

Upper Darby School District

Financial Statements and
Supplementary Information

June 30, 2012

Upper Darby School District

Table of Contents

June 30, 2012

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - General Fund	20
Statement of Net Assets - Proprietary Fund	21
Statement of Revenues, Expenses, And Change in Net Assets - Proprietary Fund	22
Statement of Cash Flows - Proprietary Fund	23
Statement of Net Assets - Fiduciary Funds	24
Statement of Changes in Net Assets - Fiduciary Funds	25
Notes to Financial Statements	26

Upper Darby School District

Table of Contents

June 30, 2012

Supplementary Information

Schedule of Expenditures of Federal Awards	44
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 <i>Government Auditing Standards</i>	46
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	48
Schedule of Findings and Questioned Costs	50

Independent Auditors' Report

Board of School Directors
Upper Darby School District

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in its financial position and its cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The schedule of expenditures of federal awards on pages 44-45 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

ParenteBeard LLC

Philadelphia, Pennsylvania
December 21, 2012

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

This Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the Upper Darby School District (the "District") as of and for the year ended June 30, 2012. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

Financial Highlights

Total net assets of the District decreased \$289,607 in 2012. Net assets of governmental activities decreased \$379,355, or 1.3%, below 2011. Net assets of the business-type activity increased by \$89,748, or 6.3%, up from 2011.

The District had \$157,177,072 in expenditures related to governmental activities in 2012; only \$34,059,363 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidy) of \$122,738,354 were not adequate to provide for these programs. As a result, the District's governmental activities net assets decreased \$379,355 on a government-wide, full accrual basis.

In the District's business-type activity, net assets increased by \$89,748 as a result of the net profit of the food service operation.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

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

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

Fund Financial Statements

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

Governmental Funds

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the District's major funds (General Fund and Capital Reserve Fund) and non-major fund (General Welfare Fund). Non-major funds are reported under the caption "Non-major".

The basic governmental fund statements can be found on pages 16-19 of this report.

The District adopts an annual budget for its General Fund using the Executive Budget approach. A budgetary comparison statement for the General Fund has been provided on page 20 of this report to demonstrate compliance with this budget.

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

Proprietary Fund

The District accounts for its food service operation in a proprietary fund, which reports the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-43 of this report.

General Fund Budgetary Highlights

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

The General Fund's approved budget for 2012 included \$152,279,450 of revenues and other financing sources and \$156,279,450 of expenditures and other financing uses. The District budgeted an additional \$4,000,000 to be used from its committed fund balance. The budget was not amended during the year to account for internal expenditure budget transfers nor program reinstatements nor new awards received after the original budget adoption.

Revenues	Budget	Actual	Over (Under) Budget	
Local	\$ 91,475,473	\$ 92,126,716	\$ 651,243	0.7%
State	52,672,734	53,252,589	579,855	1.1%
Federal	7,336,243	9,357,637	2,021,394	27.5%
Other	795,000	1,679,373	884,373	111.2%
Total revenues	<u>\$ 152,279,450</u>	<u>\$ 156,416,315</u>	<u>\$ 4,136,865</u>	<u>2.7%</u>

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

The actual 2012 revenues and other financing sources were \$156,416,315, an increase in excess of \$4.1 million, or 2.7%, above final budget. The District benefited from better than expected collections in:

Source	Attributable to:
Local	One-time energy performance rebates \$299,000 and ongoing energy conservation rebates \$34,000, total tax collections exceeding budget \$245,000, and private donations of \$70,000
State	Reinstatement of Accountability Block Grant (ABG) \$727,000 which were committed to by the Commonwealth after the District had adopted its original budget
Federal	Mid-year grant awarded: School Improvement Grant (SIG) providing \$1.5 million (Upper Darby High School and Kelly Elementary School); increases in Medical Access Assistance and Administrative Reimbursement \$288,000; Qualified School Construction Bonds (QSCB) interest reimbursement \$252,000
Other	Proceeds of 2011 QSCB bond issuance \$376,000; transfer from food service operations \$415,000

Expenditure	Budget	Actual	Over (Under) Budget	
District	\$ 147,142,207	\$ 146,799,708	\$ (342,499)	(0.2)%
State	-	727,700	727,700	100.0%
Federal	9,137,243	10,698,409	1,621,166	17.7%
Total	<u>\$ 156,279,450</u>	<u>\$ 158,225,817</u>	<u>\$ 2,006,367</u>	<u>1.3%</u>

Actual expenditures and other uses were \$158,225,817, or 1.3% over the final budget. Costs originally budgeted to District were distributed to state sources once ABG was reinstated. The additional federal expenditures were directly related to additional revenues received in 2012.

The District's General Fund balance decreased \$1,809,502 in 2012. With the adoption of the budget, the Board committed \$4,000,000 of fund balance to cover the projected shortfall for the 2011-2012 year. As the decrease does not exceed the funds that had been committed for this purpose, \$2,190,498 were maintained and made available for future use. The Board increased the committed amount of fund balance back to \$4,000,000 to balance the 2012-2013 budget. The unassigned fund balance as of June 30, 2012 is \$5,382,105, representing 3.36% of the 2012-13 expenditure budget of \$160.4 million.

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

Government-Wide Financial Analysis

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

CONDENSED STATEMENT OF NET ASSETS (IN 000'S)

	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS		% CHANGE
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Current and other assets	\$ 27,646	\$ 30,370	\$ 1,738	\$ 1,618	\$ 29,384	\$ 31,988	(8.1%)
Capital assets	<u>59,863</u>	<u>62,442</u>	<u>148</u>	<u>164</u>	<u>60,011</u>	<u>62,606</u>	(4.1%)
TOTAL	<u>\$ 87,509</u>	<u>\$ 92,812</u>	<u>\$ 1,886</u>	<u>\$ 1,782</u>	<u>\$ 89,395</u>	<u>\$ 94,594</u>	(5.5%)
Current liabilities	\$ 6,869	\$ 7,449	\$ 377	\$ 362	\$ 7,246	\$ 7,811	(7.2%)
Long-term liabilities:							
Due within one year	6,648	6,405	-	-	6,648	6,405	3.8%
Due after one year	<u>45,745</u>	<u>50,332</u>	<u>-</u>	<u>-</u>	<u>45,745</u>	<u>50,332</u>	(9.1%)
Total liabilities	<u>59,262</u>	<u>64,186</u>	<u>377</u>	<u>362</u>	<u>59,639</u>	<u>64,548</u>	(7.6%)
Net assets:							
Invested in capital assets, net of related debt	15,480	14,031	148	164	15,628	14,195	10.1%
Restricted	1,585	2,491	-	-	1,585	2,491	(36.4%)
Unrestricted	<u>11,182</u>	<u>12,104</u>	<u>1,361</u>	<u>1,256</u>	<u>12,543</u>	<u>13,360</u>	(6.1%)
Total net assets	<u>28,247</u>	<u>28,626</u>	<u>1,509</u>	<u>1,420</u>	<u>29,756</u>	<u>30,046</u>	(1.0%)
TOTAL	<u>\$ 87,509</u>	<u>\$ 92,812</u>	<u>\$ 1,886</u>	<u>\$ 1,782</u>	<u>\$ 89,395</u>	<u>\$ 94,594</u>	(5.5%)

