

# **Upper Darby School District**

Financial Statements and  
Supplementary Information

June 30, 2018



**BAKER TILLY**

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# Upper Darby School District

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June 30, 2018

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# Upper Darby School District

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## Independent Auditors' Report

Board of School Directors  
Upper Darby School District

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Upper Darby School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the Upper Darby School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018 to conform with accounting principles generally accepted in the United States of America. The District recognized its total other postemployment benefits ("OPEB") liability, restated its beginning net position for this adoption, expanded its note disclosures and included required supplementary information with respect to OPEB. Our opinion was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 4 through 23 and the Required Supplementary Information on pages 65 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards on page 70, as required by Title 2 U.S. Code of Federal Regulations (CFR), *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
December 4, 2018

# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

This Management's Discussion and Analysis ("MD&A") of the financial performance of the Upper Darby School District (the "District") provides an overview of the District's financial performance for fiscal year ended June 30, 2018. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

## District Profile

The Upper Darby School District, Delaware County, Pennsylvania is located in southeastern Pennsylvania, adjacent to the City of Philadelphia, and consists of the Township of Upper Darby (91.66%) and the Boroughs of Clifton (7.67%) and Millbourne (0.67%) and covers approximately 8.6 square miles. The District consists of one high school (grades 9-12), two middle schools (grades 6-8), seven elementary schools (grades 1-5), three elementary schools (grades K-5) and one kindergarten center (grade K). During 2017-18, there were 1,761 employees (full/part time) in the District, consisting of 945 teachers/professional staff, 57 administrators, including general administration, principals and supervisors, and 759 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff, security staff, classroom and personal-care assistants, community services staff and crossing guards.

## District Mission

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

## Financial Highlights

On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the District resulting in total "negative" net position at the close of the 2017-2018 fiscal year of \$212,708,712. The negative net position is due to the recognition of the District's net pension and other postemployment benefits ("OPEB") liabilities pursuant to GASB 68 and 75. These liabilities will be detailed later in the report. During the 2017-2018 fiscal year, the District had a decrease in total net position of \$4,261,445. The net position of governmental activities decreased by \$4,332,021 and net position of business-type activities increased by \$70,576.

- The beginning net position at July 1, 2017 was restated due to the adoption of GASB 75 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*). As previously reported, the net deficit position was \$187,397,243. Implementation of GASB 75 increased the net deficit by \$21,050,024, thus resulting in a restated beginning net deficit position of \$208,447,267.
- The General Fund reported an increase in fund balance of \$509,969, bringing the cumulative balance to \$24,409,332 at the conclusion of the 2017-2018 fiscal year.

## Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

- At June 30, 2018, the General Fund balance includes \$326,049 which is considered nonspendable; \$6,881,390 committed funds to balance the 2018-2019 General Fund expenditure budget; \$5,782,248 in assigned fund balance including; \$1,816,176 for retirement rate stabilization, \$1,462,454 for compensated absences and other postemployment benefits, \$1,000,000 for educational and technology resources; \$1,500,000 for reserve for emergency capital replacement; and \$3,618 for reserve for encumbrances; and unassigned amounts of \$11,419,645 or 5.418% of the \$210,756,893 2018-2019 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a district to maintain a maximum General Fund unassigned fund balance of 8% of the following year's expenditure budget.
- Total General Fund revenues and other financing sources were \$195,513,375 and total General Fund expenditures and other financing uses were \$195,003,406 and resulted in the net increase in General Fund balance of \$509,969.

### Overview of the Financial Statements

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

### Government-Wide Financial Statements

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

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

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

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

# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

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

## **Governmental Activities**

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

## **Business-Type Activities**

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

The government-wide financial statements can be found on pages 24 and 25 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 governmental fund financial statements is short-term. Governmental fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

## **Governmental Funds**

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

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

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

The basic governmental fund statements can be found on pages 26 through 29 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 30 of this report to demonstrate compliance with this budget.

## **Upper Darby School District**

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

### **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 31 through 33 of this report.

### **Fiduciary Funds**

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

The fiduciary fund financial statements can be found on pages 34 and 35 of this report.

### **Notes to the Financial Statements**

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

The notes to the financial statements can be found on pages 36 through 64 of this report.

