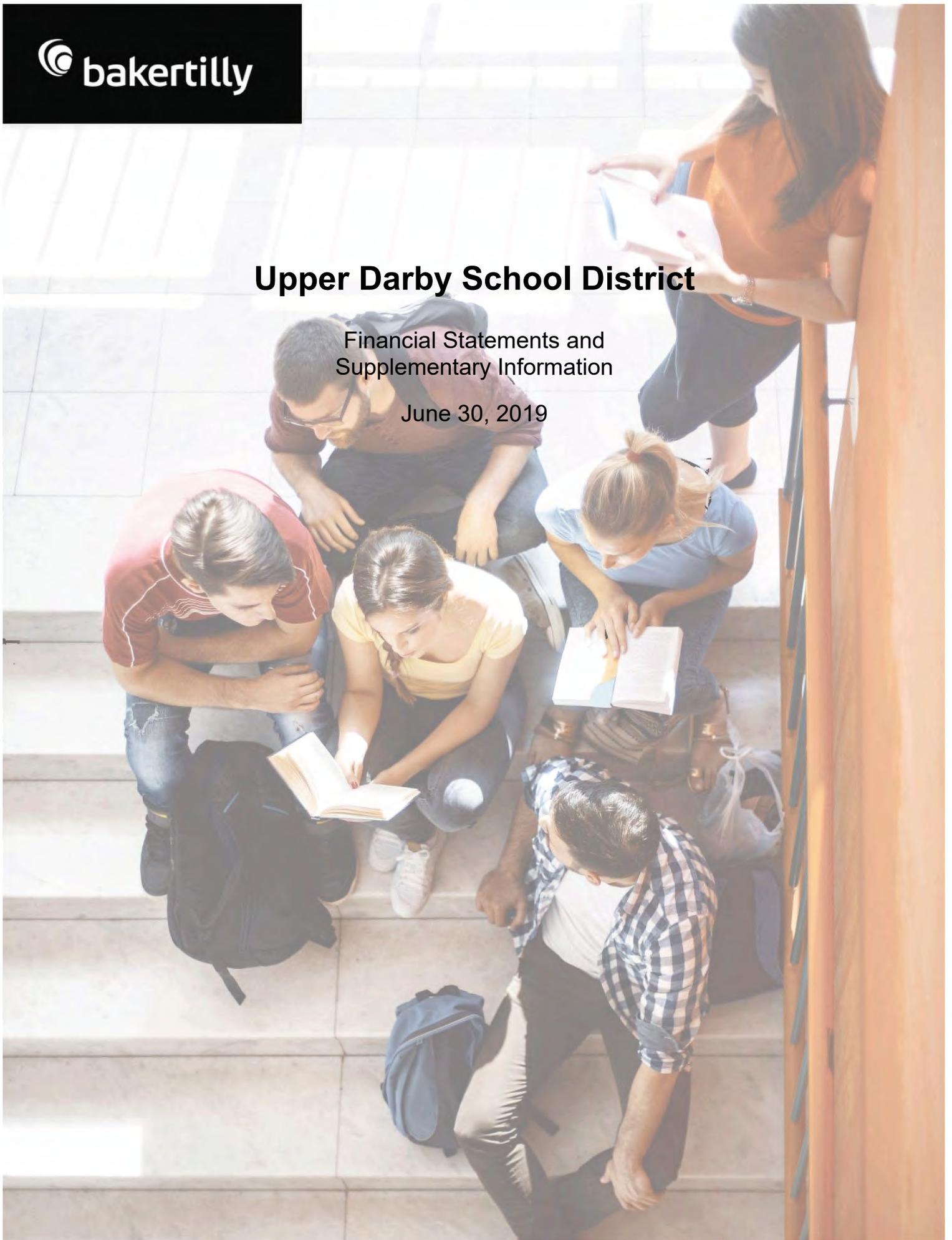




Upper Darby School District

Financial Statements and
Supplementary Information

June 30, 2019



Upper Darby School District

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Independent Auditors' Report

To the Board of School Directors of the
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, 2019, 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 auditors' 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 21 and the Required Supplementary Information on pages 59 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards on page 64, as required by Title 2 U.S. Code of Federal Regulations (CFR), *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 December 3, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
December 3, 2019

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

This Management's Discussion and Analysis (MD&A) of the financial performance of the Upper Darby School District (the District) provides an overview of the District's financial performance for the fiscal year ended June 30, 2019. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

District Profile

The Upper Darby School District, Delaware County, Pennsylvania is located in southeastern Pennsylvania, adjacent to the City of Philadelphia, and consists of the Township of Upper Darby (91.66 percent) and the Boroughs of Clifton (7.67 percent) and Millbourne (0.67 percent) and covers approximately 8.6 square miles. The District consists of one high school (grades 9-12), two middle schools (grades 6-8), seven elementary schools (grades 1-5), three elementary schools (grades K-5) and one kindergarten center (grade K). During 2018-19, there were 1,603 employees (full/part time) in the District, consisting of 944 teachers/professional staff, 43 administrators, including general administration, principals and supervisors, and 616 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff, security staff, classroom and personal-care assistants, community services staff and crossing guards.

District Mission

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

Financial Highlights

On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the District resulting in total "negative" net position at the close of the 2018-2019 fiscal year of \$209,097,900. The negative net position is due to the recognition of the District's net pension and other postemployment benefits (OPEB) liabilities under generally accepted government accounting principles. The net position of governmental activities increased by \$2,830,370 and net position of the business-type activity increased by \$780,442.

- The General Fund reported an increase in fund balance of \$2,000,771, bringing the cumulative balance to \$26,410,103 at the conclusion of the 2018-2019 fiscal year.
- At June 30, 2019, the General Fund balance includes \$349,472 which is considered nonspendable; \$6,256,070 of funds committed to balance the 2019-2020 General Fund expenditure budget; \$7,764,686 in assigned fund balance including; \$1,576,063 for retirement rate stabilization, \$1,682,188 for compensated absences and other postemployment benefits, \$1,000,000 for educational and technology resources, \$1,500,000 in reserve for emergency capital replacement, and \$2,006,435 in reserve for encumbrances; and unassigned amounts of \$12,039,875 or 5.60 percent of the \$215,108,368 2019-2020 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a district to maintain a maximum General Fund unassigned fund balance of 8 percent of the following year's expenditure budget.
- Total General Fund revenues and other financing sources were \$204,541,927 and total General Fund expenditures and other financing uses were \$202,541,156 and resulted in the net increase in General Fund balance of \$2,000,771.

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The Statement of Net Position (Deficit) presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

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

Governmental Activities

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

Business-Type Activities

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

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

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

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 governmental fund financial statements is short-term. Governmental fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements however, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the District's major funds: General Fund and Capital Reserve Fund.

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

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

Proprietary Fund

The District accounts for its food service operation in a proprietary fund, which reports the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 29 through 31 of this report.

Upper Darby School District

Management's Discussion and Analysis
June 30, 2019
(Unaudited)

Fiduciary Funds

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in financial statements.

The notes to the financial statements can be found on pages 34 through 58 of this report.

Government-Wide Financial Analysis

As noted above, net position may serve over time as a useful indicator of the District's financial condition. In 2015, the District was required to implement GASB Statement No. 68. Under this reporting requirement, the District has recognized its proportionate share of the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. Decisions regarding the allocations are determined by the administrators of PSERS, not by the District. In 2018, the District was required to implement GASB Statement No. 75 which required the District to recognize its proportionate share of the PSERS OPEB net liability, deferred inflows and outflows and OPEB expense. In addition, the District recognized a net OPEB liability for benefits provided under a District specific plan.

At the close of the 2018-2019 fiscal year, the District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources resulting in a "negative" net position at the close of the 2018-2019 fiscal year of \$209,097,900. This negative position resulted from the recognition of net pension and OPEB liabilities, deferred inflows from resources, and deferred outflows of resources totaling \$276,030,574, as discussed above. Please refer to the Notes to the Financial Statements for more information.

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

The following table presents condensed information for the Statement of Net Position (Deficit) of the District at June 30, 2019 and 2018:

	Condensed Statement of Net Position							
	Governmental Activities		Business-Type Activities		Total		Net Change	% Change
	2019	2018	2019	2018	2019	2018		
	(In Thousands)							
Assets and deferred outflows of resources								
Current assets	\$ 65,185	\$ 58,177	\$ 3,255	\$ 2,603	\$ 68,440	\$ 60,780	\$ 7,660	12.60 %
Noncurrent assets	68,867	55,767	908	711	69,775	56,478	13,297	23.54
Deferred outflows of resources	53,381	71,951	-	-	53,381	71,951	(18,570)	(25.81)
Total assets and deferred outflows of resources	<u>\$ 187,433</u>	<u>\$ 185,895</u>	<u>\$ 4,163</u>	<u>\$ 3,314</u>	<u>\$ 191,596</u>	<u>\$ 189,209</u>	<u>\$ 2,387</u>	<u>1.26 %</u>
Liabilities								
Current liabilities	\$ 37,107	\$ 31,400	\$ 478	\$ 409	\$ 37,585	\$ 31,809	\$ 5,776	18.16 %
Noncurrent liabilities	347,132	358,884	-	-	347,132	358,884	(11,752)	(3.30)
Deferred inflows of resources	15,977	11,225	-	-	15,977	11,225	4,752	42.33
Total liabilities and deferred inflows of resources	<u>400,216</u>	<u>401,509</u>	<u>478</u>	<u>409</u>	<u>400,694</u>	<u>401,918</u>	<u>(1,224)</u>	<u>(0.30)</u>
Net Position								
Net investment in capital assets	31,753	30,311	908	711	32,661	31,022	1,639	5.28
Restricted	5,153	1,622	-	-	5,153	1,622	3,531	217.69
Unrestricted	<u>(249,689)</u>	<u>(247,547)</u>	<u>2,777</u>	<u>2,194</u>	<u>(246,912)</u>	<u>(245,353)</u>	<u>(1,559)</u>	<u>(0.64)</u>
Total net position	<u>(212,783)</u>	<u>(215,614)</u>	<u>3,685</u>	<u>2,905</u>	<u>(209,098)</u>	<u>(212,709)</u>	<u>3,611</u>	<u>1.70</u>
Total liabilities and net position	<u>\$ 187,433</u>	<u>\$ 185,895</u>	<u>\$ 4,163</u>	<u>\$ 3,314</u>	<u>\$ 191,596</u>	<u>\$ 189,209</u>	<u>\$ 2,387</u>	<u>1.26 %</u>

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

The District's total assets and deferred outflows of resources as of June 30, 2019 were \$191,596,328 of which \$45,450,441 or 23.72 percent consisted of cash and investments and \$69,775,369 or 36.42 percent consisted of the District's capital assets (including cash and investments restricted for acquisition of capital assets). The District's total liabilities and deferred inflows of resources as of June 30, 2019 were \$400,694,288 of which \$29,380,415 or 7.33 percent consisted of: general obligation debt used to acquire and construct capital assets, \$29,797,630 or 7.44 percent in OPEB, compensated absences and special termination benefits, and \$303,636,000 of net pension liability and deferred inflows of resources or 75.77 percent.

The District has a total deficit net position of \$209,097,900 at June 30, 2019. The District's deficit net position decreased \$3,610,812 over its deficit net position of \$212,708,712 in the prior year.

A portion of the District's net position is restricted and totaled \$5,152,972 as of June 30, 2019. All of the District's restricted net position relates to amounts restricted for capital expenditures.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation plus unspent bond proceeds less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2019, the District's net investment in capital assets was \$32,660,727, an increase of \$1,638,623 over the prior year. The increase resulted primarily from the acquisition of capital assets offset by bonds payable issued in 2019.