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

CONDENSED STATEMENT OF ACTIVITIES (IN 000'S)							
	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS		% CHANGE
	2012	2011	2012	2011	2012	2011	
Program revenues:							
Charges for services	\$ 2,792	\$ 2,647	\$ 1,448	\$ 1,536	\$ 4,240	\$ 4,183	1.4%
Operating grants and contributions	31,268	38,065	3,816	3,620	35,084	41,685	(15.8%)
General revenues:							
Taxes levied for general purposes, net	93,444	91,379	-	-	93,444	91,379	2.3%
Grants, subsidies and contributions not restricted	28,480	25,541			28,480	25,541	11.5%
Other	814	980	(414)	(402)	400	578	(30.8%)
Total revenues	<u>156,798</u>	<u>158,612</u>	<u>4,850</u>	<u>4,754</u>	<u>161,648</u>	<u>163,366</u>	<u>(1.1%)</u>
Program expenses:							
Instruction	102,607	101,519	-	-	102,607	101,519	1.1%
Instructional student support	12,596	13,143	-	-	12,596	13,143	(4.2%)
Administration and financial support services	11,006	10,774	-	-	11,006	10,774	2.2%
Operation and maintenance of plant services	12,418	11,897	-	-	12,418	11,897	4.4%
Pupil transportation	7,432	7,301	-	-	7,432	7,301	1.8%
Student activities	2,698	2,548	-	-	2,698	2,548	5.9%
Community services	2,877	2,399	-	-	2,877	2,399	19.9%
Interest on long-term debt	2,216	2,204	-	-	2,216	2,204	0.5%
Loss on disposal of asset	102	-	-	-	102	-	100%
Unallocated depreciation	3,225	2,992	-	-	3,225	2,992	7.8%
Food service	-	-	4,761	4,755	4,761	4,755	0.1%
Total expenses	<u>157,177</u>	<u>154,777</u>	<u>4,761</u>	<u>4,755</u>	<u>161,938</u>	<u>159,532</u>	<u>1.5%</u>
Change in net assets	(379)	3,835	89	(1)	(290)	3,834	(107.6%)
Net assets, beginning	<u>28,626</u>	<u>24,791</u>	<u>1,420</u>	<u>1,421</u>	<u>30,046</u>	<u>26,212</u>	<u>14.6%</u>
Net assets, ending	<u>\$ 28,247</u>	<u>\$ 28,626</u>	<u>\$ 1,509</u>	<u>\$ 1,420</u>	<u>\$ 29,756</u>	<u>\$ 30,046</u>	<u>(1.0%)</u>

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

Governmental Activities

The net assets of the governmental activities decreased in 2012 by \$379,355 primarily due to increased costs associated with rising charter school attendance and special education costs and a decrease in combined state and federal revenues.

Business-Type Activity

The District's food service operation increased its net assets by \$89,748 in 2012. The District continues to receive favorable increases in state and federal reimbursements due to greater participation in the National School Lunch Program and costs savings in contracted services.

Financial Analysis of the Funds

General Fund (Major)

The following represents a summary of General Fund Revenue, by source, along with changes from 2011:

	2012 Amount	2011 Amount	Increase (Decrease)	% Change
Local sources	\$ 92,126,716	\$ 89,918,606	\$ 2,208,110	2.5%
State sources	53,252,589	51,808,004	1,444,585	2.8%
Federal sources	9,357,637	15,035,116	(5,677,479)	(37.8)%
	<u>\$ 154,736,942</u>	<u>\$ 156,761,726</u>	<u>\$ (2,024,784)</u>	<u>(1.3)%</u>

Local Revenue Sources

Revenues from local sources increased by \$2.2 million or 2.5% in 2012 as compared to 2011. The majority of the local revenue is derived through real estate and transfer tax collections which represents \$87.6 million or 56% of the District's total revenues for 2012. Real estate tax revenues increased by \$2.3 million, the result of an 2.7% increase in the millage rate to 32.85. However, the assessed value of property in the District continues to decrease due to court-ordered appeals. In addition, the District continues to be negatively impacted by the economic environment as other tax collections (interim, transfer and delinquent taxes) declined \$430,000 from 2011 levels. Most notably, transfer taxes declined \$317 thousand. Delinquent tax collections remain consistent and the amount of delinquent accounts turned over to Delaware County for collection remains practically the same. Investment earnings declined \$41 thousand as cash reserve balances were drawn down to support budgetary shortfalls and interest rates remain stagnant. Other increases resulted from a Board-approved increase in extended day care fees (\$128,000) and one-time energy performance and conservation rebates of \$333,000.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2012

State Revenue Sources

Revenues derived from state sources increased \$1.4 million, or 2.8%, in 2012 as compared to 2011. The increase was artificial as the Commonwealth had substituted basic education subsidy funding with \$2.1 million of one-time federal stimulus (ARRA) funds in 2011. Despite realizing an increase of \$2.9 million in basic education subsidy funding in 2012, the District lost \$2.6 million in other state funding, including elimination of charter school funding, the educational assistance program (EAP) and severe cuts in the accountability block program (ABG). Funding for tuition for children placed in homes was cut in 2011 but restored in 2012, resulting in an additional \$700,000. The subsidies for payroll benefits had a net increase of \$443,000 with the Social Security subsidy decreasing \$561,000 due to lower salaries and the retirement subsidy increased by \$1 million as the PSERS rate jumped from 5.64% to 8.65% in 2012.

Federal Revenue Sources

Revenues derived from federal sources decreased by \$5.7 million, or 37.8% in 2012 as compared to 2011. The decrease is primarily due to the expiration of the federal stimulus funding and the loss of \$8.7 million of related revenues. This was offset by an increase in Title I revenues of \$3 million, primarily from a School Improvement Grant received.

The following represents a summary of General Fund Expenditures, by function, along with changes from 2011:

	2012 Amount	2011 Amount	Increase (Decrease)	% Change
Instruction	\$ 102,716,232	\$ 101,970,937	\$ 745,295	0.7%
Support services	43,219,883	43,927,397	(707,514)	(1.6)%
Noninstructional services	4,673,565	4,745,449	(71,884)	(1.5)%
Refund of prior year receipts	7,619	663	6,956	104.9%
Debt service	7,608,518	7,127,724	480,794	(4.8)%
Total	<u>\$ 158,225,817</u>	<u>\$ 157,772,170</u>	<u>\$ 453,647</u>	<u>(3.6)%</u>

The most notable changes between 2011 and 2012 are a 47.3% increase in PSERS retirement contributions costs, a 10.9% increase in special educational expenditures, and a 34.7% increase in charter school costs. Offsetting these increases were a 4.86% decrease in salaries and benefits resulting from reductions in full time staff despite contractual increases in 2012 and a 56.4% reduction in equipment purchases related to lower capital lease purchases.