### **Government-Wide Financial Analysis**

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

At the close of the 2017-2018 fiscal year, the District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources resulting in a "negative" net position at the close of the 2017-2018 fiscal year of \$212,708,712. This negative position resulted from the recognition of net pension and OPEB liabilities and deferred inflows from resources, net of deferred outflows of resources of \$272,307,468, as discussed above. Please refer to the Notes to the Financial Statements for more information.

# Upper Darby School District

## Management's Discussion and Analysis

(Unaudited)

June 30, 2018

The following table presents condensed information for the Statement of Net Position (Deficit) of the District at June 30, 2018 and 2017:

|   | Condensed Statement of Net Position |                    |                          |                 |                   |                    |                   |                 |
|---|-------------------------------------|--------------------|--------------------------|-----------------|-------------------|--------------------|-------------------|-----------------|
|   | Governmental Activities             |                    | Business-Type Activities |                 | Total             |                    | Net Change        | % Change        |
|   | 2018                                | 2017<br>(Restated) | 2018                     | 2017            | 2018              | 2017<br>(Restated) |                   |                 |
|   | (In Thousands)                      |                    |                          |                 |                   |                    |                   |                 |
| Assets and deferred outflows of resources           |                                     |                    |                          |                 |                   |                    |                   |                 |
| Current assets                                      | \$ 58,177                           | \$ 56,407          | \$ 2,603                 | \$ 2,808        | \$ 60,780         | \$ 59,215          | \$ 1,565          | 2.64 %          |
| Noncurrent assets                                   | 55,767                              | 55,894             | 711                      | 400             | 56,478            | 56,294             | 184               | 0.33            |
| Deferred outflows of resources                      | 71,951                              | 80,277             | -                        | -               | 71,951            | 80,277             | (8,326)           | (10.37)         |
| Total assets and deferred outflows of resources     | <u>\$ 185,895</u>                   | <u>\$ 192,578</u>  | <u>\$ 3,314</u>          | <u>\$ 3,208</u> | <u>\$ 189,209</u> | <u>\$ 195,786</u>  | <u>\$ (6,577)</u> | <u>(3.36) %</u> |
| Liabilities   |                                     |                    |                          |                 |                   |                    |                   |                 |
| Current liabilities                                 | \$ 31,400                           | \$ 30,480          | \$ 409                   | \$ 374          | \$ 31,809         | \$ 30,854          | \$ 955            | 3.09 %          |
| Noncurrent liabilities                              | 358,884                             | 354,478            | -                        | -               | 358,884           | 354,478            | 4,406             | 1.24            |
| Deferred inflows of resources                       | 11,225                              | 18,902             | -                        | -               | 11,225            | 18,902             | (7,677)           | (40.61)         |
| Total liabilities and deferred inflows of resources | <u>401,509</u>                      | <u>403,860</u>     | <u>409</u>               | <u>374</u>      | <u>401,918</u>    | <u>404,234</u>     | <u>(2,316)</u>    | <u>(.57)</u>    |
| Net Position  |                                     |                    |                          |                 |                   |                    |                   |                 |
| Net investment in capital assets                    | 30,311                              | 26,970             | 711                      | 400             | 31,022            | 27,370             | 3,652             | 13.34           |
| Restricted  | 1,622                               | 1,657              | -                        | -               | 1,622             | 1,657              | (35)              | (2.10)          |
| Unrestricted  | <u>(247,547)</u>                    | <u>(239,909)</u>   | <u>2,194</u>             | <u>2,434</u>    | <u>(245,353)</u>  | <u>(237,475)</u>   | <u>(7,878)</u>    | <u>3.32</u>     |
| Total net position                                  | <u>(215,614)</u>                    | <u>(211,282)</u>   | <u>2,905</u>             | <u>2,834</u>    | <u>(212,709)</u>  | <u>(208,448)</u>   | <u>(4,261)</u>    | <u>2.04</u>     |
| Total liabilities and net position                  | <u>\$ 185,895</u>                   | <u>\$ 192,578</u>  | <u>\$ 3,314</u>          | <u>\$ 3,208</u> | <u>\$ 189,209</u> | <u>\$ 195,786</u>  | <u>\$ (6,577)</u> | <u>(3.36) %</u> |

The District's total assets and deferred outflows of resources as of June 30, 2018 were \$189,208,767 of which \$39,184,391 or 20.71% consisted of cash and investments and \$56,152,499 or 29.68% consisted of the District's investment in capital assets. The District's total liabilities and deferred inflows of resources as of June 30, 2018 were \$401,917,479 of which \$21,513,085 or 5.35% consisted of general obligation debt used to acquire and construct capital assets, \$29,033,767 or 7.22% in OPEB, compensated absences and special termination benefits, and \$319,408,000 consisted of net pension liability and deferred inflows of resources or 79.47%.