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

The following table presents condensed information for the Statement of Activities of the District for 2019 and 2018:

	Condensed Statement of Activities							
	Governmental Activities		Business-Type Activities		Total		Net Change	% Change
	2019	2018	2019	2018	2019	2018		
	(In Thousands)							
Program revenues:								
Charges for services	\$ 1,725	\$ 1,810	\$ 245	\$ 779	\$ 1,970	\$ 2,589	\$ (619)	(23.91) %
Operating grants and contributions	47,980	44,803	7,830	6,000	55,810	50,803	5,007	9.86
General revenues:								
Taxes levied for general purposes, net	110,602	107,694	-	-	110,602	107,694	2,908	2.70
Grants, subsidies and contributions not restricted	38,696	37,892	-	-	38,696	37,892	804	2.12
Other	2,565	1,855	(917)	(916)	1,648	939	709	75.50
Total revenues	201,568	194,054	7,158	5,863	208,726	199,917	8,809	4.40
Program expenses:								
Instruction	135,009	135,739	-	-	135,009	135,739	(730)	(0.54)
Instructional student support	17,219	16,823	-	-	17,219	16,823	396	2.35
Administration and financial support services	14,488	14,326	-	-	14,488	14,326	160	1.12
Operation and maintenance of plant services	12,850	13,411	-	-	12,850	13,411	(561)	(4.18)
Pupil transportation	9,708	8,887	-	-	9,708	8,887	821	9.24
Student activities	2,104	2,138	-	-	2,104	2,138	(34)	(1.59)
Community services	2,910	2,795	-	-	2,910	2,795	115	4.15
Interest on long-term debt	880	797	-	-	880	797	83	10.41
Unallocated depreciation	3,569	3,470	-	-	3,569	3,470	99	2.85
Food service	-	-	6,378	5,793	6,378	5,793	585	10.10
Total expenses	198,737	198,386	6,378	5,793	205,115	204,179	934	0.46
Change in net position	2,831	(4,332)	780	70	3,611	(4,262)	7,875	184.77
Net position (deficit), beginning	(215,614)	(211,282)	2,905	2,835	(212,709)	(208,447)	(4,262)	2.04
Net position (deficit), ending	<u>\$ (212,783)</u>	<u>\$ (215,614)</u>	<u>\$ 3,685</u>	<u>\$ 2,905</u>	<u>\$ (209,098)</u>	<u>\$ (212,709)</u>	<u>\$ 3,613</u>	<u>1.70 %</u>

Upper Darby School District

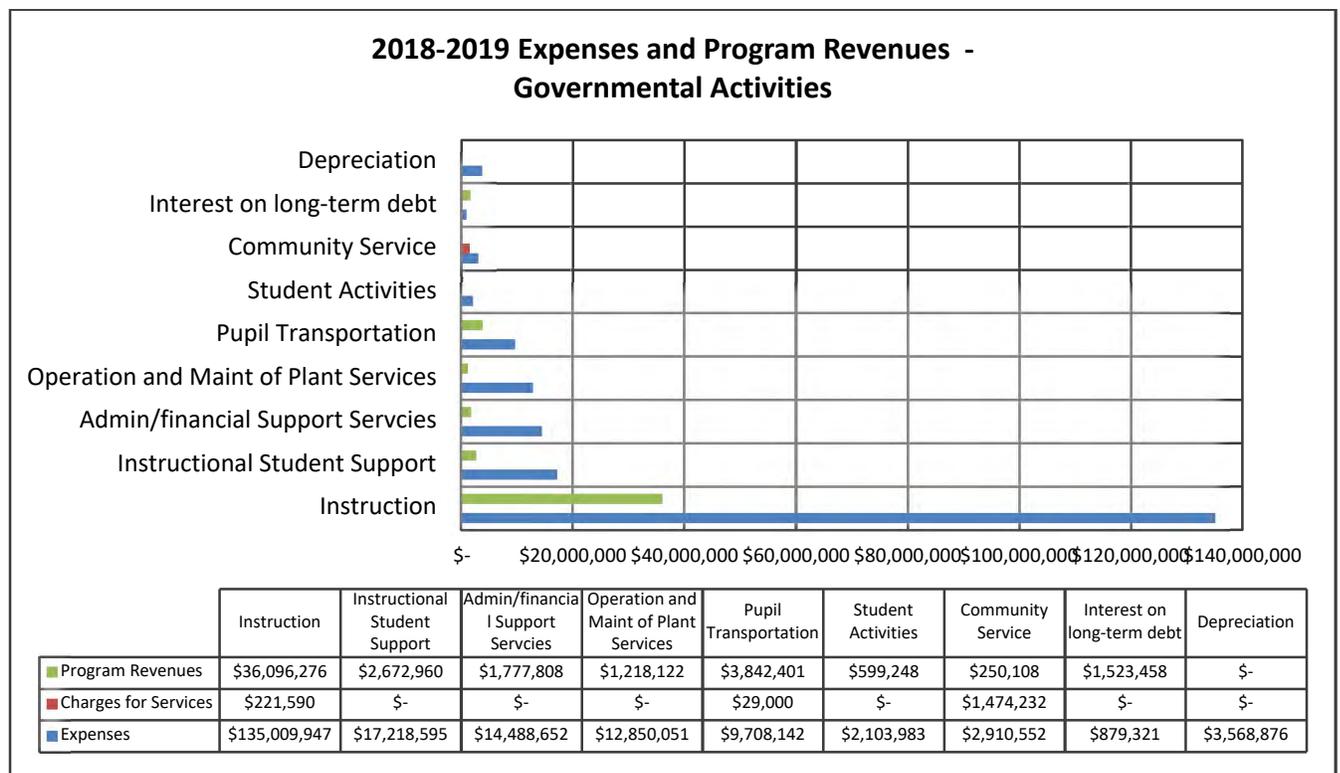
Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Overall, the District's financial position remained stable, however, challenges such as increased special education costs, charter school tuition, pension contributions, state-mandated programs, current employee contracts and the need for financing to address infrastructure issues remain. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing or 74.35 percent of its tax base. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities of 17.74 percent.

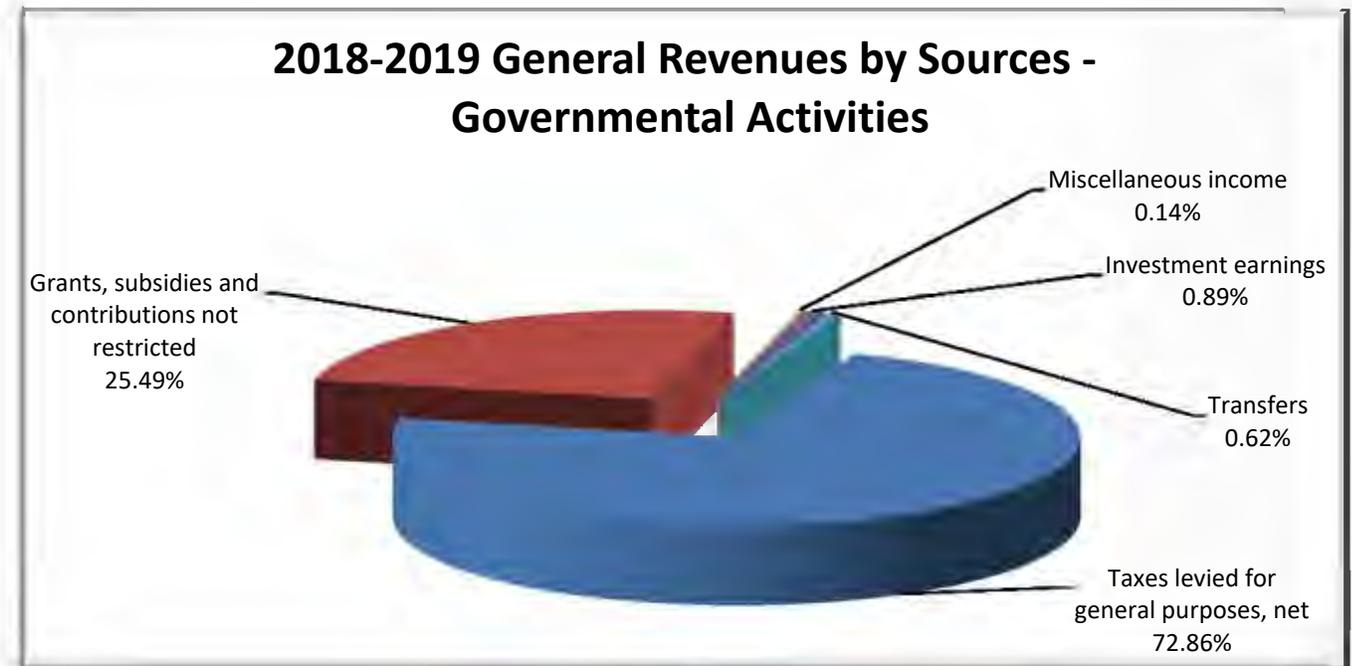
The Statement of Activities focuses on how the District finances its services. The Statement of Activities compares the cost of the District's functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph,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



Upper Darby School District

Management's Discussion and Analysis
 June 30, 2019
 (Unaudited)

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



Fund Financial Analysis

The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2019, the District's governmental funds reported a combined fund balance of \$38,103,225, which is an increase of \$12,071,658 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2019 and 2018 and the total 2019 change in governmental fund balances.

	2019	2018	Change
General Fund	\$ 26,410,103	\$ 24,409,332	\$ 2,000,771
Capital Reserve Fund	5,152,972	1,675,017	3,477,955
Capital Project Fund	6,540,150	(52,782)	6,592,932
Total	\$ 38,103,225	\$ 26,031,567	\$ 12,071,658

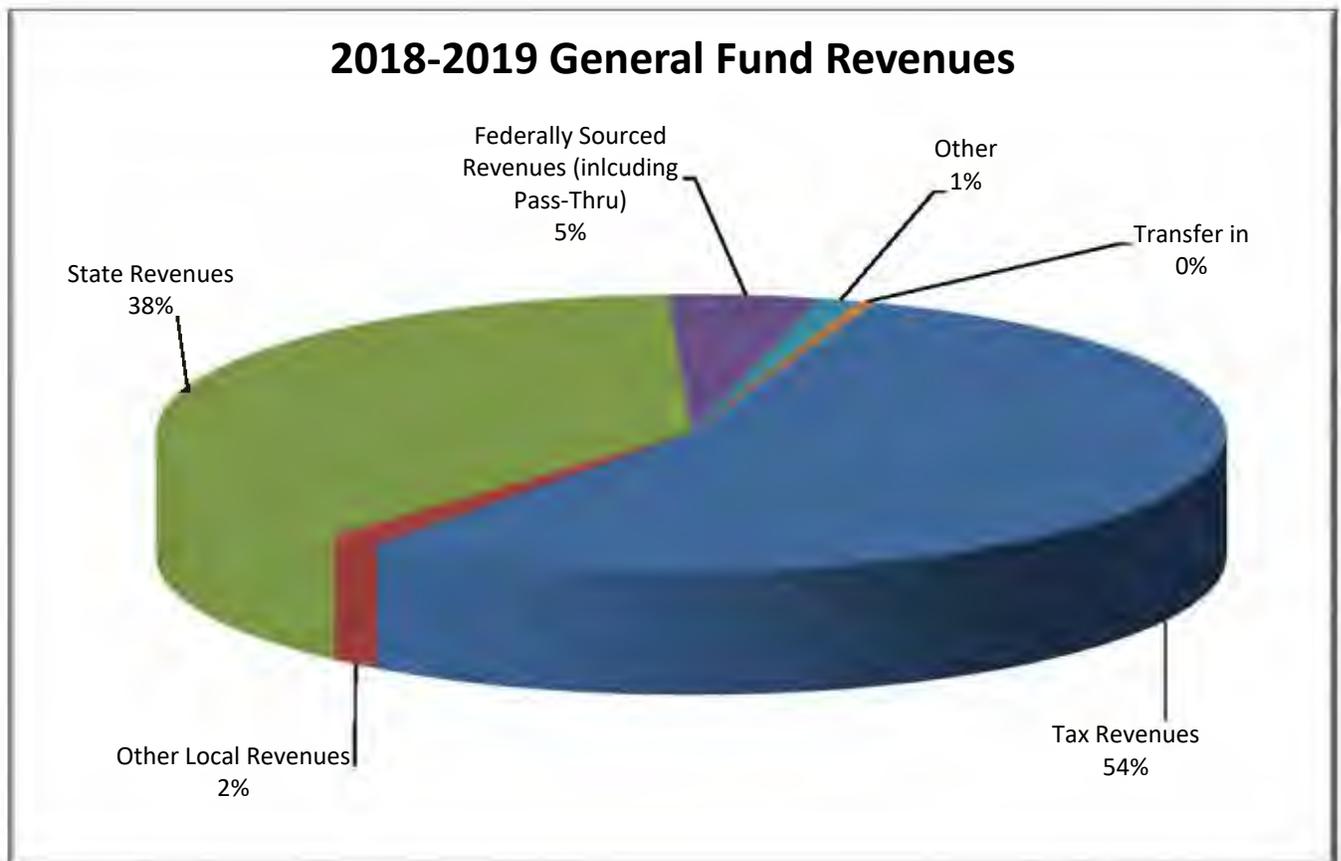
Upper Darby School District

Management's Discussion and Analysis
 June 30, 2019
 (Unaudited)

General Fund

The General Fund is the District's primary operating fund. At the conclusion of the 2018-2019 fiscal year, the General Fund "Fund Balance" was \$26,410,103 representing an increase of \$2,000,771 or 8.2 percent, in relation to the prior year. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2018-2019 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 54 percent of General Fund revenues are derived from local taxes.



