revenues	\$ 12,825
Federal source revenues	<u>233,661</u>
Total business-type activity	<u>\$ 246,486</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2014

5. Capital Assets

The changes in the District's capital assets in 2014 are summarized as follows:

	<u>Balance June 30, 2013</u>	<u>Transfers/ Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>
Governmental activities:				
Cost:				
Land	\$ 680,000	\$ -	\$ -	\$ 680,000
Land improvements	5,721,340	-	(43,760)	5,677,580
Buildings and improvements	107,023,239	584,151	(218,374)	107,389,016
Furniture and equipment	26,110,547	945,575	(395,183)	26,660,939
Construction-in-progress	8,517	(8,517)	-	-
Total cost	<u>139,543,643</u>	<u>1,521,209</u>	<u>(657,317)</u>	<u>140,407,535</u>
Less accumulated depreciation:				
Land improvements	(3,944,945)	(118,625)	43,760	(4,019,810)
Building and improvements	(53,039,231)	(2,562,655)	218,374	(55,383,512)
Furniture and equipment	<u>(21,343,991)</u>	<u>(1,474,566)</u>	<u>395,183</u>	<u>(22,423,374)</u>
Total accumulated depreciation	<u>(78,328,167)</u>	<u>(4,155,846)</u>	<u>657,317</u>	<u>(81,826,696)</u>
Total	<u>\$ 61,215,476</u>	<u>\$ (2,634,637)</u>	<u>\$ -</u>	<u>\$ 58,580,839</u>
Business-type activity:				
Furniture and equipment	\$ 793,482	\$ 64,169	\$ -	\$ 857,651
Less accumulated depreciation	<u>(665,710)</u>	<u>(37,513)</u>	<u>-</u>	<u>(703,223)</u>
Total	<u>\$ 127,772</u>	<u>\$ 26,656</u>	<u>\$ -</u>	<u>\$ 154,428</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2014

6. Bonds and Notes Payable/Subsequent Event

The following summarizes the changes in the District's bonds and note payable in 2014:

	<u>Interest Rates</u>	<u>Current Portion</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>
Series of 2005, to advance refund the Series of 1999. Matures May 1, 2024	2.85 -5.00 %	\$ 3,375,000	\$ 29,540,000	\$ -	\$ (3,240,000)	\$ 26,300,000
Series of 2010, to finance capital projects. Matures March 1, 2026	5.00 %	339,333	4,411,334	-	(339,333)	4,072,001
Series A of 2011, to finance capital projects. Matures September 1, 2025	5.09 %	26,857	349,143	-	(26,858)	322,285
Series of 2012, to advance refund Series B of 2004. Matures February 15, 2024	1.0 - 2.10 %	<u>5,000</u>	<u>4,380,000</u>	<u>-</u>	<u>(5,000)</u>	<u>4,375,000</u>
Total		\$ <u>3,746,190</u>	38,680,477	-	(3,611,191)	35,069,286
Bond and note premiums			<u>973,737</u>		<u>(88,311)</u>	<u>885,426</u>
Total			<u>\$ 39,654,214</u>	<u>\$ -</u>	<u>\$ (3,699,502)</u>	<u>\$ 35,954,712</u>

Total interest paid on these bonds and notes in 2014 was \$1,754,716. No interest was capitalized in 2014. No interest is reported as a direct expense in the statement of activities.

The District issued the Series of 2010 and Series A of 2011 general obligation notes to the state Public School Building Authority to participate in the Authority's qualified school construction bond program. Under the program, the Authority issued qualified school construction bonds and loaned a portion of the proceeds to the District as secured by the general obligation notes. Interest on these notes is subsidized by the federal government. The District's subsidy rate for 2014 was 88.9% on the Series of 2010 and 92.1% on the Series A of 2011. In 2014, the District received \$243,912 in interest subsidies which is included in federal source revenues.

In July 2014, the District issued the Series of 2014 general obligation note in the amount of \$1,877,000 to advance refund a portion of the Series of 2005 bond issue. The Series of 2014 note bears interest at a rate of 2.12% and is due in varying installments of principal beginning May 2016 with final maturity in May 2024.