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

Instruction

Instruction expenditures increased \$745,295 or 0.7% in 2012. With the various elimination/cuts in the Commonwealth's EAP and ABG programs and federal ARRA funding, the District was forced to cut educational programs and 40 full-time staff. Despite contractual increases for 2012, there was a \$2.5 million reduction in instructional teacher salaries. Even with these reductions, PSERS retirement contributions increased by \$1.5 million. The District's special education student population continues to increase and the cost to comply with federally mandated regulations in meeting the needs of this segment of our population increased educational purchased services and tuition costs by \$2.7 million in 2012. Other contributing factors were a \$254,000 increase in vocational programs and a \$855,000 increase to support higher charter school attendance. The District cut instructional supplies, books and software expenditures in the amount of \$276,000 and reduced other instructional programs, most notably private residential rehabilitation costs, by \$645,000.

Support Services

Expenses for support services decreased \$707,514 or 1.61% in 2012, despite a \$634 thousand increase in PSERS retirement contributions. Due to the eliminations/cuts in state and federal funding, the District eliminated certain support positions including reading and math specialists and reduced staff development programs to save \$806,000 of salaries and benefits. In addition, administrative salaries were reduced by \$171,000 in part through attrition and non-replacement of the director of attendance position. The District was able to save \$997,000 in maintenance operations through reductions in the summer-maintenance operations, rescheduling of security staff and repairs, supplies and equipment purchase costs. Increases in support services were primarily due to \$658,000 in higher transportation costs, primarily salaries, benefits and fuel.

Noninstructional Services

Non-instructional services decreased \$71,884 in 2012 due a reduction in administrative salaries and benefits in part from attrition and the non-replacement of the director of recreation.

Debt Service

Debt service increased \$480,794 as a result of the District's continued participation in a lease-purchase program for busses, subsequent capital lease principal payments and interest on new bond issuances in 2011 and 2012.

Upper Darby School District

Management's Discussion and Analysis

(Unaudited)

June 30, 2012

Capital Projects Fund (Major Fund)

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

During 2012, the District completed various capital projects including a partial roof replacement at the Upper Darby High School, and construction for modular units at the Garrettford Elementary School. Contracts were also let for a roof replacement at the Bywood, Stonehurst and Kindergarten Center elementary schools.

Expenditures in the Capital Reserve fund were \$874,272 in 2012. As of June 30, 2012, the Capital Reserve Fund has a fund balance of \$1,584,651 reserved for future capital improvements.

Capital Assets

The District's capital assets at June 30, 2012 are summarized below:

	Governmental Activities	Business Type Activity	Totals
Land improvements	\$ 2,772,707	\$ -	\$ 2,772,707
Buildings and improvements	106,213,704	-	106,213,704
Furniture and equipment	23,013,516	781,947	23,795,463
Construction in progress	43,500	-	43,500
Total	132,043,427	781,947	132,825,374
Less accumulated depreciation	(72,180,054)	(633,510)	(72,813,564)
Net	\$ 59,863,373	\$ 148,437	\$ 60,011,810

Long Term Debt

At June 30, 2012, the District's general obligation debt was \$42,216,667. This amount is approximately 12% of its legal limit of \$345 million. \$3.9 million of this debt is scheduled for repayment in 2013. The District expects to refinance its Series B of 2004 general obligation bonds in 2013 and realize approximately \$400,000 in future debt service cost savings. Additional information on the District's long-term debt can be found in Note 6 on pages 37-38 of this report.

Upper Darby School District

Management's Discussion and Analysis
(Unaudited)
June 30, 2012

Economic Condition and Outlook

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

In addition, the District is not expecting to continue to benefit from state and federal funding streams for the upcoming 2012-13 year and beyond, as the Commonwealth has continued to adopt cost cutting measures that nominally increased basic education funding in the upcoming year. With the elimination of the educational assistance program and reduction in/uncertainty of the future of the accountability block program; elimination of subsidies for charter schools, homebound tuition, private school tuition; discontinuation of the ARRA federal funding; and current/anticipated future reductions in other federal funding, the District struggles to find adequate funding streams without placing the burden solely on its taxpayers.

The effects of the above were duly noted in the 2012-13 preliminary and tentative budget presentation where the District faced a \$13.5 million deficit. The District was again required to reduce personnel, programs and commit another \$4 million of its fund balance to meet the requirements of a balanced budget. Public outcry and support for the reinstatement of proposed program and staff reductions energized local state legislators to secure an additional \$2 million dollars of educational support. The additional funding was received after the budget adoption.

The budget challenge of 2012-13 is not an isolated event. The District is anticipating revenue streams to reduce even more, double-digit employer retirement costs escalating to 16% and 22% percent in the next two years and charter school legislation that can adversely impact public education even more.

In addition to the economic challenges, the District continues to face overcapacity issues. Despite stable enrollment in 2012, long-term solutions to alleviate our over-crowded schools will need to be identified. In 2013, a demographic study will be presented to provide guidance to any proposals to meet the future needs of the District that will be subject to the provisions of Act 1.

The District's contract with the Transport Workers' Union, which bargains for maintenance, custodial and transportation employees, expires on June 30, 2014 and has a 2.2% increase in 2012-13 and a 2.0% increase in 2013-14 for employee Classifications I through V and an increase of \$0.30 in 2012-13, and \$0.33 in 2013-14 for all hourly employees.

Currently, the District is in negotiations with the Upper Darby Education Association whose contract expired on August 31, 2012 and the Upper Darby Education Support Professionals Association whose contract expired on June 30, 2012.

Requests for Information

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

Upper Darby School District

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business-Type Activity	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 12,222,344	\$ 1,529,320	\$ 13,751,664
Investments	2,589,204		2,589,204
Taxes receivable, net	7,108,153		7,108,153
Due from other governments	2,332,520	588,651	2,921,171
Other receivables	757,235	7,351	764,586
Internal balances	414,654	(414,654)	-
Inventories	420,374	27,405	447,779
Total current assets	25,844,484	1,738,073	27,582,557
Capital assets	59,863,373	148,437	60,011,810
Restricted cash	1,628,151		1,628,151
Deferred charges	173,162		173,162
Total	\$ 87,509,170	\$ 1,886,510	\$ 89,395,680
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Accounts payable	\$ 2,488,723	\$ 376,874	\$ 2,865,597
Current maturities of:			
Bonds and note payable	3,906,190		3,906,190
Capital lease obligations	1,080,436		1,080,436
Authority lease obligations	185,916		185,916
Accrued salaries and benefits	2,771,155		2,771,155
Accrued interest payable	338,964		338,964
Current portion of compensated absences	658,037		658,037
Current portion of special termination benefits	697,826		697,826
Current portion of postretirement benefits	119,710		119,710
Deferred revenues	650,575		650,575
Other current liabilities	618,808		618,808
Total current liabilities	13,516,340	376,874	13,893,214
Bonds and note payable	38,157,626		38,157,626
Capital lease obligations	1,412,094		1,412,094
Authority lease obligations	2,042,330		2,042,330
Compensated absences	2,109,992		2,109,992
Special termination benefits	1,356,587		1,356,587
Postretirement benefits	667,116		667,116
Total liabilities	59,262,085	376,874	59,638,959
Net Assets			
Invested in capital assets, net of related debt	15,480,189	148,437	15,628,626
Restricted	1,584,651		1,584,651
Unrestricted	11,182,245	1,361,199	12,543,444
Total net assets	28,247,085	1,509,636	29,756,721
Total	\$ 87,509,170	\$ 1,886,510	\$ 89,395,680