General Fund Revenues

	2019	2018	Net Change	% Change
Tax revenues	\$ 111,289,842	\$ 107,368,418	\$ 3,921,424	3.65 %
Other local revenues	3,325,007	2,829,716	495,291	17.50
State revenues	77,132,617	74,167,696	2,964,921	4.00
Federally sourced revenues (including pass-thru)	9,478,367	8,415,323	1,063,044	12.63
Other	2,369,002	1,800,223	568,779	31.59
Transfer in	947,092	931,999	15,093	1.62
Total	\$ 204,541,927	\$ 195,513,375	\$ 9,028,552	4.62 %

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Total tax revenues increased by \$3,921,424 or 3.65 percent in 2019. The increase was primarily due to an increase in the tax levy of 2.5 percent and the sale of a large commercial property, which caused an increase in the current year transfer tax. The following table summarizes and compares the changes in the District's total tax revenues for the 2019 and 2018 fiscal-years:

	<u>2019</u>	<u>2018</u>	<u>Net Change</u>	<u>% Change</u>
Real estate tax	\$ 96,179,095	\$ 93,753,424	\$ 2,425,671	2.59 %
Interim real estate tax	115,370	96,545	18,825	19.5
PURTA tax	100,815	101,447	(632)	(0.62)
Transfer tax	3,852,086	2,437,751	1,414,335	58.02
Delinquent tax	5,900,225	5,837,040	63,185	1.08
State property tax reduction	5,142,251	5,142,211	40	0.00
Total	<u>\$ 111,289,842</u>	<u>\$ 107,368,418</u>	<u>\$ 3,921,424</u>	<u>3.65 %</u>

State revenues increased \$2,964,921 or 4.00 percent in 2019 due to several factors. The increase is primarily the result of additional Basic and Special Education funding due to implementation of a new funding formula, other special education subsidies and additional funding received for the state retirement subsidy which increased commensurate with the employer annual contribution rate (32.57 percent to 33.43 percent).

	<u>2019</u>	<u>2018</u>	<u>Net Change</u>	<u>% Change</u>
Instruction/block and miscellaneous grants	\$ 41,667,619	\$ 39,966,033	\$ 1,701,586	4.26 %
Special education	8,179,064	8,146,675	32,389	0.40
Transportation	2,450,973	2,754,881	(303,908)	(11.03)
Rental/leasing fund	1,275,438	1,284,643	(9,205)	0.72
Social Security and retirement	22,845,636	21,207,923	1,637,713	7.72
Other	713,887	807,541	(93,654)	(11.60)
Total	<u>\$ 77,132,617</u>	<u>\$ 74,167,696</u>	<u>\$ 2,964,921</u>	<u>4.00 %</u>

Federal revenue increased \$1,063,044 or 12.63 percent in 2019 due to increases in federal programs, primarily in the Medical Access Program \$800,000 and new funds generated through Title IV.

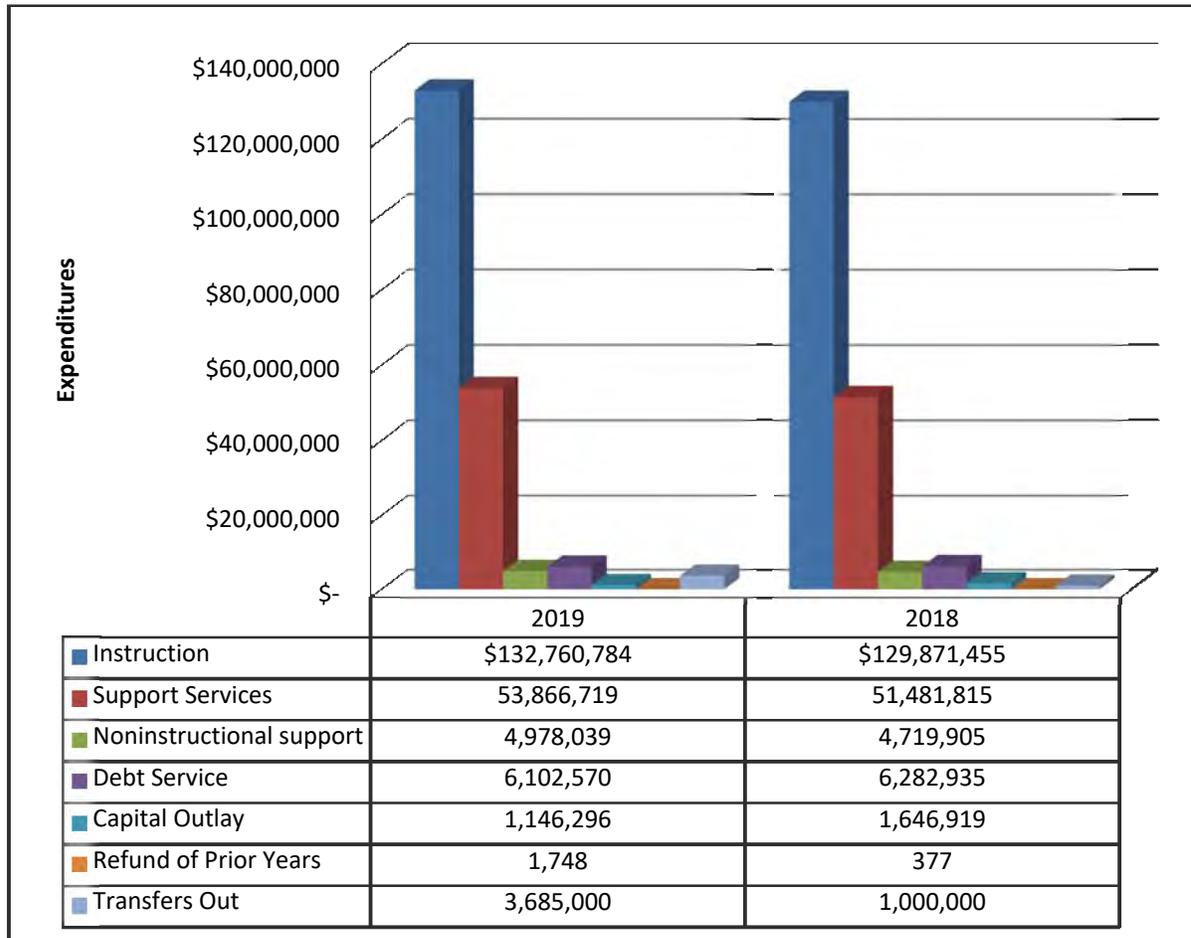
Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

General Fund Expenditures and Other Financing Uses



	2019	2018	Net Change	% Change
Instruction	\$ 132,760,784	\$ 129,871,455	\$ 2,889,329	2.22 %
Support services	53,866,719	51,481,815	2,384,904	4.63
Non instructional support	4,978,039	4,719,905	258,134	5.47
Debt service	6,102,570	6,282,935	(180,365)	(2.87)
Capital outlay	1,146,296	1,646,919	(500,623)	(30.40)
Refund of prior years	1,748	377	1,371	363.61
Transfers out	3,685,000	1,000,000	2,685,000	286.50
Total	\$ 202,541,156	\$ 195,003,406	\$ 7,537,750	3.87 %

Expenditures increased \$7,537,750 in 2019. The most significant component of the increase relates to the increase in District retirement costs of \$1,309,346 which accounts for 17.37 percent of the increase over 2018. As noted earlier, the pension rate increased from 32.57 percent to 33.43 percent, a 2.64 percent increase. Other significant increases included \$1,795,503 in salaries, primarily the result of contractually obligated pay increases; \$1,851,127 in curriculum books and supplies; and \$2,685,000 increase in transfers to the Capital Reserve Fund. This was offset by lower debt service payments and capital outlay which decreased due to the availability of bond proceeds.

Upper Darby School District

Management's Discussion and Analysis
June 30, 2019
(Unaudited)

Capital Reserve Fund

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

During 2018-2019, the Capital Reserve Fund reported an increase in fund balance of \$3,477,955. This is primarily the result of a \$3,685,000 transfer into the Capital Reserve from the General Fund. The remaining fund balance of \$5,152,972 as of June 30, 2019 is restricted for capital expenditures.

Amounts spent on capital projects in progress at June 30, 2019:

High School Natatorium roof	\$	4,500
Highland Park Elementary School fire panel		<u>133,972</u>
Total	\$	<u><u>138,472</u></u>

Capital Projects Fund

The Capital Projects Fund accounts for bond proceeds and interest earnings of the fund itself. Expenditures from this fund are limited to: capital improvements, replacement and additions to public works and improvements, for deferred maintenance, for the purchase of school buses, and for no other purpose.

During 2018-2019, the Capital Projects Fund reported an increase in fund balance of \$6,592,932. This is primarily the result of the issuance of the 2018 and 2019 General Obligation Bonds. The remaining fund balance of \$6,540,150 as of June 30, 2019 is restricted for capital expenditures.

Amounts spent on capital projects in progress at June 30, 2019:

Clifton Heights Middle School	\$	656,558
Aronimink renovation and expansion		276,349
Beverly Hills Middle School window replacement		13,500
Beverly Hills Middle School chiller replacement		683,847
Highland Park Elementary School HVAC replacement		1,322,992
Highland Park Elementary School roof		387,595
High School bathroom replacement		<u>365,814</u>
Total	\$	<u><u>3,706,655</u></u>

General Fund Budget Information

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

The General Fund's final approved budget for 2019 included \$203,875,503 of revenues and other financing sources and \$210,756,893 of expenditures and other financing uses. The District committed \$6,881,390 to be used from its unassigned fund balance to cover the shortfall.

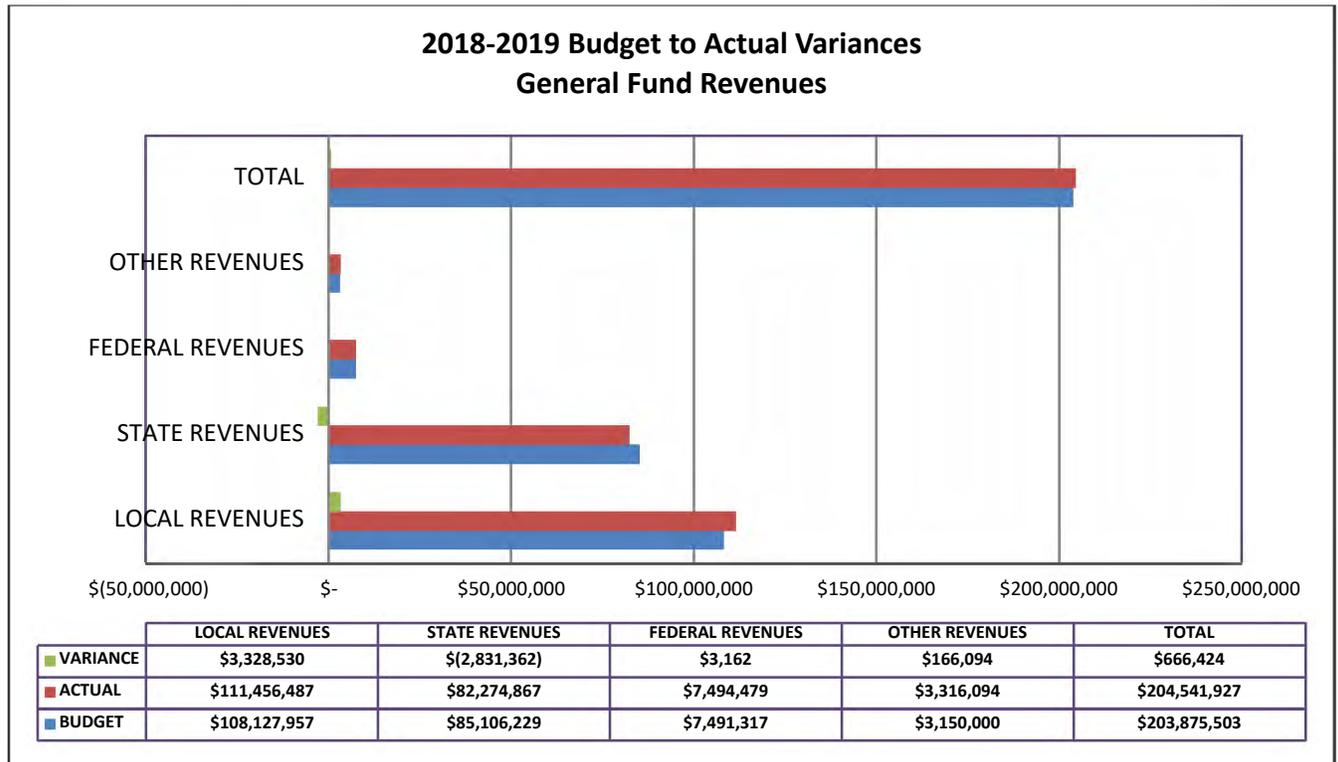
Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Actual revenues and other financing sources were \$666,424 more than the budgeted amounts and actual expenditures and other financing uses were \$8,215,737 less than the final budgeted amounts. The actual net of revenues over expenditures was \$2,000,771. As such, funds committed to cover the projected shortfall in the amount of \$6,881,390 were not used. Major budgetary highlights for 2018-2019 were as follows:



- Local revenues were \$3,328,530, or 2.99 percent more than budgeted due to better than anticipated collection of transfer and delinquent taxes; increases in investment returns due to increasing interest rates; and unanticipated tuition for foster children from other Districts.
- State revenues were \$(2,831,362), or (3.44) percent less than budgeted. The decrease is primarily related to the deferral of unspent monies associated with the one time Legislative Educational Grant to be spent during the school year ending June 30, 2020.
- Federal revenues were \$3,162, or 0.04 percent more than budgeted. The increase relates to slight variances in the final federal award amounts.