The District has a total deficit net position of \$212,708,712 at June 30, 2018. The District's deficit net position increased \$4,261,445 over its restated deficit net position of \$208,447,267 in the prior year.

A portion of the District's net position reflects its restricted net position which totaled \$1,622,235 as of June 30, 2018. All of the District's restricted net position relates to amounts restricted for capital expenditures.

# Upper Darby School District

## Management's Discussion and Analysis

(Unaudited)

June 30, 2018

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2018, the District's net investment in capital assets was \$31,022,104, an increase of \$3,651,733 over the prior year, resulting primarily from the pay down of bonds and note payable.

The following table presents condensed information for the Statement of Activities of the District for 2018 and 2017:

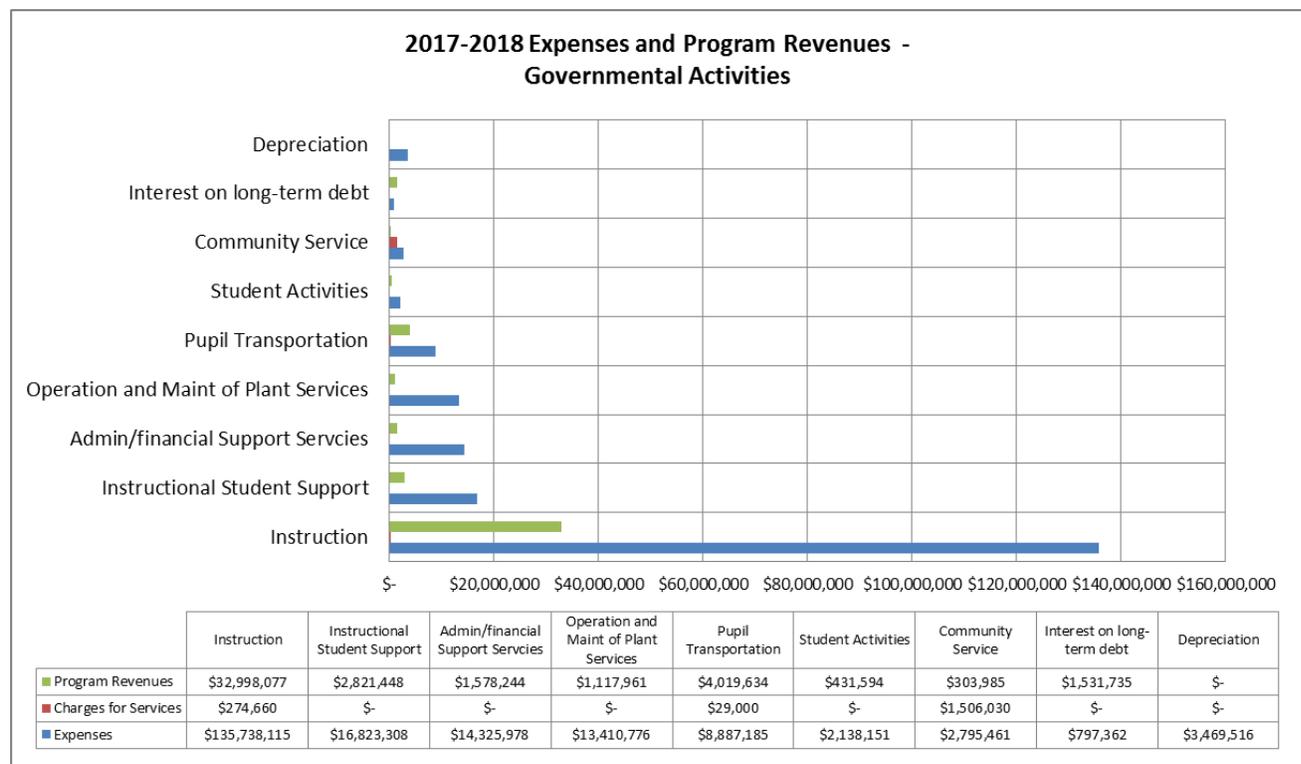
|  | Condensed Statement of Activities |                     |                          |                 |                     |                     |                   |               |
|--|-----------------------------------|---------------------|--------------------------|-----------------|---------------------|---------------------|-------------------|---------------|
|  | Governmental Activities           |                     | Business-Type Activities |                 | Total               |                     | Net Change        | % Change      |
|  | 2018                              | 2017                | 2018                     | 2017            | 2018                | 2017                |                   |               |
|  | (In Thousands)                    |                     |                          |                 |                     |                     |                   |               |
| Program revenues:                                  |                                   |                     |                          |                 |                     |                     |                   |               |
| Charges for services                               | \$ 1,810                          | \$ 1,685            | \$ 779                   | \$ 951          | \$ 2,589            | \$ 2,636            | \$ (47)           | (1.78)        |
| Operating grants and contributions                 | 44,803                            | 41,286              | 6,000                    | 5,847           | 50,803              | 47,133              | 3,670             | 7.79          |
| General revenues:                                  |                                   |                     |                          |                 |                     |                     |                   |               |
| Taxes levied for general purposes, net             | 107,694                           | 103,292             | -                        | -               | 107,694             | 103,292             | 4,402             | 4.26          |
| Grants, subsidies and contributions not restricted | 37,892                            | 36,710              | -                        | -               | 37,892              | 36,710              | 1,182             | 3.22          |
| Other  | 1,855                             | 1,146               | (916)                    | (698)           | 939                 | 448                 | 491               | 109.77        |
| <b>Total revenues</b>                              | <b>194,054</b>                    | <b>184,119</b>      | <b>5,863</b>             | <b>6,100</b>    | <b>199,917</b>      | <b>190,219</b>      | <b>9,698</b>      | <b>5.10</b>   |