See notes to financial statements

Upper Darby School District

Statement of Activities

Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities						
Instruction	\$ 102,607,232	\$ 145,675	\$ 23,576,491	\$ (78,885,066)		\$ (78,885,066)
Instructional student support	12,596,482		1,658,417	(10,938,065)		(10,938,065)
Administrative and financial support services	11,005,540		701,302	(10,304,238)		(10,304,238)
Operation and maintenance of plant services	12,417,792		533,547	(11,884,245)		(11,884,245)
Pupil transportation	7,431,523	30,500	2,360,270	(5,040,753)		(5,040,753)
Student activities	2,697,525	864,668	103,975	(1,728,882)		(1,728,882)
Community service	2,877,493	1,750,781	168,679	(958,033)		(958,033)
Interest on long-term debt	2,216,172		2,165,058	(51,114)		(51,114)
Loss on abandonment of capital project	102,314			(102,314)		(102,314)
Depreciation	3,224,999			(3,224,999)		(3,224,999)
Total governmental activities	157,177,072	2,791,624	31,267,739	(123,117,709)		(123,117,709)
Business-Type Activity, Food Service						
	4,760,075	1,448,015	3,815,367		\$ 503,307	503,307
Total	\$ 161,937,147	\$ 4,239,639	\$ 35,083,106	(123,117,709)	503,307	(122,614,402)
General Revenues						
Taxes levied for general purposes, net				93,443,900		93,443,900
Grants, subsidies and contributions not restricted				28,480,023		28,480,023
Miscellaneous income				200,718		200,718
Investment earnings				105,767	1,095	106,862
Insurance reimbursement				93,292		93,292
Transfers				414,654	(414,654)	-
Total general revenues				122,738,354	(413,559)	122,324,795
Change in Net Assets				(379,355)	89,748	(289,607)
Net Assets, Beginning				28,626,440	1,419,888	30,046,328
Net Assets, Ending				\$ 28,247,085	\$ 1,509,636	\$ 29,756,721

See notes to financial statements

Upper Darby School District

Balance Sheet

Governmental Funds

June 30, 2012

	Major Funds		Nonmajor	
	General	Capital Reserve	Funds	Totals
Assets				
Cash and cash equivalents	\$ 11,977,216		\$ 245,128	\$ 12,222,344
Restricted cash		\$ 1,628,151		1,628,151
Investments	2,589,204			2,589,204
Taxes receivable, net	7,108,153			7,108,153
Due from other governments	2,332,520			2,332,520
Other receivables	757,235			757,235
Due from other funds	414,654			414,654
Inventories	420,374			420,374
Total	\$ 25,599,356	\$ 1,628,151	\$ 245,128	\$ 27,472,635
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 2,445,223	\$ 43,500		\$ 2,488,723
Accrued salaries and benefits	2,771,155			2,771,155
Deferred revenues	7,166,382			7,166,382
Other current liabilities	618,808			618,808
Total liabilities	13,001,568	43,500		13,045,068
Fund Balances				
Nonspendable	420,374			420,374
Restricted		1,584,651		1,584,651
Committed	4,000,000		\$ 245,128	4,245,128
Assigned	2,795,309			2,795,309
Unassigned	5,382,105			5,382,105
Total fund balances	12,597,788	1,584,651	245,128	14,427,567
Total	\$ 25,599,356	\$ 1,628,151	\$ 245,128	\$ 27,472,635

See notes to financial statements

Upper Darby School District

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2012

Total Fund Balances - Governmental Funds \$ 14,427,567

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

Capital assets used in governmental activities are not financial
resources and are not reported in the funds 59,863,373

Bond and note issuance costs are deferred and amortized over the life
of the debt in the statement of net assets 173,162

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 6,515,807

Accrued interest payable is included in the statement of net
assets (338,964)

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	(42,063,816)
Capital lease obligations	(2,492,530)
Authority lease obligations	(2,228,246)
Compensated absences	(2,768,029)
Special termination benefits	(2,054,413)
Other postretirement benefits	(786,826)

Total Net Assets - Governmental Activities \$ 28,247,085

Upper Darby School District**Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**
Year Ended June 30, 2012

	Major Funds			Total
	General	Capital Reserve	Nonmajor Funds	Governmental Funds
Revenues				
Local sources	\$ 92,126,716	\$ 2,004	\$ 828,588	\$ 92,957,308
State sources	53,252,589			53,252,589
Federal sources	9,357,637			9,357,637
Total revenues	154,736,942	2,004	828,588	155,567,534
Expenditures				
Instruction	102,716,232			102,716,232
Support services	43,219,883			43,219,883
Noninstructional services	4,673,565		908,151	5,581,716
Capital outlay		874,272		874,272
Refund of prior year receipts	7,619			7,619
Debt service	7,608,518			7,608,518
Total expenditures	158,225,817	874,272	908,151	160,008,240
Excess of Revenues Over (Under) Expenditures	(3,488,875)	(872,268)	(79,563)	(4,440,706)
Other Financing Sources (Uses)				
Insurance reimbursements	93,293			93,293
Proceeds from bond issuance	376,000			376,000
Proceeds from extended term financing	795,426			795,426
Transfers in	414,654			414,654
Other financing sources, net	1,679,373	-	-	1,679,373
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,809,502)	(872,268)	(79,563)	(2,761,333)
Fund Balance, Beginning	14,407,290	2,456,919	324,691	17,188,900
Fund Balance, Ending	\$ 12,597,788	\$ 1,584,651	\$ 245,128	\$ 14,427,567

See notes to financial statements

Upper Darby School District

Statement of Revenues, Expenditures, and Change in
Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2012

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Local sources	\$ 91,475,473	\$ 92,126,716	\$ 651,243
State sources	52,672,734	53,252,589	579,855
Federal sources	7,336,243	9,357,637	2,021,394
Total revenues	151,484,450	154,736,942	3,252,492
Expenditures			
Instruction	100,947,492	102,716,232	(1,768,740)
Support services	42,636,200	43,219,883	(583,683)
Noninstructional services	4,783,246	4,673,565	109,681
Debt service	7,616,512	7,608,518	7,994
Refund of prior year receipts	55,000	7,619	47,381
Total expenditures	156,038,450	158,225,817	(2,187,367)
Excess of Revenues Over (Under) Expenditures	(4,554,000)	(3,488,875)	1,065,125
Other Financing Sources (Uses)			
Insurance reimbursements	-	93,293	93,293
Proceeds from bond issuance	-	376,000	376,000
Proceeds from extended term financing	795,000	795,426	426
Transfers in	-	414,654	414,654
Transfers out	(141,000)	-	141,000
Budgetary reserve	(100,000)	-	100,000
Total other financing sources, net	554,000	1,679,373	1,125,373
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(4,000,000)	(1,809,502)	2,190,498
Fund Balance, Beginning	6,542,416	14,407,290	7,864,874
Fund Balance, Ending	\$ 2,542,416	\$ 12,597,788	\$ 10,055,372