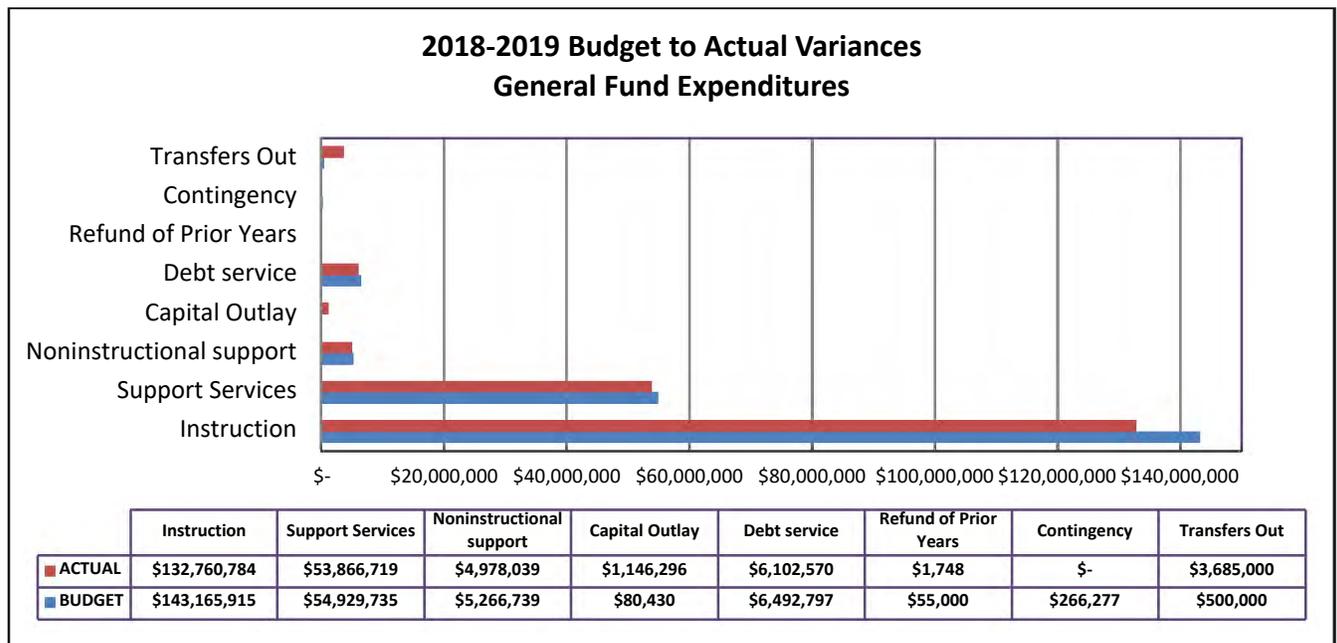
	Budget	Actual	(Under) Over Budget	% Change
Instruction	\$ 143,165,915	\$ 132,760,784	\$ (10,405,131)	(7.27) %
Support services	54,929,735	53,866,719	(1,063,016)	(1.94)
Noninstructional support	5,266,739	4,978,039	(288,700)	(5.48)
Capital outlay	80,430	1,146,296	1,065,866	1,325.21
Debt service	6,492,797	6,102,570	(390,227)	(6.01)
Refund of prior years	55,000	1,748	(53,252)	(96.82)
Contingency	266,277	-	(266,277)	(100.00)
Transfers out	500,000	3,685,000	3,185,000	637.00
Total	\$ 210,756,893	\$ 202,541,156	\$ (8,215,737)	(3.90) %

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)



	Budget	Actual	(Under) Over Budget	% Change
Salaries	\$ 86,627,402	\$ 85,238,618	\$ (1,388,784)	(1.63) %
Employee health benefits	21,404,255	20,498,739	(905,516)	(4.42)
Social Security/retirement	34,761,399	34,397,449	(363,950)	(1.06)
Other employer benefits	1,789,747	1,593,574	(196,173)	(12.31)
Total wages and benefits	144,582,803	141,728,380	(2,854,423)	(1.97)
Purch svc/prof/tech	16,256,739	13,651,663	(2,605,076)	(19.08)
Purch property svcs	4,780,720	5,480,369	699,649	12.77
Other purchased svcs	24,453,279	22,383,209	(2,070,070)	(9.25)
Supplies	10,833,344	7,551,334	(3,282,010)	(43.46)
Property	1,248,402	1,234,526	(13,876)	(1.12)
Other objects	2,553,181	1,663,009	(890,172)	(53.53)
Other financing uses	6,048,425	8,848,666	2,800,241	31.65
Total other	66,174,090	60,812,776	(5,361,314)	(8.10)
Total	\$ 210,756,893	\$ 202,541,156	\$ (8,215,737)	(3.90) %

- Total actual expenditures and other financing used were under budget by \$8,215,737 or 3.90 percent.
- The Actual Variance Analysis by Account provides clearer detail to the budget to actual differences. Salaries and benefits provided for a total variance under-budget in the amount of \$2,854,423 or 1.97 percent below budget. This is due to a decrease in teaching and support position salaries and benefits resulting from staff turnover. Further complicating the issue, fulfillment of these positions has become increasingly more difficult due to not just a local, but nation-wide shortage of teachers.

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

- Actual expenditures for instruction were under budget by \$10,405,131, or 7.27 percent. The main components under the area of instruction are Regular and Special Education.
 - In the area of Regular Education, cost fell below expectations by \$5,264,966. Contributing factor to costs falling below expectations include: \$1,255,987 in salaries and benefits and \$3,178,757 in supplies. Despite contractual increases and required increases in annual retirement contributions, the cost reductions are related to a significant amount of staff turnover, changes in the demographics of the District's benefit pool and to staffing support shortages. The main reason supplies came under budget was due to the deferral of the Legislative Education Grant (LEG) funds. The LEG funds were received during the current year but the majority was not spent until after June 30, 2019 and therefore was deferred to the school year ending June 30, 2020.
 - In the area of Special Education, costs fell below expectations by \$5,258,492. Contributing factor to costs falling below expectations include: \$1,097,283 in salaries and benefits due to turnover, \$2,323,104 in contracted substitute services and other professional purchased services, and \$1,328,931 in tuition. Internal changes were made during the current and prior fiscal years to reassign contracted positions (10 month) into administrative positions (12 month). This change provided for the largest part of the variance. In addition, it promoted greater efficiencies in departmental operations.
 - In the area of Other Instructional Programs, costs exceeded budget by \$118,317, primarily due to required Title I and II Non-Public expenditures.
- Actual expenditures for Support Services were under budget by \$1,063,016. The main components consist of \$345,076 in salaries and benefits related to employee turnover and unfilled transportation and maintenance positions; \$271,832 in repair costs and \$165,404 in supply costs in maintenance and transportation departments due to enhanced budgetary controls; and \$184,641 in purchased services.
- Actual expenditures for Noninstructional Support Services service were under budget by \$288,700. The main components consist of \$219,469 in the after-school program in salaries and benefits and other operational costs resulting from declining enrollment; and \$66,536 in staffing costs for crossing guards.

Business-Type Activity/Proprietary Fund

The District's business-type activity/proprietary fund consists of the District's food service program. The District's food service program is managed by an outside third party contractor. During 2018-2019, the net position of the business-type activity/proprietary fund increased by \$780,442. As of June 30, 2019, the business-type activity/proprietary fund had net position of \$3,685,674.

Upper Darby School District

Management's Discussion and Analysis
June 30, 2019
(Unaudited)

Capital Assets

The District's capital assets at June 30, 2019 are summarized below:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Totals</u>
Land and improvements	\$ 6,752,186	\$ -	\$ 6,752,186
Building and improvements	114,084,517	-	114,084,517
Furniture and equipment	30,881,297	1,968,213	32,849,510
Construction in progress	4,674,453	-	4,674,453
Total	156,392,453	1,968,213	158,360,666
Less accumulated depreciation	97,388,677	1,059,879	98,448,556
Net capital assets	<u>\$ 59,003,776</u>	<u>\$ 908,334</u>	<u>\$ 59,912,110</u>

Current year capital additions, excluding construction in progress, were \$2,648,026.

Major capital additions placed in service in 2019 included:

Security systems/camera	\$ 143,991
PA System/Wireless Clocks, Hillcrest, Primos and Westbrook	373,400
Transportation, six buses and one van	555,651
Various concrete repairs, DHMS, Garrettford, Hillcrest and Stonehurst	33,436
Security and maintenance vehicle and equipment replacement	132,546
Technology upgrades	37,528
Hillcrest roof replacement	1,219,401
Band Uniforms	84,669
Food Service: refrigeration/kitchen equipment	317,803
Library tiling, UDHS	6,970
Classroom furniture	5,934
Cooling tower supports, Highland Park	54,500

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

Long-Term Debt

At July 1, 2018, the principal or face amount of the District's general obligation debt was \$20,523,523. During the year, the District made principal payments of \$3,372,190 and issued two bonds totaling \$11,465,000. The principal or face amount balance of outstanding debt at June 30, 2019 is \$28,616,333.

State statutes limit the amount of general obligation debt the District may issue to 225 percent of its borrowing base capacity which is the annual arithmetic average of total revenues for the three preceding fiscal years. The long-term debt amount for the District is approximately 6.76% of its legal limit of \$423 million. In the 2019-2020 school year, \$3,832,190 of this debt is scheduled for repayment. Additional information on the District's long-term debt can be found in the Notes to the Financial Statements.

Economic Condition and Outlook

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

- The District's local revenue sources continue to be adversely impacted. The District continues to anticipate an increased burden on local taxpayers due to continued reductions in assessed taxable values and nominal return on investments. This trend reinforces expectation that greater local tax efforts will be required to be the mechanism to fund instructional programming.
- The District does not expect significant residential nor commercial business growth in the near future given the existing developed commercial and residential nature of the local economy and a lack of developable land remaining within the District.
- The Commonwealth implemented a new funding formula for the Basic and Special Education Subsidies. Yet the District remains the 12th most underfunded school district in the State. The hold harmless legislation leaves the District under-funded in excess of \$16 million dollar for the 2019-2020 School Year.
- The District adopted a 2019-20 budget totaling \$232,935,581. The 2019-2020 budget included:
 - Approximately \$3.79 million increase in contractual salaries.
 - The School Board of Directors approved the addition of 1 Lead Teacher, 5 Guidance Counselors (Title I funded), 2 Instructional Technology Coaches (Title II funded), 6 Classroom Assistants (Title I funded), 2 IT Technicians, and 17 Safety Monitors for Secondary Cafeterias.
 - The real estate millage rate was increased by 1.90 percent or 0.7057 mills for a total millage rate of 37.8452 which includes an approximately 0.5 percent tax increase to fund the Capital Reserve by \$500,000.
 - \$6,256,070 of General Fund balance was committed to cover the anticipated revenue shortfall.
- In February 2019, the Upper Darby Education Association agreed to a four year contract extension which expires on June 30, 2022.
- In January 2019, the Upper Darby Education Support Personnel Association (UDESPEA) agreed to a five year contract extension which expires on June 30, 2023.
- In September 2019, the Transit Workers' Union (TWU) agreed to a five year contract extension which expires June 30, 2024. TWU bargains for maintenance, custodial and transportation employees.

Upper Darby School District

Management's Discussion and Analysis

June 30, 2019

(Unaudited)

- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation (House Bill 2497) into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the Public School Employees' Retirement System (PSERS) and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation, the employer contribution rate for 2020-2021 is projected at 34.77 percent. Currently, the employer contribution rate for 2019-2020 is 34.29 percent, which is an increase of 2.57 percent from the 2018-2019 employer contribution rate of 33.43 percent. It is estimated that the increase in the employer contribution rate for 2020-2021 will increase the District's net retirement expense by approximately \$1,130,000, of which the District's share is estimated at \$375,000.
- The District continues to face overcapacity issues. In June 2015, the Board of School Directors approved a resolution directing the proper officers to submit PlanCon Part A - Project Justification for the Phase I Project. However, the District did not include a facility study that resulted in the rejection of the submission. In March 2017, the District engaged Bonnett and Associates as the architect of record to complete a facility study.