| Program expenses:                                  |                                   |                     |                          |                 |                     |                     |                   |               |
| Instruction  | 135,738                           | 131,594             | -                        | -               | 135,738             | 131,594             | 4,144             | 3.15          |
| Instructional student support                      | 16,823                            | 16,753              | -                        | -               | 16,823              | 16,753              | 70                | 0.42          |
| Administration and financial support services      | 14,326                            | 14,118              | -                        | -               | 14,326              | 14,118              | 208               | 1.47          |
| Operation and maintenance of plant services        | 13,411                            | 13,202              | -                        | -               | 13,411              | 13,202              | 209               | 1.58          |
| Pupil transportation                               | 8,887                             | 8,917               | -                        | -               | 8,887               | 8,917               | (30)              | (0.34)        |
| Student activities                                 | 2,138                             | 2,007               | -                        | -               | 2,138               | 2,007               | 131               | 6.53          |
| Community services                                 | 2,795                             | 2,965               | -                        | -               | 2,795               | 2,965               | (170)             | (5.73)        |
| Interest on long-term debt                         | 797                               | 865                 | -                        | -               | 797                 | 865                 | (68)              | (7.86)        |
| Unallocated depreciation                           | 3,470                             | 3,374               | -                        | -               | 3,470               | 3,374               | 96                | 2.85          |
| Food service                                       | -                                 | -                   | 5,793                    | 5,773           | 5,793               | 5,773               | 20                | 0.35          |
| <b>Total expenses</b>                              | <b>198,385</b>                    | <b>193,795</b>      | <b>5,793</b>             | <b>5,773</b>    | <b>204,178</b>      | <b>199,568</b>      | <b>4,610</b>      | <b>2.31</b>   |
| Change in net position                             | (4,332)                           | (9,676)             | 70                       | 327             | (4,262)             | (9,349)             | 5,087             | (54.41)       |
| Net position (deficit), restated, beginning        | (211,282)                         | (201,606)           | 2,835                    | 2,507           | (208,447)           | (199,099)           | (9,348)           | 4.69          |
| Net position (deficit), ending                     | <u>\$ (215,614)</u>               | <u>\$ (211,282)</u> | <u>\$ 2,905</u>          | <u>\$ 2,834</u> | <u>\$ (212,709)</u> | <u>\$ (208,448)</u> | <u>\$ (4,261)</u> | <u>2.04 %</u> |

# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

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

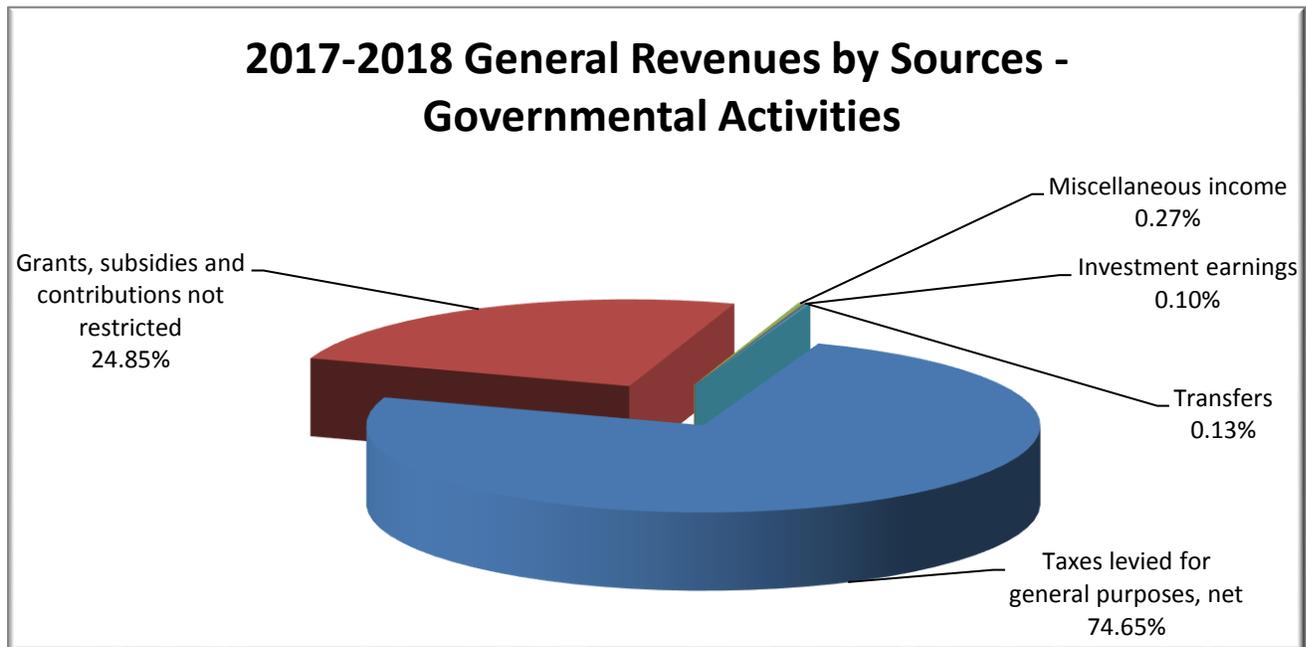
The Statement of Activities focuses on how the District finances its services. The Statement of Activities compares the cost of the District's functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph,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



## Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

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



### Fund Financial Analysis

The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2018, the District's governmental funds reported a combined fund balance of \$26,031,567, which is an increase of \$474,945 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2018 and 2017 and the total 2018 change in governmental fund balances.

|                      | <u>2018</u>          | <u>2017</u>          | <u>Change</u>     |
|----------------------|----------------------|----------------------|-------------------|
| General Fund         | \$ 24,409,332        | \$ 23,899,363        | \$ 509,969        |
| Capital Reserve Fund | 1,622,235            | 1,657,259            | (35,024)          |
| <b>Total</b>         | <u>\$ 26,031,567</u> | <u>\$ 25,556,622</u> | <u>\$ 474,945</u> |