See notes to financial statements

Upper Darby School District

Statement of Net Assets - Proprietary Fund

June 30, 2012

Assets

Current Assets

Cash and cash equivalents	\$ 1,529,320
Due from other governments	588,651
Other receivables	7,351
Inventories	<u>27,405</u>

Total current assets 2,152,727

Capital Assets

148,437

Total \$ 2,301,164

Liabilities and Net Assets

Liabilities

Current liabilities	
Accounts payable	\$ 376,874
Due to other funds	<u>414,654</u>

Total liabilities 791,528

Net Assets

Invested in capital assets	148,437
Unrestricted net assets	<u>1,361,199</u>

Total net assets 1,509,636

Total \$ 2,301,164

See notes to financial statements

Upper Darby School District

Statement of Revenues, Expenses, and Change in
Net Assets - Proprietary Fund
Year Ended June 30, 2012

Operating Revenues

Food service revenue	\$ 1,448,015
----------------------	--------------

Operating Expenses

Purchased services	4,441,846
Donated commodities	208,631
Other	76,547
Depreciation	33,051

Total operating expenses	4,760,075
--------------------------	-----------

Operating Loss	(3,312,060)
----------------	-------------

Nonoperating Revenues (Expenses)

Federal subsidies	3,574,229
State subsidies	241,138
Earnings on investments	1,095
Transfers out	(414,654)

Nonoperating revenues, net	3,401,808
----------------------------	-----------

Increase in Net Assets	89,748
------------------------	--------

Net Assets, Beginning	1,419,888
-----------------------	-----------

Net Assets, Ending	\$ 1,509,636
--------------------	--------------

Upper Darby School District

Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2012

Cash Flows From Operating Activities

Receipts from customers	\$ 1,440,664
Payments to suppliers	<u>(4,503,859)</u>

Net cash used in operating activities	<u>(3,063,195)</u>
---------------------------------------	--------------------

Cash Flows From Noncapital Financing Activities

Transfers out	(404,159)
State subsidies	241,813
Federal subsidies	<u>3,347,333</u>

Net cash provided by noncapital financing activities	<u>3,184,987</u>
--	------------------

Cash Flows Used in Capital and Related Financing Activities

Acquisition of capital assets	<u>(17,330)</u>
-------------------------------	-----------------

Cash Flows Provided by Investing Activities

Interest on investments	<u>1,095</u>
-------------------------	--------------

Net Increase in Cash	105,557
----------------------	---------

Cash, Beginning	<u>1,423,763</u>
-----------------	------------------

Cash, Ending	<u><u>\$ 1,529,320</u></u>
--------------	----------------------------

Supplemental Disclosure of Noncash Transactions

USDA donated commodities	<u><u>\$ 208,631</u></u>
--------------------------	--------------------------

Reconciliation of Operating Loss to Net Cash

Used in Operating Activities

Operating loss	\$ (3,312,060)
----------------	----------------

Adjustments to reconcile operating loss to net
cash used in operating activities:

Depreciation	33,051
--------------	--------

USDA donated commodities	208,631
--------------------------	---------

Changes in:

Other receivables	(7,351)
-------------------	---------

Accounts payable	<u>14,534</u>
------------------	---------------

Net cash used in operating activities	<u><u>\$ (3,063,195)</u></u>
---------------------------------------	------------------------------

Upper Darby School District**Statement of Net Assets - Fiduciary Funds**

June 30, 2012

	<u>Private Purpose Trust Fund</u>	<u>Activity Fund</u>
Assets		
Cash	<u>\$ 509,889</u>	<u>\$ 305,722</u>
Liabilities and Net Assets		
Other current liabilities	\$ 161,800	<u>\$ 305,723</u>
Net assets held for scholarships	<u>348,089</u>	
Total liabilities and net assets	<u>\$ 509,889</u>	

See notes to financial statements

Upper Darby School District

Statement of Changes in Net Assets - Fiduciary Funds

Year Ended June 30, 2012

	Private Purpose Trust Fund
Additions	
Contribution income	\$ 140,008
Interest income	494
Total additions	<u>140,502</u>
Deductions	
Scholarships awarded	166,698
Administrative costs and supplies	<u>828</u>
Total deductions	<u>167,526</u>
Change in Net Assets	(27,024)
Net Assets, Beginning	<u>375,113</u>
Net Assets, Ending	<u><u>\$ 348,089</u></u>

See notes to financial statements

Upper Darby School District

Notes to Financial Statements

June 30, 2012

1. Nature of Operations and Summary of Significant Accounting Policies

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

Nature of Operations

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

Reporting Entity

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

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

Basis of Presentation – Government-Wide Financial Statements

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

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

Upper Darby School District

Notes to Financial Statements

June 30, 2012

Basis of Presentation – Fund Financial Statements

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

Governmental Fund Types

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

General Fund (Major)

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

Special Revenue Funds

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

General Welfare Fund (Nonmajor)

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

Capital Projects Funds

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

Upper Darby School District

Notes to Financial Statements

June 30, 2012

Other Capital Projects Fund (Nonmajor)

This fund is used to report the total of all Capital Project Fund activity not specifically associated with the Capital Reserve Fund. Generally, this will include the proceeds from and expenditure of, bond and note issues specifically designated for capital improvements.

Proprietary Fund Type

Proprietary funds account for the operations of the District that are financed and operated in a manner similar to those often found in the private sector. The fund included in this category is the Food Service Fund, an Enterprise fund-type, which accounts for the food service operations of the District. The Food Service Fund distinguishes between operating revenues and expenses and non-operating items. Operating revenues consist of charges for food served. Operating expenses consist mainly of food and food preparation costs, supplies and other direct costs. All other revenues and expenses are reported as non-operating.

Fiduciary Fund Types

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

Activity Fund

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

Private Purpose Trust Fund

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

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Upper Darby School District

Notes to Financial Statements

June 30, 2012

Basis of Accounting

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

Accrual Basis

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

Modified Accrual Basis

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. The District considers property and other taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures, other than principal and interest on bonds and notes payable, compensated absences, postretirement obligations and claims and judgments, are recorded when the related fund liability is incurred. Principal and interest on bonds and notes payable, compensated absences, postretirement obligations and claims and judgments are recorded as fund liabilities when due and unpaid.

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

Application of FASB Pronouncements

The District applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District does not apply FASB pronouncements issued after November 30, 1989.