A Facility Committee was formed and provided recommendations to the Board of School Directors with elementary class size guidelines which addressed current and future education specification needs for school planning. In February 2017, the Board of School Directors adopted a resolution for class size guidelines based on the Committee's recommendation of Scenario 32. A costing out update was provided to the Board in November 2017.

In November 2017, the Facility Committee provided the Board and the public with a costing out update of Scenario 32. The major capital improvements and potential new cost of an elementary school were presented to the Board. The overall major elementary capital improvement construction costs are estimated to total \$180,000,000. The Facilities Committee also reviewed future enrollment trends, redistricting of elementary and middle school students, as well as a timeline for the completion of a new elementary school should the Board decide to move in that direction. The Facilities Committee recommended to the Board to review the cost to renovate Drexel Hill Middle School prior to taking action on the Elementary Facilities Study. After a review of the capital improvements priority list, along with a review of future enrollment trends, the Facilities Committee stated that the immediate facilities concerns seem to be with Drexel Hill Middle School and Beverly Hills Middle School. In order to complete a more in-depth look of both middle schools, the Facilities Committee asked the Board to consider taking action on a class size of 27 for planning purposes. Members of the Board approved the 27-class size in December 2017.

In April 2018, the Facilities Committee provided the Board and the Public with 40 different scenarios to solve our current and future middle school enrollment needs. The Facilities Committee's recommendation to the Board was to cost out a third middle school and consider either a concept school or a neighborhood school. The Board agreed to move forward with costing out a new middle school with at least 500 students.

For more information regarding the District's future facility plans, please visit the District's website at upperdarbysd.org.

Requests for Information

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

Upper Darby School District

Statement of Net Position (Deficit)

June 30, 2019

	Governmental Activities	Business- Type Activity	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 7,144,487	\$ 2,895,827	\$ 10,040,314
Investments	34,903,000	507,127	35,410,127
Taxes receivable, net	8,354,723	-	8,354,723
Due from other governments	10,241,501	242,777	10,484,278
Other receivables	2,739,093	431,983	3,171,076
Internal balances	947,092	(947,092)	-
Prepaid expenses	505,542	-	505,542
Inventories	349,472	124,836	474,308
Total current assets	<u>65,184,910</u>	<u>3,255,458</u>	<u>68,440,368</u>
Noncurrent Assets			
Capital assets	59,003,776	908,334	59,912,110
Restricted cash	6,317,259	-	6,317,259
Investments	3,546,000	-	3,546,000
Total noncurrent assets	<u>68,867,035</u>	<u>908,334</u>	<u>69,775,369</u>
Total assets	<u>134,051,945</u>	<u>4,163,792</u>	<u>138,215,737</u>
Deferred Outflows of Resources			
Pension	51,310,547	-	51,310,547
Other postemployment benefits	2,049,276	-	2,049,276
Deferred amounts on bond refunding	20,768	-	20,768
Total deferred outflows of resources	<u>53,380,591</u>	<u>-</u>	<u>53,380,591</u>
Total assets and deferred outflows of resources	<u>\$ 187,432,536</u>	<u>\$ 4,163,792</u>	<u>\$ 191,596,328</u>
Liabilities, Deferred Inflows of Resources and Net Position (Deficit)			
Liabilities			
Current liabilities:			
Accounts payable	\$ 5,611,182	\$ 450,220	\$ 6,061,402
Current maturities of:			
Bonds and note payable	3,832,190	-	3,832,190
Capital lease obligations	1,920,331	-	1,920,331
Authority lease obligations	132,750	-	132,750
Accrued salaries and benefits	21,338,732	-	21,338,732
Accrued interest payable	142,258	-	142,258
Other current liabilities	745,483	-	745,483
Current portion of compensated absences	263,856	-	263,856
Current portion of special termination benefits	123,750	-	123,750
Unearned revenues	2,996,769	27,898	3,024,667
Total current liabilities	<u>37,107,301</u>	<u>478,118</u>	<u>37,585,419</u>
Bonds and note payable	25,548,225	-	25,548,225
Capital lease obligations	2,490,787	-	2,490,787
Authority lease obligations	2,023,773	-	2,023,773
Compensated absences	2,740,148	-	2,740,148
Special termination benefits	894,711	-	894,711
Other postemployment benefits	21,276,469	-	21,276,469
Net pension liability	292,158,000	-	292,158,000
Total liabilities	<u>384,239,414</u>	<u>478,118</u>	<u>384,717,532</u>
Deferred Inflows of Resources			
Pension	11,478,000	-	11,478,000
Other postemployment benefits	4,498,696	-	4,498,696
Total deferred inflows of resources	<u>15,976,696</u>	<u>-</u>	<u>15,976,696</u>
Net Position (Deficit)			
Net investment in capital assets	31,752,393	908,334	32,660,727
Restricted	5,152,972	-	5,152,972
Unrestricted	(249,688,939)	2,777,340	(246,911,599)
Total net position (deficit)	<u>(212,783,574)</u>	<u>3,685,674</u>	<u>(209,097,900)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 187,432,536</u>	<u>\$ 4,163,792</u>	<u>\$ 191,596,328</u>

See notes to financial statements

Upper Darby School District

Statement of Activities

Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position (Deficit)		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities						
Instruction	\$ 135,009,947	\$ 221,590	\$ 36,096,276	\$ (98,692,081)		\$ (98,692,081)
Instructional student support	17,218,595	-	2,672,960	(14,545,635)		(14,545,635)
Administrative and financial support services	14,488,652	-	1,777,808	(12,710,844)		(12,710,844)
Operation and maintenance of plant services	12,850,051	-	1,218,122	(11,631,929)		(11,631,929)
Pupil transportation	9,708,142	29,000	3,842,401	(5,836,741)		(5,836,741)
Student activities	2,103,983	-	599,248	(1,504,735)		(1,504,735)
Community service	2,910,552	1,474,232	250,108	(1,186,212)		(1,186,212)
Interest on long-term debt	879,321	-	1,523,458	644,137		644,137
Depreciation	3,568,876	-	-	(3,568,876)		(3,568,876)
Total governmental activities	198,738,119	1,724,822	47,980,381	(149,032,916)		(149,032,916)
Business-Type Activity, Food Service	6,377,651	245,115	7,829,826	-	\$ 1,697,290	1,697,290
Total	\$ 205,115,770	\$ 1,969,937	\$ 55,810,207	(149,032,916)	1,697,290	(147,335,626)
General Revenues						
Real estate taxes levied for general purposes, net				110,601,634	-	110,601,634
Grants, subsidies and contributions not restricted				38,696,283	-	38,696,283
Miscellaneous income				205,686	-	205,686
Investment earnings				1,412,591	30,244	1,442,835
Transfers				947,092	(947,092)	-
Total general revenues				151,863,286	(916,848)	150,946,438
Change in Net Position				2,830,370	780,442	3,610,812
Net Position (Deficit), Beginning				(215,613,944)	2,905,232	(212,708,712)
Net Position (Deficit), Ending				\$ (212,783,574)	\$ 3,685,674	\$ (209,097,900)

See notes to financial statements

Upper Darby School District

Balance Sheet - Governmental Funds

June 30, 2019

	Major Funds			Totals
	General	Capital Projects	Capital Reserve	
Assets				
Cash and cash equivalents	\$ 7,144,487	\$ -	\$ -	\$ 7,144,487
Restricted cash	-	6,128,515	188,744	6,317,259
Investments	34,903,000	1,633,000	1,913,000	38,449,000
Taxes receivable, net	8,354,723	-	-	8,354,723
Due from other governments	10,241,501	-	-	10,241,501
Other receivables	2,739,093	-	-	2,739,093
Due from other funds	947,092	-	3,185,000	4,132,092
Prepaid expenses	505,542	-	-	505,542
Inventories	349,472	-	-	349,472
Total	\$ 65,184,910	\$ 7,761,515	\$ 5,286,744	\$ 78,233,169
Liabilities				
Accounts payable	\$ 4,256,045	\$ 1,221,365	\$ 133,772	\$ 5,611,182
Accrued salaries and benefits	21,338,732	-	-	21,338,732
Unearned revenues	2,996,768	-	-	2,996,768
Due to other funds	3,185,000	-	-	3,185,000
Other current liabilities	745,483	-	-	745,483
Total liabilities	32,522,028	1,221,365	133,772	33,877,165
Deferred Inflows of Resources				
Unavailable revenues, real estate taxes	6,252,779	-	-	6,252,779
Fund Balances				
Nonspendable	349,472	-	-	349,472
Restricted	-	6,540,150	5,152,972	11,693,122
Committed	6,256,070	-	-	6,256,070
Assigned	7,764,686	-	-	7,764,686
Unassigned	12,039,875	-	-	12,039,875
Total fund balances	26,410,103	6,540,150	5,152,972	38,103,225
Total	\$ 65,184,910	\$ 7,761,515	\$ 5,286,744	\$ 78,233,169

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, 2019

Total Fund Balances, Governmental Funds	\$ 38,103,225
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	59,003,776
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	6,252,778
Deferred gain on debt refundings are included in the statement of net position	20,768
Accrued interest payable is included in the statement of net position	(142,258)
Deferred outflows of resources related to the net pension liability is included in the statement of net position	51,310,547
Deferred outflows of resources related to the other postretirement benefits liability is included in the statement of net position	2,049,276
Deferred inflows of resources related to the net pension liability is included in the statement of net position	(11,478,000)
Deferred inflows of resources related to the other postretirement benefits liability is included in the statement of net position	(4,498,696)
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	(29,380,415)
Capital lease obligations	(4,411,118)
Authority lease obligations	(2,156,523)
Compensated absences	(3,004,004)
Special termination benefits	(1,018,461)
Other postretirement benefits	(21,276,469)
Net pension liability	(292,158,000)
Total Net Deficit, Governmental Activities	<u><u>\$ (212,783,574)</u></u>

Upper Darby School District

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	Major Funds			Total Governmental Funds
	General	Capital Projects	Capital Reserve	
Revenues				
Local sources	\$ 111,456,487	\$ 53,924	\$ 31,585	\$ 111,541,996
State sources	82,274,867	-	-	82,274,867
Federal sources	7,494,479	-	-	7,494,479
Total revenues	<u>201,225,833</u>	<u>53,924</u>	<u>31,585</u>	<u>201,311,342</u>
Expenditures				
Instruction	132,760,784	-	-	132,760,784
Support services	53,866,719	-	-	53,866,719
Noninstructional services	4,978,039	67,982	-	5,046,021
Capital outlay	1,146,296	4,858,010	238,630	6,242,936
Refund of prior year receipts	1,748	-	-	1,748
Debt service	6,102,570	-	-	6,102,570
Total expenditures	<u>198,856,156</u>	<u>4,925,992</u>	<u>238,630</u>	<u>204,020,778</u>
Revenues Under Expenditures	<u>2,369,677</u>	<u>(4,872,068)</u>	<u>(207,045)</u>	<u>(2,709,436)</u>
Other Financing Sources (Uses)				
Proceeds from bond issuance	-	11,465,000	-	11,465,000
Proceeds from extended term financing	2,369,002	-	-	2,369,002
Transfers in	947,092	-	3,685,000	4,632,092
Transfers out	(3,685,000)	-	-	(3,685,000)
Other financing sources, net	<u>(368,906)</u>	<u>11,465,000</u>	<u>3,685,000</u>	<u>14,781,094</u>
Revenues and Other Financing Sources Over (Under) Expenditures	<u>2,000,771</u>	<u>6,592,932</u>	<u>3,477,955</u>	<u>12,071,658</u>
Fund Balance, Beginning	<u>24,409,332</u>	<u>(52,782)</u>	<u>1,675,017</u>	<u>26,031,567</u>
Fund Balance, Ending	<u>\$ 26,410,103</u>	<u>\$ 6,540,150</u>	<u>\$ 5,152,972</u>	<u>\$ 38,103,225</u>

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, 2019

Total Net Change in Fund Balances - Governmental Funds \$ 12,071,658

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	\$ 7,130,878	
Less: depreciation expense	<u>(3,568,876)</u>	3,562,002

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 (688,197)

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

Activity during the period is as follows:

New premiums/discounts	67,982	
Amortization of bond premiums/discounts	157,498	
Amortization of deferred refunding charges	<u>9,827</u>	235,307

Proceeds from bond issuances are considered a current financial resource and are reported in the funds but not in the statement of activities (11,465,000)

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

Bonds and notes	3,372,190	
Capital leases	1,575,194	
Authority leases	<u>136,635</u>	5,084,019

Proceeds from extended term financing is considered a current financial resource and are reported in the funds but not in the statement of activities (2,369,002)

Change in accrued interest payable (28,095)

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

Retirement	(2,961,118)	
Compensated absences	(147,083)	
Special termination benefits	(110,355)	
Other postretirement benefits	<u>(353,766)</u>	(3,572,322)