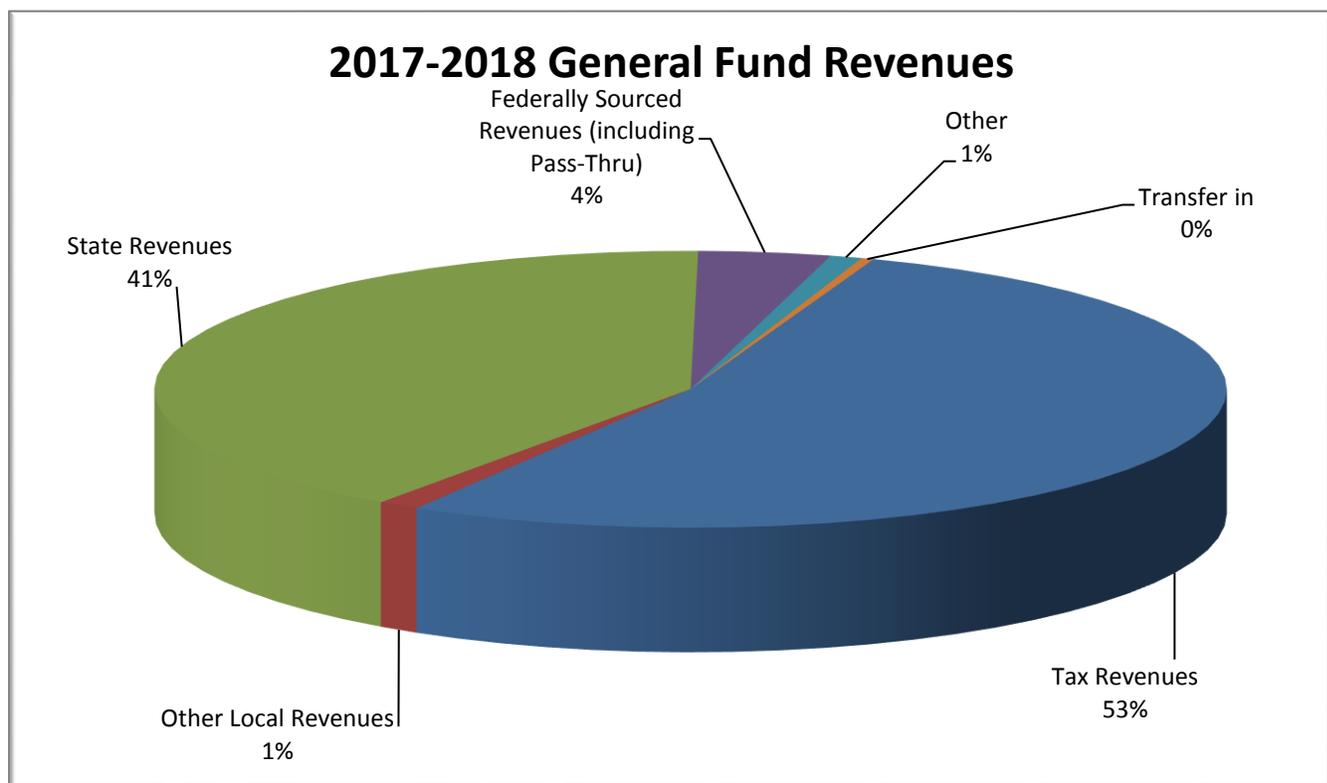
# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

## General Fund

The General Fund is the District's primary operating fund. At the conclusion of the 2017-2018 fiscal year, the General Fund "Fund Balance" was \$24,409,332 representing an increase of \$509,969, or 2.13%, in relation to the prior year. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2017-2018 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 53% of General Fund revenues are derived from local taxes.



## General Fund Revenues

|  | <u>2018</u>                  | <u>2017</u>                  | <u>Net Change</u>          | <u>% Change</u>      |
|--|------------------------------|------------------------------|----------------------------|----------------------|
| Tax revenues                                     | \$ 107,368,418               | \$ 104,155,261               | \$ 3,213,157               | 3.08 %               |
| Other local revenues                             | 2,829,716                    | 2,340,255                    | 489,461                    | 20.91                |
| State revenues                                   | 74,167,696                   | 70,433,601                   | 3,734,095                  | 5.30                 |
| Federally sourced revenues (including pass-thru) | 8,415,323                    | 7,458,057                    | 957,266                    | 12.84                |
| Other  | 1,800,223                    | 1,798,432                    | 1,791                      | 0.10                 |
| Transfer in                                      | 931,999                      | 703,481                      | 228,518                    | 32.48                |
| <b>Total</b>                                     | <u><u>\$ 195,513,375</u></u> | <u><u>\$ 186,889,087</u></u> | <u><u>\$ 8,624,288</u></u> | <u><u>4.61 %</u></u> |

## Upper Darby School District

### Management's Discussion and Analysis

(Unaudited)