Upper Darby School District

Notes to Financial Statements

June 30, 2012

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

Investments consist of certificates of deposit and U.S. Government agency obligations. Investments are carried at cost, which approximates fair value.

Inventories

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

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

Deferred Charges

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

Upper Darby School District

Notes to Financial Statements

June 30, 2012

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 assets 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 assets 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	5 years

The District does not have any infrastructure capital assets.

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

Compensated Absences

The District's collective bargaining agreements with its professional and support personnel specify the sick and vacation leave policies. Administrative personnel, while not party to these agreements, are provided similar benefits. The agreements provide for payment of accumulated sick leave, at retirement, based on years of service and days accumulated. The rate varies by position in accordance with collective bargaining agreements, compensation plans and individual employment agreements. Vacation leave is available only to administrative and twelve-month support employees. Vacation pay is earned in the year in which the service has been performed and generally must be used in the year earned.

Upper Darby School District

Notes to Financial Statements

June 30, 2012

Fund Balance Classifications

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

- Nonspendable fund balances are amounts that cannot be spent because they are either not in spendable form or, are legally or contractually required to be maintained intact. Nonspendable fund balance consists entirely of inventories which are not considered to be in spendable form.
- Restricted fund balances are amounts that are restricted to specific purposes by constraints placed on their use that are externally imposed by creditors, grantors, contributions, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts reported in the General Fund have been restricted by a donor for library expenditures. Amounts reported in the Capital Reserve Fund are restricted by Pennsylvania law to expenditures for capital assets.
- 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 2012, the Board of School Directors committed \$4,000,000 of fund balance to balance the 2012-2013 budget.
- Assigned fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. The District's School Board of Directors has designated the Director of Business Management to assign fund balance amounts as deemed financially necessary and appropriate. At June 30, 2012, the Director of Business Management has assigned fund balance for compensated absences (\$2,768,029) and encumbrances (\$27,280).
- 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 assets.

Use of Restricted Net Assets/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, 2012

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 and has included such in the accompanying statement of net assets. 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 assets.

Upper Darby School District

Notes to Financial Statements

June 30, 2012

2. Deposits and Investments

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

Deposits With Financial Institutions and PSDLAF

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The District does not have a policy for custodial credit risk. At June 30, 2012, the bank balance of the District's deposits with financial statements, including cash equivalents, was \$18,655,781 compared to the carrying amount of \$16,096,151. The difference is caused by items in-transit and outstanding checks. \$18,405,681 of the District's deposits were exposed to custodial credit risk at June 30, 2012 and were uninsured but collateralized by securities pledged by the financial institutions for such funds but not in the District's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

The Pennsylvania School District Liquid Asset Fund ("Fund") contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each school district owns shares of the Fund, which invests the pooled assets. Since the Fund has the characteristics of a mutual fund, it is not subject to the disclosure requirements noted above. At June 30, 2012 and 2011, the carrying amount of the Fund was \$99,275 and \$76,027, respectively.

Investments

The District's investments consist of the following:

	Fair Value	Maturities (in Years)		
		Less than 1 Year	1-5	6-10
Certificates of deposit	\$ 2,586,000	\$ 1,591,000	\$ 995,000	\$ -
U.S. government agency obligations	3,204	-	-	3,204
Total	<u>\$ 2,589,204</u>	<u>\$ 1,591,000</u>	<u>\$ 995,000</u>	<u>\$ 3,204</u>

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

Upper Darby School District

Notes to Financial Statements

June 30, 2012

3. Real Estate Taxes

The tax on real estate, as levied by the School Board of Directors, was 31.73 mills (\$31.73 per \$1,000 of assessed valuation) for fiscal year 2012. Delaware County determines the assessed value of property and the tax collector is responsible for collection. The District's Director of Business Management is the tax collector. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

Delinquent real estate taxes receivable at June 30, 2012 totaled \$7,176,056 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$660,249. Taxes receivable also includes \$102,472 of real estate transfer taxes receivable and \$489,874 of delinquent real estate taxes collected by Delaware County but not remitted.

Real estate tax revenue includes a credit for doubtful accounts of \$56,660.

4. Due From Other Governments

Due from other governments consists of the following:

Governmental activities:

Pennsylvania Department of Education:

State source revenues	\$ 1,624,825
Federal source revenues	652,571

Pennsylvania Department of Public Welfare,

Federal source revenues	26,257
-------------------------	--------

Other school districts,

Local source revenues	28,867
-----------------------	--------

Total governmental activities	<u>\$ 2,332,520</u>
-------------------------------	---------------------

Business-type activity:

Pennsylvania Department of Education:

State source revenues	\$ 39,115
Federal source revenues	549,536

Total business-type activity	<u>\$ 588,651</u>
------------------------------	-------------------

Upper Darby School District

Notes to Financial Statements

June 30, 2012

5. Capital Assets

The changes in the District's capital assets in 2012 are summarized as follows:

	Balance July 1, 2011	Transfers/ Additions	Transfers/ Dispositions	Balance June 30, 2012
Governmental activities:				
Cost:				
Land improvements	\$ 2,772,707	\$ -	\$ -	\$ 2,772,707
Buildings and improvements	105,195,102	1,018,602	-	106,213,704
Furniture and equipment	22,485,031	528,485	-	23,013,516
Construction-in-progress	944,220	748,681	(1,649,401)	43,500
Total cost	131,397,060	2,295,768	(1,649,401)	132,043,427
Less accumulated depreciation:				
Land improvements	(1,396,134)	(112,244)	-	(1,508,378)
Building and improvements	(47,990,065)	(2,410,103)	-	(50,400,168)
Furniture and equipment	(19,568,856)	(702,652)	-	(20,271,508)
Total accumulated depreciation	(68,955,055)	(3,224,999)	-	(72,180,054)
Total	\$ 62,442,005	\$ (929,231)	\$ (1,649,401)	\$ 59,863,373
Business-type activity:				
Furniture and equipment	\$ 764,618	\$ 17,329	\$ -	\$ 781,947
Less accumulated depreciation	(600,459)	(33,051)	-	(633,510)
Total	\$ 164,159	\$ (15,722)	\$ -	\$ 148,437

Upper Darby School District

Notes to Financial Statements

June 30, 2012

6. Bonds and Notes Payable

The following summarizes the changes in the District's bonds and note payable in 2012:

	<u>Interest Rates</u>	<u>Current Portion</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance July 1, 2012</u>
Series A of 2001, to advance refund the Series of 1993. Matured May 1, 2012	5.00 %	\$ -	\$ 555,000	\$ -	\$ (555,000)	\$ -
Series B of 2001, to advance refund a portion of the Series of 1994. Matured February 15, 2012	5.00 %	-	830,000	-	(830,000)	-
Series A of 2004, to currently refund the Series of 1998. Matures February 3, 2013	3.25 %	2,930,000	4,805,000	-	(1,875,000)	2,930,000
Series B of 2004, to finance capital projects. Matures June 30, 2024	4.30 %	-	4,010,000	-	-	4,010,000
Series of 2005, to advance refund the Series of 1999. Matures May 1, 2024	2.85% - 5.00 %	610,000	30,295,000	-	(145,000)	30,150,000
Series of 2010, to finance capital projects. Matures March 1, 2026	5.00 %	339,333	5,090,000	-	(339,333)	4,750,667
Series A of 2011, to finance capital projects. Matures September 1, 2025	5.09 %	26,857	-	376,000	-	376,000
Total		\$ 3,906,190	45,585,000	376,000	(3,744,333)	42,216,667
Bond and note premiums			1,298,731		(214,229)	1,084,502
Deferred refunding charges			(1,361,721)		124,368	(1,237,353)
Total			<u>\$ 45,522,010</u>	<u>\$ 376,000</u>	<u>\$ (3,834,194)</u>	<u>\$ 42,063,816</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2012

Total interest paid on these bonds and notes in 2012 was \$2,078,535. No interest was capitalized in 2012. 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 is 95.6% on the Series of 2010 and 100% on the Series A of 2011. In 2012, the District received \$252,862 in interest subsidies which is included in federal source revenues.

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2012:

Year ending June 30:	Principal	Interest	Total
2013	\$ 3,906,190	\$ 1,955,536	\$ 5,861,726
2014	3,611,191	1,838,961	5,450,152
2015	3,746,190	1,709,146	5,455,336
2016	3,886,190	1,573,931	5,460,121
2017	4,056,191	1,397,966	5,454,157
2018-2022	17,745,952	4,183,304	21,929,256
2023-2026	5,264,763	1,336,898	6,601,661
Total	<u>\$ 42,216,667</u>	<u>\$ 13,995,742</u>	<u>\$ 56,212,409</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2012

7. Authority Lease Obligations

The District's portion of authority bonds is allocated to the District based on the annual usage of the facility, as required by lease agreements. The agreements provide that, if the individual authorities retire all of the bonds issued to finance school facilities or accumulate sufficient reserves to retire the bonds, the subsequently scheduled rental payments need not be made. Since annual rentals include reserve funds that are either invested by the authorities or used for advance retirement of obligations, it is anticipated that less than the presently scheduled rentals will eventually be paid. At June 30, 2012, the District's authority lease obligations consisted of the following:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>
Delaware County Vocational- Technical School Authority	\$ 115,645	\$ -	\$ (57,651)	\$ 57,994
Delaware County Community College	<u>2,282,067</u>	<u>-</u>	<u>(111,815)</u>	<u>2,170,252</u>
Total	<u>\$ 2,397,712</u>	<u>\$ -</u>	<u>\$ (169,466)</u>	<u>\$ 2,228,246</u>

Interest expense on authority lease obligations was \$92,392 in 2012.

The aggregate maturities of authority lease obligations, on a combined basis, are as follows:

Year ending June 30:

2013	\$ 280,978
2014	222,042
2015	222,242
2016	178,860
2017	178,684
Thereafter	<u>2,082,358</u>
Total lease payments	3,165,164
Less amount representing interest	<u>(936,918)</u>
Total authority lease obligations	<u>\$ 2,228,246</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2012

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 2012:

Balance, July 1, 2011	\$ 3,130,257
Additions	795,426
Payments	<u>(1,433,153)</u>
Balance, June 30, 2012	<u>\$ 2,492,530</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, 2012:

Year ending June 30:	
2013	\$ 1,127,671
2014	745,793
2015	539,908
2016	<u>164,177</u>
Total minimum lease payments	2,577,549
Less amount representing interest	<u>(85,019)</u>
Present value of net minimum lease payments	<u>\$ 2,492,530</u>

Interest expense on capital leases was \$65,131 in 2012.

Operating Leases

The District leases two buildings from the Archdiocese of Philadelphia for use as elementary schools. These leases have been accounted for as operating leases. Rent expense under these leases was \$453,525 in 2012. Future minimum payments under these leases are as follows:

Year ending June 30:	
2013	\$ 461,895
2014	238,121
2015	238,121
2016	238,121
2017	<u>238,121</u>
Total	<u>\$ 1,414,379</u>

Upper Darby School District

Notes to Financial Statements

June 30, 2012

9. Employee Benefits

Pension Plan

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

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

The District's contribution rate was 8.65% in 2012, 5.64% in 2011, and 4.78% in 2010 of covered payroll. The District's contributions were approximately \$6,849,000 in 2012, \$4,650,000 in 2011, and \$3,898,000 in 2010. The employees' contribution rates range from 5.25% to 10.3%, depending on date of hire and whether they elected to participate in the TD membership class.

Compensated Absences

The changes in compensated absences in 2012 are summarized as follows:

Balance, July 1, 2011	\$ 2,794,508
Increases	131,146
Decreases	<u>(157,625)</u>
Balance, June 30, 2012	<u>\$ 2,768,029</u>

Postretirement Benefits

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

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

Upper Darby School District

Notes to Financial Statements

June 30, 2012

Special Termination Benefits

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

Changes in the above liabilities in 2012 were as follows:

	Postretirement Benefits	Special Termination Benefits	Total
Balance, July 1, 2011	\$ 1,035,168	1,857,543	\$ 2,892,711
Increases	-	535,511	535,511
Payments and other decreases	(248,342)	(338,641)	(586,983)
Balance, June 30, 2012	<u>\$ 786,826</u>	<u>\$ 2,054,413</u>	<u>\$ 2,841,239</u>

10. Internal Balances/Interfund Balances and Transfers

At June 30, 2012, \$414,654 was due from the Food Service Fund to the General Fund. The amount due to the General Fund represents reimbursement of maintenance, utility, operative and administrative salaries and benefits. This balance was paid in the subsequent year. The following summarizes the interfund transfers in 2012:

	Transfers In	Transfers Out
General Fund:		
Food Service Fund	\$ 414,654	\$ -
Food Service Fund, General Fund	-	414,654
Total	<u>\$ 414,654</u>	<u>\$ 414,654</u>

11. Contingencies

The District is involved, from time to time, in various lawsuits. In the opinion of the District, these matters either are adequately covered by insurance or will not have a material effect on the District's financial statements.

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditure that may be disallowed pursuant to the terms of these grant programs. The District is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

Upper Darby School District

Notes to Financial Statements

June 30, 2012

12. New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates certain applicable accounting and financial reporting guidance of the FASB and AICPA into GASB literature to simplify the preparation of state and local government financial statements. The District is required to adopt Statement No. 62 for its fiscal year 2013 financial statements.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The District is required to adopt Statement No. 63 for its fiscal 2013 financial statements.

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

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67 will require the District to report its share of the pension liabilities of PSERS in its government-wide financial statements. The District is required to adopt Statement No. 68 for its fiscal year 2015 financial statements.