Change in Net Position of Governmental Activities \$ 2,830,370

Upper Darby School District

Statement of Revenues, Expenditures and Change in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Local sources	\$ 108,127,957	\$ 111,456,487	\$ 3,328,530
State sources	85,106,229	82,274,867	(2,831,362)
Federal sources	7,491,317	7,494,479	3,162
	<u>200,725,503</u>	<u>201,225,833</u>	<u>500,330</u>
Expenditures			
Instruction	143,165,915	132,760,784	10,405,131
Support services	54,929,735	53,866,719	1,063,016
Noninstructional services	5,266,739	4,978,039	288,700
Capital outlay	80,430	1,146,296	(1,065,866)
Debt service	6,492,797	6,102,570	390,227
Refund of prior year receipts	55,000	1,748	53,252
	<u>209,990,616</u>	<u>198,856,156</u>	<u>11,134,460</u>
Revenues Under Expenditures	<u>(9,265,113)</u>	<u>2,369,677</u>	<u>11,634,790</u>
Other Financing Sources (Uses)			
Proceeds from extended term financing	2,400,000	2,369,002	(30,998)
Transfers in	750,000	947,092	197,092
Transfers out	(500,000)	(3,685,000)	(3,185,000)
Budgetary reserve	(266,277)	-	266,277
	<u>2,383,723</u>	<u>(368,906)</u>	<u>(2,752,629)</u>
Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses	<u>(6,881,390)</u>	<u>2,000,771</u>	<u>8,882,161</u>
Fund Balance, Beginning	<u>18,502,099</u>	<u>24,409,332</u>	<u>5,907,233</u>
Fund Balance, Ending	<u>\$ 11,620,709</u>	<u>\$ 26,410,103</u>	<u>\$ 14,789,394</u>

See notes to financial statements

Upper Darby School District

Balance Sheet - Proprietary Fund

June 30, 2019

Assets

Current Assets

Cash and cash equivalents	\$ 2,895,827
Investments	507,127
Due from other governments	242,777
Other receivables	431,983
Inventories	124,836

Total current assets 4,202,550

Capital Assets

908,334

Total assets \$ 5,110,884

Liabilities and Net Position

Liabilities

Current liabilities	
Accounts payable	\$ 450,220
Other current liabilities	27,898
Due to other funds	947,092

Total liabilities 1,425,210

Net Position

Net investment in capital assets	908,334
Unrestricted net position	2,777,340

Total net position 3,685,674

Total liabilities and net position \$ 5,110,884

Upper Darby School District

Statement of Revenues, Expenses, and Change in Net Position - Proprietary Fund
Year Ended June 30, 2019

Operating Revenues	
Food service revenue	\$ 245,115
Operating Expenses	
Purchased services	5,838,189
Donated commodities	408,372
Other	10,895
Depreciation	120,195
Total operating expenses	<u>6,377,651</u>
Operating Loss	<u>(6,132,536)</u>
Nonoperating Revenues (Expenses)	
Federal subsidies	7,510,211
State subsidies	319,615
Earnings on investments	30,244
Transfers out	(947,092)
Nonoperating revenues, net	<u>6,912,978</u>
Increase in Net Position	780,442
Net Position, Beginning	<u>2,905,232</u>
Net Position, Ending	<u>\$ 3,685,674</u>

See notes to financial statements

Upper Darby School District

Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2019

Cash Flows From Operating Activities

Receipts from customers	\$ 244,583
Payments to suppliers	<u>(5,778,789)</u>
Net cash used in operating activities	<u>(5,534,206)</u>

Cash Flows from Noncapital Financing Activities

Transfers out	(931,999)
State subsidies	352,723
Federal subsidies	<u>7,635,373</u>
Net cash provided by noncapital financing activities	<u>7,056,097</u>

Cash Flows Used in Capital and Related Financing Activities

Acquisition of capital assets	<u>(317,804)</u>
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Cash Flows Provided by Investing Activities

Purchase of investments	(507,127)
Interest on investments	<u>30,244</u>

Net Increase in Cash

727,204

Cash, Beginning

2,168,623

Cash, Ending

\$ 2,895,827

Supplemental Disclosure of Noncash Transactions

USDA donated commodities	<u><u>\$ 408,372</u></u>
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Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (6,132,536)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	120,195
USDA donated commodities	446,449
Changes in:	
Other receivables and prepaid expenses	310
Inventories	(38,077)
Accounts payable	70,294
Other current liabilities	<u>(841)</u>
Net cash used in operating activities	<u><u>\$ (5,534,206)</u></u>

Upper Darby School District

Statement of Net Position - Fiduciary Funds

June 30, 2019

	<u>Private Purpose Trust Fund</u>	<u>Activity Agency Fund</u>	<u>Other Agency Fund</u>
Assets			
Cash	<u>\$ 647,816</u>	<u>\$ 258,926</u>	<u>\$ 262,714</u>
Liabilities and Net Position			
Other current liabilities	\$ -	<u>\$ 258,926</u>	<u>\$ 262,714</u>
Net position restricted for scholarships	<u>647,816</u>		
Total liabilities and net position	<u>\$ 647,816</u>		

See notes to financial statements

Upper Darby School District

Statement of Changes in Net Position - Fiduciary Funds
Year Ended June 30, 2019

	Private Purpose Trust Fund
Additions	
Contribution income	\$ 185,986
Interest income	<u>9,480</u>
Total additions	195,466
Deductions	
Scholarships awarded	<u>227,292</u>
Change in Net Position	(31,826)
Net Position, Beginning	<u>679,642</u>
Net Position, Ending	<u><u>\$ 647,816</u></u>

See notes to financial statements

Upper Darby School District

Notes to Financial Statements
June 30, 2019

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. 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, nor is the District considered to be a component unit of any other government.

Basis of Presentation, Government-wide Financial Statements

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

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

Basis of Presentation, Fund Financial Statements

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

Upper Darby School District

Notes to Financial Statements
June 30, 2019

Governmental Fund Types

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

General Fund (Major)

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

Capital Projects Fund

Capital Projects fund accounts for financial resources that are restricted, committed, or assigned to expenditure for capital outlays. The District uses the following Capital Project sub-funds which it has elected to report as major funds:

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.

Other Capital Projects Fund (Major)

The Other Capital Projects Fund accounts for the financial resources to be used for acquisition, renovation, or construction of major capital facilities which are financed through the issuance of bonds.

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.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Private Purpose Trust Fund

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

Other Agency Fund

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

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

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

Accrual Basis

Government-wide financial statements and the proprietary and fiduciary fund type financial statements are prepared using the accrual basis of accounting. For exchange transactions, revenues are recognized when earned and expenses are recognized when incurred. Non-exchange transactions, in which the District receives value without directly giving equal value in return, requires tax revenues to be recognized in the year levied while grant revenue is recognized when grantor eligibility requirements are met.

Upper Darby School District

Notes to Financial Statements
June 30, 2019

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, postemployment obligations and claims and judgments, are recorded when the related fund liability is incurred. Principal and interest on bonds and notes payable, compensated absences, postemployment 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.

Budgetary Data

An operating budget is prepared each year for the General Fund on the modified accrual basis of accounting. The District utilizes the Executive Budget approach to budgetary control. This approach requires the superintendent, together with the business office, to prepare and submit a plan of financial operation to the School Board.

Cash and Cash Equivalents

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

Investments

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

Inventories

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

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

Upper Darby School District

Notes to Financial Statements

June 30, 2019

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.

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 leave is earned in the year in which the service has been performed and generally must be used in the year earned.

Pensions/Other Postemployment Benefits (OPEB)

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

Upper Darby School District

Notes to Financial Statements

June 30, 2019

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

Governmental Fund Balance Classifications

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

- *Nonspendable* fund balances are amounts that cannot be spent because they are either not in spendable form or, are legally or contractually required to be maintained intact. Nonspendable fund balance consists entirely of inventories which are not considered to be in spendable form.
- *Restricted* fund balances are amounts that are restricted to specific purposes by constraints placed on their use that are externally imposed by creditors, grantors, contributions, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts reported in the Capital Reserve Fund are restricted by Pennsylvania law to expenditures for capital assets.
- *Committed* fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolution of the District's School Board of Directors. These amounts cannot be used for any other purpose unless the School Board of Directors removes or changes the specific use by taking the same action it employed to previously commit the amounts. In June 2019, the Board of School Directors committed \$6,256,070 of fund balance to balance the 2019-2020 budget.
- *Assigned* fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. The District's School Board of Directors has designated the Chief Financial Officer to assign fund balance amounts as deemed financially necessary and appropriate. At June 30, 2019, the Chief Financial Officer has assigned fund balance for compensated absences/OPEB - \$1,682,188, PSERS retirement contribution - \$1,576,063, technology and educational resources - \$1,000,000, emergency capital replacement - \$1,500,000 and encumbrances -\$2,006,435.
- *Unassigned* fund balance is a residual classification and represents amounts that have not been assigned to other funds, and has not been restricted, committed or assigned to a specific purpose within the General Fund.

Eliminations and Internal Balances

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are labeled "internal balances" on the statement of net position.

Use of Restricted Net Position/Fund Balances

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

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports certain changes in its net pension/OPEB liabilities in the government-wide statement of net position in this category. The District also reports deferred losses on debt refundings in the government-wide statement of net position in this category.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Joint Ventures

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

Delaware County Vocational-Technical School Authority

The Delaware County Vocational-Technical School Authority (Vo-Tech Authority) is responsible for acquiring, holding, constructing, improving, and maintaining the vocational-technical school buildings used in providing vocational-technical education to students of Delaware County. The District is responsible for an allocated portion of the outstanding debt of the Vo-Tech Authority. At June 30, 2019 there is no allocated outstanding debt. 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 Principle Adopted in 2019

The District adopted GASB Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placement* in 2019. Statement No. 88 enhances information included in the notes to financial statements related to debt, including lines of credit, collateral for debt, and terms of events of default with significant finance related consequences. The adoption of this standard did not have a material impact on the District's financial statements.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

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 formal policy for custodial credit risk. At June 30, 2019, the bank balance of the District's deposits with financial statements, including cash equivalents, was \$20,036,303 compared to the carrying amount of \$17,307,732. The difference is caused by items in-transit and outstanding checks. \$19,786,203 of the District's deposits were exposed to custodial credit risk at June 30, 2019 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 (PSDLAF) contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each school district owns shares of PSDLAF, which invests the pooled assets. Since PSDLAF has the characteristics of a mutual fund, it is not subject to the disclosure requirements noted above. Due to the short term nature and liquidity of the investments held within these pools, the fair value of the underlying investments approximates amortized cost. Shares with PSDLAF can be withdrawn at any time in any amount, with no liquidity fees or redemption gates. At June 30, 2019, the carrying amount of the Fund was \$219,297.

Investments

The District's investments consist of the following:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>
PSDLAF, General Fund	\$ 34,903,000	\$ 34,903,000	\$ -
PSDLAF, Capital Projects Fund	1,633,000	1,633,000	-
PSDLAF, Capital Reserve Fund	1,913,000	1,913,000	-
Total governmental activities	<u>\$ 38,449,000</u>	<u>\$ 38,449,000</u>	<u>\$ -</u>
PSDLAF, Food Service Fund	505,000	505,000	-
Money market account, Food Service Fund	2,127	2,127	-
Total business-type activity	<u>\$ 507,127</u>	<u>\$ 507,127</u>	<u>\$ -</u>

Upper Darby School District

Notes to Financial Statements
June 30, 2019

3. Real Estate Taxes

The tax on real estate, as levied by the Board of School Directors, was 37.1395 mills (\$37.1395 per \$1,000 of assessed valuation) for fiscal year 2019. Delaware County determines the assessed value of property and the tax collector is responsible for collection. The District's Chief Financial Officer is the tax collector. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

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

Delinquent real estate taxes receivable at June 30, 2019 totaled \$6,916,183 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$663,404. Taxes receivable also includes \$6,006 of interim taxes, \$596,875 of real estate transfer taxes receivable and \$1,499,063 of delinquent real estate taxes collected by Delaware County but not yet remitted to the District. Real estate tax revenue includes \$51,447 due to an decrease in the allowance for doubtful accounts.