June 30, 2018

Total tax revenues increased by \$3,213,157 or 3.08% in 2018. The increase was primarily due to an increase in the tax levy of 2.89%. The following table summarizes and compares the changes in the District's total tax revenues for the 2018 and 2017 fiscal-years:

|                              | <u>2018</u>           | <u>2017</u>           | <u>Net Change</u>   | <u>% Change</u> |
|------------------------------|-----------------------|-----------------------|---------------------|-----------------|
| Real estate tax              | \$ 93,753,424         | \$ 90,630,139         | \$ 3,123,285        | 3.45 %          |
| Interim real estate tax      | 96,545                | 71,819                | 24,726              | 34.33           |
| PURTA tax                    | 101,447               | 107,406               | (5,959)             | (5.55)          |
| Transfer tax                 | 2,437,751             | 2,467,349             | (29,598)            | (1.20)          |
| Delinquent tax               | 5,837,040             | 5,736,005             | 101,035             | 1.76            |
| State property tax reduction | 5,142,211             | 5,142,543             | (332)               | (0.01)          |
| Total                        | <u>\$ 107,368,418</u> | <u>\$ 104,155,261</u> | <u>\$ 3,213,157</u> | <u>3.08 %</u>   |

State revenues increased \$3,734,095 or 5.30% in 2018 due to several factors. The increase is primarily the result of additional Basic and Special Education funding due to implementation of a new funding formula, other special education subsidies and additional funding received for the state retirement subsidy which increased commensurate with the employer annual contribution rate (30.03% to 32.57%).

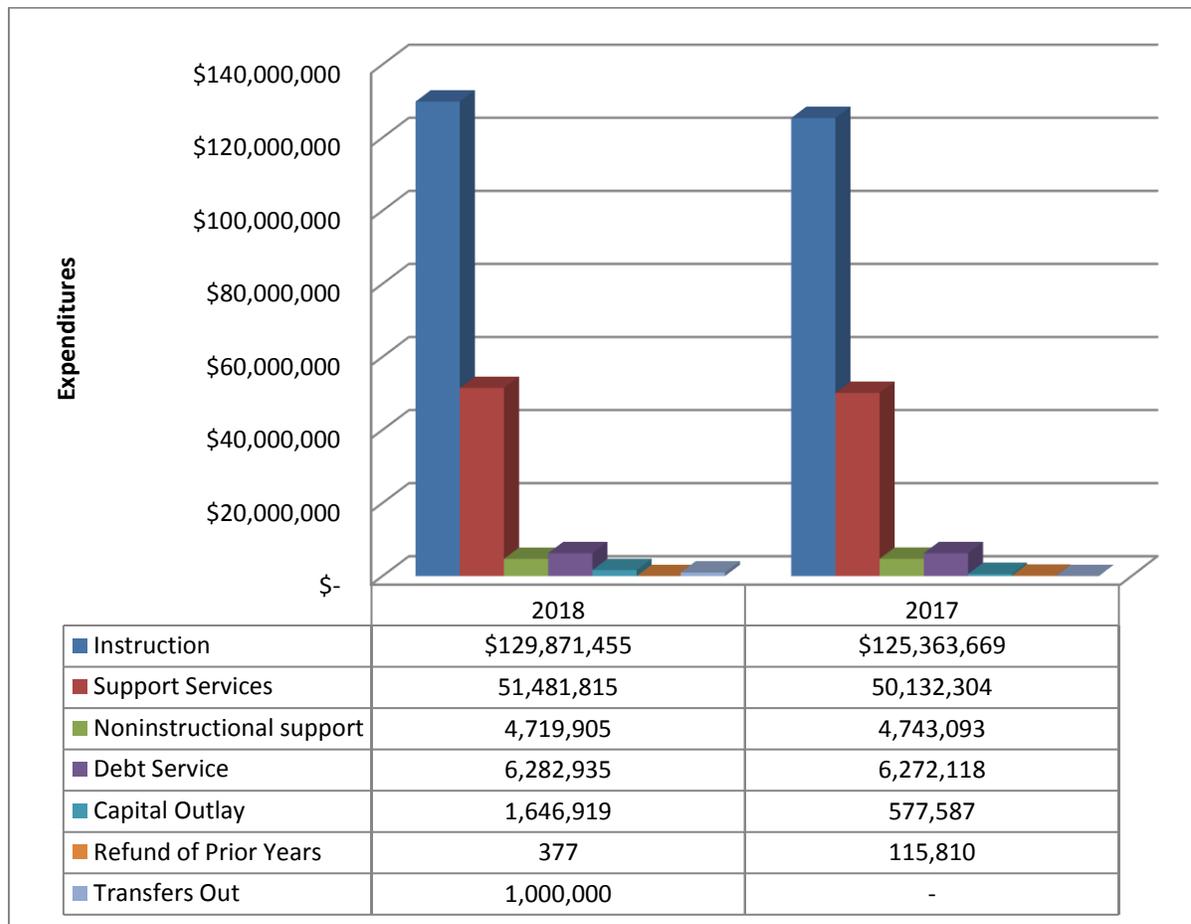
|                                    | <u>2018</u>          | <u>2017</u>          | <u>Net Change</u>   | <u>% Change</u> |
|------------------------------------|----------------------|----------------------|---------------------|-----------------|
| Instruction/block and misc. grants | \$ 39,966,033        | \$ 38,854,077        | \$ 1,111,956        | 2.86 %          |
| Special education                  | 8,146,675            | 7,738,306            | 408,369             | 5.28            |
| Transportation                     | 2,754,881            | 2,720,592            | 34,289              | 1.26            |
| Rental/leasing fund                | 1,284,643            | 1,262,573            | 22,070              | 5.50            |
| Social Security and retirement     | 21,207,923           | 19,134,407           | 2,073,516           | 10.84           |
| Other                              | 807,541              | 723,646              | 83,895              | 11.59           |
| Total                              | <u>\$ 74,167,696</u> | <u>\$ 70,433,601</u> | <u>\$ 3,734,095</u> | <u>5.30 %</u>   |