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

Upper Darby School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2011	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2012
U.S. DEPARTMENT OF EDUCATION								
Passed through Pennsylvania Department of Education:								
Title I, Part A Cluster								
Title I Grants to Local Educational Agencies	84.010	013-110448	\$4,452,760	\$ 1,588,012	\$ (172,340)	\$ 1,760,352	\$ 1,760,352	\$ -
Title I Grants to Local Educational Agencies	84.010	013-120448	4,142,701	3,039,726	-	3,505,916	3,505,916	466,190
Title I Grants to Local Educational Agencies	84.010	042-100448	147,912	24,652	(10,005)	34,657	34,657	-
Title I Grants to Local Educational Agencies	84.010	042-110449	112,360	99,876	-	112,360	112,360	12,484
Title I Grants to Local Educational Agencies	84.010	077-100448	3,600	-	(3,600)	3,600	3,600	-
Title I Grants to Local Educational Agencies	84.010	077-110448	5,000	5,000	-	5,000	5,000	-
Title I Grants to Local Educational Agencies, Recovery Act	84.389	127-100448	2,822,759	829,860	829,860	-	-	-
Total Title I, Part A Cluster				5,587,126	643,915	5,421,885	5,421,885	478,674
Career and Technical Education - Basic Grants to States	84.048	380-111018	89,569	14,928	14,928	-	-	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	100-100568	14,853	7,427	4,783	2,644	2,644	-
Twenty-First Century Community Learning Centers	84.287	FC4100052378	180,000	44,188	44,188	-	-	-
Twenty-First Century Community Learning Centers	84.287	FC4100052378	180,000	150,388	-	180,000	180,000	29,612
Total Twenty-First Century Community Learning Centers				194,576	44,188	180,000	180,000	29,612
Foreign Language Assistance	84.293	T2938 1 222 13	55,893	5,524	-	5,524	5,524	-
Foreign Language Assistance	84.293	T2938 1 222 13	91,197	75,651	-	88,859	88,859	13,208
Total Foreign Language Assistance				81,175	-	94,383	94,383	13,208
English Language Acquisition State Grants	84.365	010-110448	181,709	90,855	20,350	70,505	70,505	-
English Language Acquisition State Grants	84.365	010-120448	226,196	138,452	-	130,426	130,426	(8,026)
Total English Language Acquisition State Grants				229,307	20,350	200,931	200,931	(8,026)
Improving Teacher Quality State Grants	84.367	020-110448	633,640	(3,529)	(105,373)	101,844	101,844	-
Improving Teacher Quality State Grants	84.367	020-120448	492,634	425,531	-	415,461	415,461	(10,070)
Total Improving Teacher Quality State Grants				422,002	(105,373)	517,305	517,305	(10,070)
School Improvement Grants	84.377	142-110448	1,983,780	1,678,583	-	1,435,588	1,435,588	(242,995)
Education Technology State Grants, Recovery Act	84.386	135-100448	522,000	-	(29,715)	29,715	29,715	-
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	126-110448	3,535,298	15,427	15,427	-	-	-
Education Jobs Fund, Recovery Act	84.410	S410A10039	32,457	-	-	32,457	32,457	32,457

Upper Darby School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2011	Revenues Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2012
Special Education Cluster								
Passed through Lancaster-Lebanon Intermediate Unit								
Special Education Grants to States	84.027	062-110032	25,000	25,000	25,000	-	-	-
Special Education Grants to States	84.027	112-745-0010-00	10,000	10,000	-	10,000	10,000	-
Passed through Delaware County Intermediate Unit								
Special Education Grants to States	84.027	062-110025	1,712,682	1,712,682	-	1,712,682	1,712,682	-
Special Education - Preschool Grants, Recovery Act	84.392	H99211009	15,448	15,448	-	15,448	15,448	-
Special Education - Preschool Grants, Recovery Act	84.392	H99211009	15,504	15,504	-	15,504	15,504	-
Total Special Education Cluster				1,778,634	25,000	1,753,634	1,753,634	-
Total U.S. Department of Education				10,009,185	633,503	9,668,542	9,668,542	292,860
U.S. DEPARTMENT OF AGRICULTURE								
Passed through Pennsylvania Department of Education:								
School Breakfast Program	10.553	365	192,251	190,696	31,091	192,251	192,251	32,645
School Breakfast Program	10.553	367	745,506	738,403	120,012	745,506	745,506	127,115
National School Lunch Program	10.555	362	2,409,832	2,405,037	382,768	2,409,832	2,409,832	387,563
Special Milk Program for Children	10.556	364	13,306	13,197	2,103	13,306	13,306	2,212
Passed through Pennsylvania Department of Agriculture, Food Donation				213,334	-	213,334	213,334	-
Total U.S. Department of Agriculture				3,560,667	535,974	3,574,229	3,574,229	549,536
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Pennsylvania Department of Education:								
Refugee and Entrant Assistance Discretionary Grants	93.576	41000-55-734	50,623	50,623	50,623	-	-	-
Refugee and Entrant Assistance Discretionary Grants	93.576	41000-55-734	98,620	-	-	98,620	98,620	98,620
Total Refugee and Entrant Assistance Discretionary Grants				50,623	50,623	98,620	98,620	98,620
Passed through Pennsylvania Department of Public Welfare:								
Medical Assistance Program	93.778	044-007448	14,745	14,745	14,745	-	-	-
Medical Assistance Program	93.778	044-007448	73,745	73,745	-	100,003	100,003	26,258
Total Medical Assistance Program				88,490	14,745	100,003	100,003	26,258
Total U.S. Department of Health and Human Services				139,113	65,368	198,623	198,623	124,878
DEPARTMENT OF HOMELAND SECURITY								
Passed through Pennsylvania Emergency Management Agency, Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4025-DR	11,934	11,934	-	11,934	11,934	-
TOTAL				\$13,720,899	\$1,234,845	\$13,453,328	\$13,453,328	\$ 967,274

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

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

Board of School Directors
Upper Darby School District

We have audited 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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 21, 2012. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of School Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ParenteBeard LLC

Philadelphia, Pennsylvania
December 21, 2012

**Independent Auditors' Report on Compliance With
Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal
Control Over Compliance in Accordance
With OMB Circular A-133**

Board of School Directors
Upper Darby School District

Compliance

We have audited Upper Darby School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not, identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of School Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ParenteBeard LLC

Philadelphia, Pennsylvania
December 21, 2012

Upper Darby School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

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 programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

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

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a) of
OMB Circular A-133?

 X yes _____ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.377

School Improvement Grant

10.553/10.555/10.556

Child Nutrition Cluster

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

\$403,600

Auditee qualified as low-risk auditee?

 X yes _____ no

Upper Darby School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

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

Criteria:

The District must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals.

Condition:

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

Questioned Costs:

The excess reimbursement received by the District for the difference between free and reduced price meals was estimated at \$252.

Context:

The District approved 4,819 applications for either free or reduced price meals covering 6,387 students.

Cause:

Oversight by verifying official.

Effect:

The District may have allowed students not eligible for free or reduced price meals to participate in program thereby causing the District to receive reimbursement to which it was not entitled.

Recommendation:

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

District's Response:

For the 2012-2013 year, the District now requires a second individual review the results of the verifying individual to ensure the proper conclusion was made with respect to the determination of eligibility.