4. Due From Other Governments

Due from other governments consists of the following:

Governmental activities:	
Pennsylvania Department of Education:	
State source revenues	\$ 9,267,664
Federal source revenues	783,477
Other school districts:	
Local source revenues	190,360
	<hr/>
Total governmental activities	\$ 10,241,501
	<hr/>
Business-type activity:	
Pennsylvania Department of Education:	
State source revenues	\$ 10,529
Federal source revenues	232,248
	<hr/>
Total business-type activity	\$ 242,777
	<hr/>

Upper Darby School District

Notes to Financial Statements
June 30, 2019

5. Capital Assets

The changes in the District's capital assets in 2019 are summarized as follows:

	<u>Balance July 1, 2018</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2019</u>
Governmental activities:				
Cost:				
Land	\$ 680,000	\$ -	\$ -	\$ 680,000
Land improvements	6,038,750	33,436	-	6,072,186
Buildings and improvements	112,430,248	1,654,269	-	114,084,517
Furniture and equipment	30,207,884	960,321	(286,908)	30,881,297
Construction-in-progress	191,601	4,482,852	-	4,674,453
Total cost	<u>149,548,483</u>	<u>7,130,878</u>	<u>(286,908)</u>	<u>156,392,453</u>
Less accumulated depreciation:				
Land improvements	(4,723,028)	(197,538)	-	(4,920,566)
Buildings and improvements	(64,909,838)	(2,518,574)	-	(67,428,412)
Furniture and equipment	(24,473,843)	(852,764)	286,908	(25,039,699)
Total accumulated depreciation	<u>(94,106,709)</u>	<u>(3,568,876)</u>	<u>286,908</u>	<u>(97,388,677)</u>
Total	<u>\$ 55,441,774</u>	<u>\$ 3,562,002</u>	<u>\$ -</u>	<u>\$ 59,003,776</u>
Business-type activity:				
Furniture and equipment	\$ 1,650,407	\$ 317,804	\$ -	\$ 1,968,211
Less accumulated depreciation	(939,682)	(120,195)	-	(1,059,877)
Total	<u>\$ 710,725</u>	<u>\$ 197,609</u>	<u>\$ -</u>	<u>\$ 908,334</u>

The District is engaged in various capital projects. As of June 30, 2019, the District had awarded a total of \$13,000,515 of contracts related to these projects. In addition, the District awarded \$1,030,385 of contracts relating to these projects subsequent to June 30, 2019.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

6. Bonds and Notes Payable

The following summarizes the changes in the District's bonds and note payable in 2019:

	<u>Interest Rate</u>	<u>Current Portion</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>
Series of 2010, matures March 1, 2026	5.00%	\$ 339,333	\$ 2,714,665	\$ -	\$ (339,333)	\$ 2,375,332
Series A of 2011, matures September 1, 2025	5.09%	26,857	214,858	-	(26,857)	188,001
Series of 2012, matures February 15, 2024	1.0% - 2.10%	80,000	4,355,000	-	(80,000)	4,275,000
Series of 2014, matures May 1, 2024	2.12%	26,000	1,874,000	-	(1,000)	1,873,000
Series of 2015, matures May 1, 2024	3.00% - 5.00%	2,970,000	11,365,000	-	(2,925,000)	8,440,000
Series of 2018, matures April 1, 2027	1.65% - 3.00%	5,000	-	5,000,000	-	5,000,000
Series of 2019, matures April 1, 2030	1.85% - 3.00%	<u>385,000</u>	<u>-</u>	<u>6,465,000</u>	<u>-</u>	<u>6,465,000</u>
Total		<u>\$ 3,832,190</u>	20,523,523	11,465,000	(3,372,190)	28,616,333
Premiums/costs			<u>989,562</u>	<u>(67,982)</u>	<u>(157,498)</u>	<u>764,082</u>
Total			<u>\$ 21,513,085</u>	<u>\$ 11,397,018</u>	<u>\$ (3,529,688)</u>	<u>\$ 29,380,415</u>

The Series of 2012 bonds and the Series of 2014 note are considered direct placement borrowings.

Total interest paid on these bonds and notes in 2019 was \$888,777. No interest was capitalized in 2019. 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 2019 was 90.01 percent on the Series of 2010 and 93.25 percent on the Series A of 2011. In 2019, the District received \$248,019 in interest subsidies which is included in federal source revenues.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2019:

	Direct Placement Bonds and Notes		Other Bonds and Notes		Total
	Principal	Interest	Principal	Interest	
Years ending June 30:					
2020	\$ 106,000	\$ 126,208	\$ 3,726,190	\$ 906,747	\$ 4,865,145
2021	109,000	124,256	3,471,191	829,016	4,533,463
2022	2,022,000	122,242	1,036,190	683,678	3,864,110
2023	2,070,000	80,989	1,081,190	650,475	3,882,654
2024	1,841,000	38,749	1,386,191	629,113	3,895,053
2025-2028	-	-	11,767,381	1,524,887	13,292,268
Total	\$ 6,148,000	\$ 492,444	\$ 22,468,333	\$ 5,223,916	\$ 34,332,693

7. Authority Lease Obligations

The District's portion of authority bonds is allocated 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, 2019, the District's authority lease obligations consisted of the following:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019
Delaware County Community College	\$ 2,293,158	\$ -	\$ (136,635)	\$ 2,156,523

Interest expense on authority lease obligations was \$88,008 in 2019.

The aggregate maturities of authority lease obligations are as follows:

Years ending June 30:	
2020	\$ 215,160
2021	214,823
2022	207,219
2023	199,892
2024	184,778
2025-2029	923,103
2030-2034	803,004
2035-2037	64,678
Total lease payments	2,812,657
Less amount representing interest	(656,134)
Total authority lease obligations	\$ 2,156,523

Upper Darby School District

Notes to Financial Statements
June 30, 2019

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 2019:

Balance, July 1, 2018	\$ 3,617,310
Additions	2,369,002
Payments	<u>(1,575,194)</u>
Balance, June 30, 2019	<u>\$ 4,411,118</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, 2019:

Years ending June 30:	
2020	\$ 1,978,363
2021	1,232,520
2022	864,338
2023	<u>491,064</u>
Total minimum lease payments	4,566,285
Less amount representing interest	<u>(155,167)</u>
Present value of net minimum lease payments	<u>\$ 4,411,118</u>

Interest expense on capital leases was \$50,127 in 2019.

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 \$562,670 in 2019. Future minimum payments under these leases are as follows:

Years ending June 30:	
2020	\$ 520,585
2021	282,631
2022	33,123
2023	36,436
2024	36,436
Thereafter	<u>309,740</u>
Total minimum lease payments	<u>\$ 1,218,951</u>

9. Retirement Plan

Plan Description

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

Benefits Provided

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

Participants are eligible for disability retirement benefits after completion of 5 years of credited service. Such benefits are generally equal to 2 percent or 2.5 percent, depending upon membership class, of the member's final salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class T-C) or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Members who joined PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined PSERS after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30 percent (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

District Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2019 was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were approximately \$27,374,000 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$292,158,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.6086 percent, which was a decrease from its proportion measured as of June 30, 2018 of 0.6252 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$30,125,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,432,000	\$ 4,522,000
Changes in assumptions	5,444,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	14,714,000	6,956,000
Difference between expected and actual experience	2,352,000	-
District contributions subsequent to the measurement date	27,368,547	-
Total	<u>\$ 51,310,547</u>	<u>\$ 11,478,000</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2019

The \$27,368,547 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Years ending June 30:	
2020	\$ 13,349,000
2021	3,900,000
2022	(3,669,000)
2023	<u>(1,116,000)</u>
Total	<u>\$ 12,464,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the District's total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 7.25 percent, includes inflation at 2.75 percent
- Salary growth - Effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0 %	5.2 %
Fixed income	36.0	2.2
Commodities	8.0	3.2
Absolute return	10.0	3.5
Risk parity	10.0	3.9
Infrastructure/MLPs	8.0	5.2
Real estate	10.0	4.2
Alternative investments	15.0	6.7
Cash	3.0	0.4
Financing (LIBOR)	<u>(20.0)</u>	0.9
	<u>100.00 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 362,152,000	\$ 292,158,000	\$ 232,977,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

10. Compensated Absences and Special Termination Benefits

Compensated Absences

The changes in compensated absences in 2019 are summarized as follows:

Balance, July 1, 2018	\$ 2,856,921
Increases	206,943
Decreases	(59,860)
	<hr/>
Balance, June 30, 2019	\$ 3,004,004

Special Termination Benefits

The District's current agreement with its administrators includes a retirement incentive provision (must be employed as an administrator prior to July 1, 2012 and must retire with a minimum ten years of service as an administrator to the District) equal to 75 percent of the administrator's final salary. Payments made under this provision are non-elective employer contributions to the employees' 403(b) accounts in accordance with IRS regulations. The District has recorded a liability of \$1,018,461 for this benefit based on the present value of the expected retirement incentive amount and the probability that the administrator will receive such incentive. The benefit is funded on a pay-as-you-go basis.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Changes in the special termination benefits liability in 2019 were as follows:

Balance, July 1, 2018	\$ 908,106
Increases	332,290
Payments and other decreases	<u>(221,935)</u>
Balance, June 30, 2019	<u>\$ 1,018,461</u>

11. Other Postemployment Benefits (OPEB)

District OPEB Plan

Plan Description and Benefits

The District provides postemployment healthcare benefits for certain administrative employees who qualify to retire under PSERS and for all other administrative employees who meet minimum District and PSERS service requirements under a plan that is considered a single employer plan. For certain specified administrative employees, benefits include payment of 100 percent of the premiums for medical, prescription drug, dental and vision for the employees and their spouses for the earlier of 12 years or until employee is age 65. Afterwards, coverage may be continued by paying 102 percent of the cost of such coverage. For the other administrative employees who meet the minimum District and PSERS service requirements, the District pays 100 percent of the employee's premiums for medical, prescription drug, dental and vision until age 65. The employee must pay 102 percent of any additional premium for spouse and dependent coverage. If the administrative employee does not meet the specified service requirement, the employee and spouse may continue coverage by paying 100 percent of the premium as determined for the purposes of COBRA. In addition, under Act 110 of 1998 and Act 43 of 1989, retired teachers and support staff may participate by paying 102 percent of the cost of such coverage until age 65.

The contribution requirements of plan members and the District are established and may be amended by the Board of School Directors. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. As such, the plan is unfunded, there is no underlying trust, and no financial report is prepared.

Employees Covered by District Plan

At July 1, 2018, the following employees were covered by the District Plan:

Active employees	1,374
Inactive employees entitled to but not yet receiving benefit payments	-
Inactive employees currently receiving benefit payments	<u>367</u>
Total	<u>1,741</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2019

District Plan Total OPEB Liability

The District Plan's total OPEB liability of \$8,587,469 was measured as of July 1, 2018, as rolled forward from an actuarial valuation as of July 1, 2017.

District Plan Actuarial Assumptions

The District Plan total OPEB liability was determined using the following actuarial assumptions:

- Discount rate - 2.98 percent based on the S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2018
- Salary increases - 2.50 percent cost of living adjustment, 1.00 percent real wage growth, and for teachers and administrators, a merit increase which varies by age from 2.75 percent to 0 percent
- Mortality rates - separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation (Note 9). Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement
- Healthcare cost trend rates - 6.00 percent in 2018, and 5.50 percent through 2022. Rates gradually decrease from 5.40 percent in 2022 to 3.80 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model

Changes in the District Plan Total OPEB Liability

Balance at July 1, 2018	\$ 11,937,740
Service cost	854,242
Interest	391,740
Differences between expected and actual experience	(2,658,693)
Changes in assumptions	(1,427,472)
Benefit payments	(510,088)
	<hr/>
Balance at June 30, 2019	<u>\$ 8,587,469</u>

Changes in assumptions includes a change in the discount rate from 3.13 percent to 2.98 percent as well as assumptions for salary, mortality, withdrawal and retirement based on new PSERS assumptions.

Sensitivity to Changes in the Discount Rate

The following presents the District Plan's total OPEB liability, as well as what the District Plan's total OPEB liability would be if it were calculated using a discount rate that is 1 percent lower and higher than the current discount rate:

	<u>1% Decrease (1.98%)</u>	<u>Discount Rate (2.98%)</u>	<u>1% Increase (3.98%)</u>
Total District Plan OPEB Liability	<u>\$ 9,276,377</u>	<u>\$ 8,587,469</u>	<u>\$ 7,944,915</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Sensitivity to Changes in the Healthcare Cost Trend Rates

The following presents the District Plan's total OPEB liability, as well as what the District Plan's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percent lower and higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total District Plan OPEB Liability	\$ 9,698,071	\$ 8,587,469	\$ 7,622,352

District Plan OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2019, the District recognized OPEB expense of \$909,016 for the District Plan. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the District Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 455,443	\$ -
Net differences between projected and actual investment earnings	-	2,416,994
Changes in assumptions	345,026	1,297,702
Total	<u>\$ 800,469</u>	<u>\$ 3,714,696</u>

The \$455,443 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the District Plan's total OPEB liability in the year ended June 30, 2020.

Of the remaining net deferred inflows, \$336,966 will be recognized in OPEB expense each year from 2020 through 2030.