Upper Darby School District

Notes to Financial Statements

June 30, 2014

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2014:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,511,190	936,331	5,447,521
2020-2024	13,895,953	2,402,504	16,298,457
2025-2026	732,381	537,696	1,270,077
Total	<u>\$ 35,069,286</u>	<u>\$ 9,435,754</u>	<u>\$ 44,505,040</u>

7. Authority Lease Obligations

The District's portion of authority bonds is allocated to the District based on the annual usage of the facility, as required by lease agreements. The agreements provide that, if the individual authorities retire all of the bonds issued to finance school facilities or accumulate sufficient reserves to retire the bonds, the subsequently scheduled rental payments need not be made. Since annual rentals include reserve funds that are either invested by the authorities or used for advance retirement of obligations, it is anticipated that less than the presently scheduled rentals will eventually be paid. At June 30, 2014, the District's authority lease obligations consisted of the following:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>
Delaware County Community College	<u>\$ 1,942,786</u>	<u>\$ 143,674</u>	<u>\$ (151,287)</u>	<u>\$ 1,935,173</u>

Interest expense on authority lease obligations was \$77,435 in 2014.

The aggregate maturities of authority lease obligations are as follows:

Year ending June 30:	
2015	\$ 161,746
2016	161,411
2017	161,076
2018	160,740
2019	160,405
Thereafter	<u>1,893,262</u>
Total lease payments	2,698,640
Less amount representing interest	<u>(763,467)</u>
Total authority lease obligations	<u>\$ 1,935,173</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2014

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 2014:

Balance, July 1, 2013	\$ 2,902,757
Additions	1,713,007
Payments	<u>(1,441,090)</u>
Balance, June 30, 2014	<u>\$ 3,174,674</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, 2014:

Year ending June 30:	
2015	\$ 1,270,343
2016	894,613
2017	731,290
2018	<u>349,897</u>
Total minimum lease payments	3,246,143
Less amount representing interest	<u>(71,469)</u>
Present value of net minimum lease payments	<u>\$ 3,174,674</u>

Interest expense on capital leases was \$35,138 in 2014.

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 \$499,526 in 2014. Future minimum payments under these leases are as follows:

Year ending June 30:	
2015	\$ 523,330
2016	276,721
2017	276,721
2018	33,123
2019	33,123
Thereafter	<u>451,868</u>
Total minimum lease payments	<u>\$ 1,594,886</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2014

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.pfers.state.pa.us under Publications.

The District's contribution rate was 16.93% in 2014, 12.36% in 2013 and 8.65% in 2012. The District's contributions were approximately \$12,675,000 in 2014, \$9,553,000 in 2013 and \$6,849,000 in 2012. The employees' contribution rates range from 5.25% to 10.3%, depending on date of hire and membership class.

Compensated Absences

The changes in compensated absences in 2014 are summarized as follows:

Balance, July 1, 2013	\$ 2,405,467
Increases	126,003
Decreases	<u>(97,836)</u>
Balance, June 30, 2014	<u>\$ 2,433,634</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

Notes to Financial Statements

June 30, 2014

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 2014 were as follows:

	<u>Postretirement Benefits</u>	<u>Special Termination Benefits</u>	<u>Total</u>
Balance, July 1, 2013	\$ 710,343	\$ 1,681,634	\$ 2,391,977
Increases	387,534	252,441	639,975
Payments and other decreases	<u>(128,208)</u>	<u>(339,637)</u>	<u>(467,845)</u>
Balance, June 30, 2014	<u>\$ 969,669</u>	<u>\$ 1,594,438</u>	<u>\$ 2,564,107</u>

10. Internal Balances/Interfund Balances and Transfers

At June 30, 2014, \$429,534 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. Additionally, \$2,000,000 was due from the General Fund to the Capital Reserve Fund at June 30, 2014. The amount due represents a transfer of funds for future capital expenditures. This balance was paid in the subsequent year. The following summarizes the interfund transfers in 2014:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Food Service Fund	\$ 429,534	\$ -
Capital Reserve Fund	-	2,000,000
Food Service Fund,		
General Fund	-	429,534
Capital Reserve Fund,		
General Fund	<u>2,000,000</u>	<u>-</u>
Total	<u>\$ 2,429,534</u>	<u>\$ 2,429,534</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2014

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 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.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB No. 71 are to be applied simultaneously with the provisions of GASB No. 68.