PSERS Plan

Plan Description and Benefits

PSERS provides premium assistance through a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Premium Assistance Eligibility Criteria

Retirees of PSERS can participate in the premium assistance program if they satisfy the following criteria:

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

District Contributions

The District's contractually required contribution rate for the year ended June 30, 2019 was .83 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were approximately \$680,000 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$12,689,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the District's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.6806 percent, which was a decrease of .0166 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$587,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 201,000	\$ (481,000)
Net differences between projected and actual investment earnings	99,000	-
Changes in proportion	252,000	(303,000)
District contributions subsequent to the measurement date	696,807	-
Total	<u>\$ 1,248,807</u>	<u>\$ (784,000)</u>

The \$696,807 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the PSERS Plan's total OPEB liability in the year ended June 30, 2020.

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Years ending June 30:		
2020	\$	(44,000)
2021		(44,000)
2022		(44,000)
2023		(47,000)
2024		(50,000)
Thereafter		<u>(3,000)</u>
Total	\$	<u>(232,000)</u>

Actuarial Assumptions

The PSERS total OPEB liability as of June 30, 2018, was determined by rolling forward the PSERS' total OPEB liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions:

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 2.98 percent - S&P 20 Year Municipal Bond Rate
- Salary growth - Effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases
- Premium assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Participation rate:
 - Eligible retirees will elect to participate pre age 65 at 50 percent
 - Eligible retirees will elect to participate post age 65 at 70 percent

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018 determined the employer contribution rate for fiscal year 2019
- Cost method: Amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date
- Asset valuation method: Market value
- Participation rate: 63 percent of eligible retirees are assumed to elect premium assistance
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25 percent males and 75 percent females is used to determine actuarial equivalent benefits).

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The PSERS policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year.

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9 %	0.03 %
US Core Fixed Income	92.8	1.2
Non-U.S. Developed Fixed	1.3	0.4
	<u>100.0 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount Rate

The discount rate used to measure the PSERS Plan's total OPEB liability was 2.98 percent. Under the plan's funding policy, contributions are structured for short term funding of premium assistance. The funding policy sets contribution rates necessary to assure solvency of premium assistance through the third fiscal year after the actuarial valuation date. The premium assistance account is funded to establish reserves that are sufficient for the payment of premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98 percent which represents the S&P 20 year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual premium assistance. As of June 30, 2018, retirees premium assistance benefits are not subject to future healthcare cost increases. The annual premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents PSERS' net OPEB liability for June 30, 2018 calculated using current healthcare cost trends as well as what PSERS' net OPEB liability would be if its health cost trends were 1% lower or higher than the current rate:

	1% Decrease	Healthcare Trends Cost	1% Increase
PSERS net OPEB Liability	\$ 12,686,000	\$ 12,689,000	\$ 12,691,000

Upper Darby School District

Notes to Financial Statements

June 30, 2019

Sensitivity to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.98 rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (1.98 percent) or 1 percent higher (3.98 percent) than the current rate:

	<u>1% Decrease (1.98%)</u>	<u>Discount Rate (2.98%)</u>	<u>1% Increase (3.98%)</u>
District's proportionate share of the PSERS net OPEB liability	<u>\$ 14,431,000</u>	<u>\$ 12,689,000</u>	<u>\$ 11,243,000</u>

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS' website at www.psers.pa.gov.

12. Internal Balances/Interfund Balances and Transfers

At June 30, 2019, \$947,072 was due to the General Fund from the Food Service Fund representing reimbursement of maintenance, utility, operative and administrative salaries and benefits. These balances were paid in the subsequent year.

Additionally, \$3,185,000 was due from the General Fund to the Capital Reserve Fund at June 30, 2019. The amount due represents a transfer of funds for future capital expenditures. This balance was paid in the subsequent year.

The following summarizes all interfund transfers in 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Capital Reserve Fund	\$ -	\$ 3,685,000
Food Service Fund	947,092	-
Food Service Fund:		
General Fund	-	947,092
Capital Reserve Fund:		
General Fund	3,685,000	-
Total	<u>\$ 4,632,092</u>	<u>\$ 4,632,092</u>

13. 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.

14. Pending Accounting Pronouncements

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

In June 2017, the GASB issued Statement No. 87, *Leases*. Statement No. 87 improves recognition of certain lease assets and liabilities for leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The District is required to adopt Statement No. 87 for its 2021 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The District is required to adopt Statement No. 89 for its 2021 financial statements.

Upper Darby School District

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

Years Ended June 30

(Unaudited)

(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the PSERS net pension liability	<u>0.6086%</u>	<u>0.6252%</u>	<u>0.6088%</u>	<u>0.5946%</u>	<u>0.5030%</u>
District's proportionate share of the PSERS net pension liability	<u>\$ 292,158</u>	<u>\$ 308,776</u>	<u>\$ 301,702</u>	<u>\$ 257,552</u>	<u>\$ 199,091</u>
District's covered-employee payroll	<u>\$ 81,951</u>	<u>\$ 83,236</u>	<u>\$ 78,840</u>	<u>\$ 76,505</u>	<u>\$ 64,182</u>
District's proportionate share of the PSERS net pension liability as a percentage of its covered-employee payroll	<u>356.5%</u>	<u>371.0%</u>	<u>382.7%</u>	<u>336.6%</u>	<u>310.2%</u>

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, in 2015. Information for years prior to 2015 is not available for reporting.

Upper Darby School District**Schedule of District PSERS Pension Contributions**

Years Ended June 30

(Unaudited)

(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PSERS contractually required contribution	\$ 27,368	\$ 26,069	\$ 23,638	\$ 19,836	\$ 15,789
Contributions in relation to the contractually required contribution	<u>27,368</u>	<u>26,069</u>	<u>23,638</u>	<u>19,836</u>	<u>15,789</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	<u>\$ 83,898</u>	<u>\$ 81,357</u>	<u>\$ 83,236</u>	<u>\$ 78,840</u>	<u>\$ 76,505</u>
Contributions as a percentage of covered-employee payroll	<u>32.62%</u>	<u>32.04%</u>	<u>28.40%</u>	<u>25.16%</u>	<u>20.64%</u>

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, in 2015. Information for years prior to 2015 is not available for reporting.

Upper Darby School District

Schedule of the District's Proportionate Share of the PSERS Net OPEB Liability

Years Ended June 30

(Unaudited)

(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the PSERS net OPEB liability	<u>0.6086%</u>	<u>0.6252%</u>	<u>0.6088%</u>
District's proportionate share of the PSERS net OPEB liability	<u>\$ 12,689</u>	<u>\$ 12,738</u>	<u>\$ 13,113</u>
District's covered-employee payroll	<u>\$ 81,951</u>	<u>\$ 83,236</u>	<u>\$ 78,840</u>
District's proportionate share of the PSERS net OPEB liability as a percentage of its covered-employee payroll	<u>15.5%</u>	<u>15.3%</u>	<u>16.6%</u>
Plan fiduciary net position as a percentage of the PSERS net OPEB liability	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. Information for years prior to 2017 is not available for reporting.

Upper Darby School District

Schedule of District PSERS OPEB Contributions

Years Ended June 30

(Unaudited)

(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
PSERS contractually required contribution	\$ 697	\$ 691	\$ 672
Contributions in relation to the contractually required contribution	<u>(697)</u>	<u>(691)</u>	<u>(672)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 83,898</u>	<u>\$ 81,357</u>	<u>\$ 83,236</u>
Contributions as a percentage of covered-employee payroll	<u>0.83%</u>	<u>0.85%</u>	<u>0.81%</u>

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. Information for years prior to 2017 is not available for reporting.

Upper Darby School District

Schedule of Changes in Total OPEB Liability for District Plan

Years Ended June 30

(Unaudited)

	<u>2019</u>	<u>2018</u>
Service cost	\$ 854,242	\$ 810,359
Interest cost	391,740	284,515
Differences between expected and actual experience	(2,658,693)	-
Changes of assumptions	(1,427,472)	414,032
Benefit payments	<u>(510,088)</u>	<u>(408,300)</u>
Net change	(3,350,271)	1,100,606
Total OPEB liability, beginning	<u>11,937,740</u>	<u>10,837,134</u>
Total OPEB liability, ending	<u>\$ 8,587,469</u>	<u>\$ 11,937,740</u>

The Plan is unfunded; therefore, total and net OPEB liability are same.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. Information for years prior to 2018 is not available for reporting.

Upper Darby School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Program or Award Amount	Total Received for the Year	Passed Through to Subrecipients	Accrued (Deferred) Revenue at July 1, 2018	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2019
U. S. DEPARTMENT OF EDUCATION									
Passed through Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-180448	\$ 4,193,531	\$ 1,178,483	\$ -	\$ 630,144	\$ 549,168	\$ 549,168	\$ 829
Title I Grants to Local Educational Agencies	84.010	013-190448	4,863,202	3,168,818	-	-	3,572,267	3,572,267	403,449
Title I Grants to Local Educational Agencies	84.010	042-170448	160,630	160,630	-	154,650	5,994	5,994	14
Title I Grants to Local Educational Agencies	84.010	042-180448	171,665	-	-	-	164,593	164,593	164,593
Title I Grants to Local Educational Agencies	84.010	152-180448	160,873	-	-	-	88,613	88,613	88,613
Total Title I Grants to Local Educational Agencies				4,507,931	-	784,794	4,380,635	4,380,635	657,498
English Language Acquisition Grants	84.365	010-180448	211,296	90,555	-	61,450	44,214	44,214	15,109
English Language Acquisition Grants	84.365	010-190448	214,852	107,426	-	-	127,348	127,348	19,922
Total English Language Acquisition Grants				197,981	-	61,450	171,562	171,562	35,031
Improving Teacher Quality State Grants	84.367	020-180448	602,990	127,629	-	11,491	158,681	158,681	42,543
Improving Teacher Quality State Grants	84.367	020-190448	643,729	325,472	-	-	272,683	272,683	(52,789)
Total Improving Teacher Quality State Grants				453,101	-	11,491	431,364	431,364	(10,246)
School Improvement Grants	84.377	142-160448	121,916	16,256	-	16,256	-	-	-
School Improvement Grants	84.377	142-170448	121,916	56,894	-	36,929	27,281	27,281	7,316
School Improvement Grants	84.377	142-180448	121,916	81,277	-	-	104,242	104,242	22,965
Total School Improvement Grants				154,427	-	53,185	131,523	131,523	30,281
Student Support and Academic Enrichment Program	84.424	144-180448	95,216	-	-	(15,834)	15,834	15,834	-
Student Support and Academic Enrichment Program	84.424	144-190448	302,972	281,331	-	-	288,604	288,604	7,273
Total Student Support and Academic Enrichment Program				281,331	-	(15,834)	304,438	304,438	7,273
Special Education Cluster									
Passed through Delaware County Intermediate Unit									
Special Education - Grants to States	84.027	H027A110093	1,975,637	1,975,637	-	-	1,975,637	1,975,637	-
Special Education - Preschool Grants	84.173	H39211009	8,251	8,251	-	-	8,251	8,251	-
Passed through PaTTAN Intermediate Unit 1									
Special Education - Grants to States	84.027	062-18-0-032	11,995	5,616	-	5,616	-	-	-
Total Special Education Cluster				1,989,504	-	5,616	1,983,888	1,983,888	-
Total U.S. Department of Education				7,584,275	-	900,702	7,403,410	7,403,410	719,837
U.S. DEPARTMENT OF AGRICULTURE									
Child Nutrition Cluster									
Passed through Pennsylvania Department of Education									
School Breakfast Program	10.553	365	2,545,925	2,777,131	-	318,534	2,545,925	2,545,925	87,328
National School Lunch Program	10.555	362	4,517,837	4,858,242	-	485,325	4,517,837	4,517,837	144,920
Passed through Pennsylvania Department of Agriculture									
Food Donation	10.555	N/A	446,449	446,449	-	-	446,449	446,449	-
Total Child Nutrition Cluster/U.S. Department of Agriculture				8,081,822	-	803,859	7,510,211	7,510,211	232,248
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Pennsylvania Department of Public Welfare									
Medical Assistance Program	93.778	044-007448	126,938	132,136	-	68,838	126,938	126,938	63,640
Total				\$ 15,798,233	\$ -	\$ 1,773,399	\$ 15,040,559	\$ 15,040,559	\$ 1,015,725

See notes to schedule of expenditures of federal awards

Upper Darby School District

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Upper Darby School District (the District) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

2. Summary of Significant Accounting Policies

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

3. Indirect Cost Rate

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

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

To the Board of School Directors of
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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 3, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
December 3, 2019

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

To the Board of School Directors of
Upper Darby School District

Report on Compliance for the Major Federal Program

We have audited Upper Darby School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2019. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
December 3, 2019

Upper Darby School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal program:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified? _____ yes X none reported

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

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

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553-10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes _____ no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Schedule of Prior Year Audit Findings

No audit findings reported in prior year.