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, 2014

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, 2013	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2014
U. S. DEPARTMENT OF EDUCATION								
Passed through Pennsylvania Department of Education:								
Title I Grants to Local Educational Agencies	84.010	013-130448	\$ 3,751,523	\$ 968,973	\$ 703,705	\$ 265,268	\$ 265,268	\$ -
Title I Grants to Local Educational Agencies	84.010	042-140449	3,376,370	679,973	-	3,151,423	3,151,423	2,471,450
Title I Grants to Local Educational Agencies	84.010	042-130448	211,612	126,967	-	172,739	172,739	45,772
Total Title I Grants to Local Educational Agencies				1,775,913	703,705	3,589,430	3,589,430	2,517,222
English Language Acquisition State Grants	84.365	010-130448	202,059	94,294	31,105	63,189	63,189	-
English Language Acquisition State Grants	84.365	010-140448	181,931	36,386	-	104,907	104,907	68,521
Total English Language Acquisition State Grants				130,680	31,105	168,096	168,096	68,521
Improving Teacher Quality State Grants	84.367	020-130448	481,490	127,256	77,467	81,604	81,604	31,815
Improving Teacher Quality State Grants	84.367	020-140448	451,355	90,428	-	385,523	385,523	295,095
Total Improving Teacher Quality State Grants				217,684	77,467	467,127	467,127	326,910
School Improvement Grants	84.377	142-110448	1,868,030	249,070	148,048	101,022	101,022	-
School Improvement Grants	84.377	142-120448	1,653,355	1,322,684	-	1,547,696	1,547,696	225,012
Total School Improvement Grants				1,571,754	148,048	1,648,718	1,648,718	225,012
Special Education Cluster								
Passed through Lancaster-Lebanon Intermediate Unit								
Special Education Grants to States	84.027	062-110025	9,988	9,988	9,988	-	-	-
Passed through Allegheny Intermediate Unit 1								
School Based Behavioral Health Grant: Implementor's Program	84.027	062-14-0-033	1,200	-	-	1,200	1,200	1,200
Passed through Delaware County Intermediate Unit								
Special Education Grants to States	84.027	H027A110093	1,748,904	1,748,904	-	1,748,904	1,748,904	-
Special Education - Preschool Grants	84.173	H39211009	12,189	12,189	-	12,189	12,189	-
Total Special Education Cluster				1,771,081	9,988	1,762,293	1,762,293	1,200
Passed through Delaware County Intermediate Unit								
Race to the Top - Phase III (RTT3)	84.413A	B413A120004	289,600	99,838	11,256	162,662	162,662	74,080
Total U.S. Department of Education				5,566,950	981,569	7,798,326	7,798,326	3,212,945

Upper Darby School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2013	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2014
<u>U.S. DEPARTMENT OF AGRICULTURE</u>								
Child Nutrition Cluster								
Passed through Pennsylvania Department of Education:								
School Breakfast Program	10.553	365	\$ 1,712,836	\$ 1,641,563	\$ 22,859	\$ 1,712,836	\$ 1,712,836	\$ 94,132
School Breakfast Program	10.553	367	887,285	63,817	63,817	-	-	-
National School Lunch Program	10.555	362	2,512,961	2,532,213	158,781	2,512,961	2,512,961	139,529
Passed through Pennsylvania Department of Agriculture,								
Food Donation	10.555		211,293	211,293	-	211,293	211,293	-
Total Child Nutrition Cluster/U.S. Department of Agriculture				4,448,886	245,457	4,437,090	4,437,090	233,661
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>								
Passed through Pennsylvania Department of Public Welfare:								
Medical Assistance Program	93.778	044-007448		78,552	14,095	89,361	89,361	24,904
TOTAL				\$ 10,094,388	\$ 1,241,121	\$ 12,324,777	\$ 12,324,777	\$ 3,471,510

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.



formerly
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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 24, 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.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 24, 2014



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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, 2014. 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, 2014.

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.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
November 24, 2014

Upper Darby School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$369,743

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

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.