Federal revenue increased \$957,266 or 12.84% in 2018 due to increases in federal programs, primarily in the Medical Access Program (\$900,000) and new funds generated through Title IV.

# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

## General Fund Expenditures and Other Financing Uses



|                           | 2018                  | 2017                  | Net Change          | % Change      |
|---------------------------|-----------------------|-----------------------|---------------------|---------------|
| Instruction               | \$ 129,871,455        | \$ 125,363,669        | \$ 4,507,786        | 3.60 %        |
| Support services          | 51,481,815            | 50,132,304            | 1,349,511           | 2.69          |
| Non-instructional support | 4,719,905             | 4,743,093             | (23,188)            | (0.49)        |
| Debt service              | 6,282,935             | 6,272,118             | 10,817              | 3.57          |
| Capital outlay            | 1,646,919             | 577,587               | 1,069,332           | 185.14        |
| Refund of prior years     | 377                   | 115,810               | (115,433)           | (99.67)       |
| Transfers out             | 1,000,000             | -                     | 1,000,000           | 100.00        |
| <b>Total</b>              | <b>\$ 195,003,406</b> | <b>\$ 187,204,581</b> | <b>\$ 7,798,825</b> | <b>4.17 %</b> |

Expenditures increased \$8,068,825 in 2018. The most significant component of the increase relates to the increase in District retirement costs of \$2,445,962 which accounts for 30.03% of the increase over 2017. As noted above, the pension rate increased from 30.03% to 32.57, a 8.46% increase. Other significant increases included \$1,048,308 in salaries, primarily the result of contractually obligated pay increases; \$885,762 in employee health benefits; \$1,379,367 in purchased services including Intermediate contractual costs, professional development and contracted substitute service costs; \$1,179,243 in tuition for special education placements, alternative education, and charter school tuition; and \$1,000,000 in transfers to the Capital Reserve. Offsetting factors to the above were reductions of (\$391,097) in postemployment benefit costs.

## Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

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### Capital Reserve Fund

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

During 2017-2018, the Capital Reserve Fund reported a decrease in fund balance of \$35,024. This is primarily the result of a \$1,000,000 transfer into the Capital Reserve from the General Fund which offset the capital expenditures for the year. The remaining fund balance of \$1,622,235 as of June 30, 2018 is restricted for capital expenditures.

There were several capital projects in progress at June 30, 2018:

|   |    |                |
|---|----|----------------|
| Facility study fees   | \$ | 138,819        |
| Other professional fees for capital projects that will be financed by 2018 general obligation bond issuance |    | <u>52,782</u>  |
| Total   | \$ | <u>191,601</u> |

### General Fund Budget Information

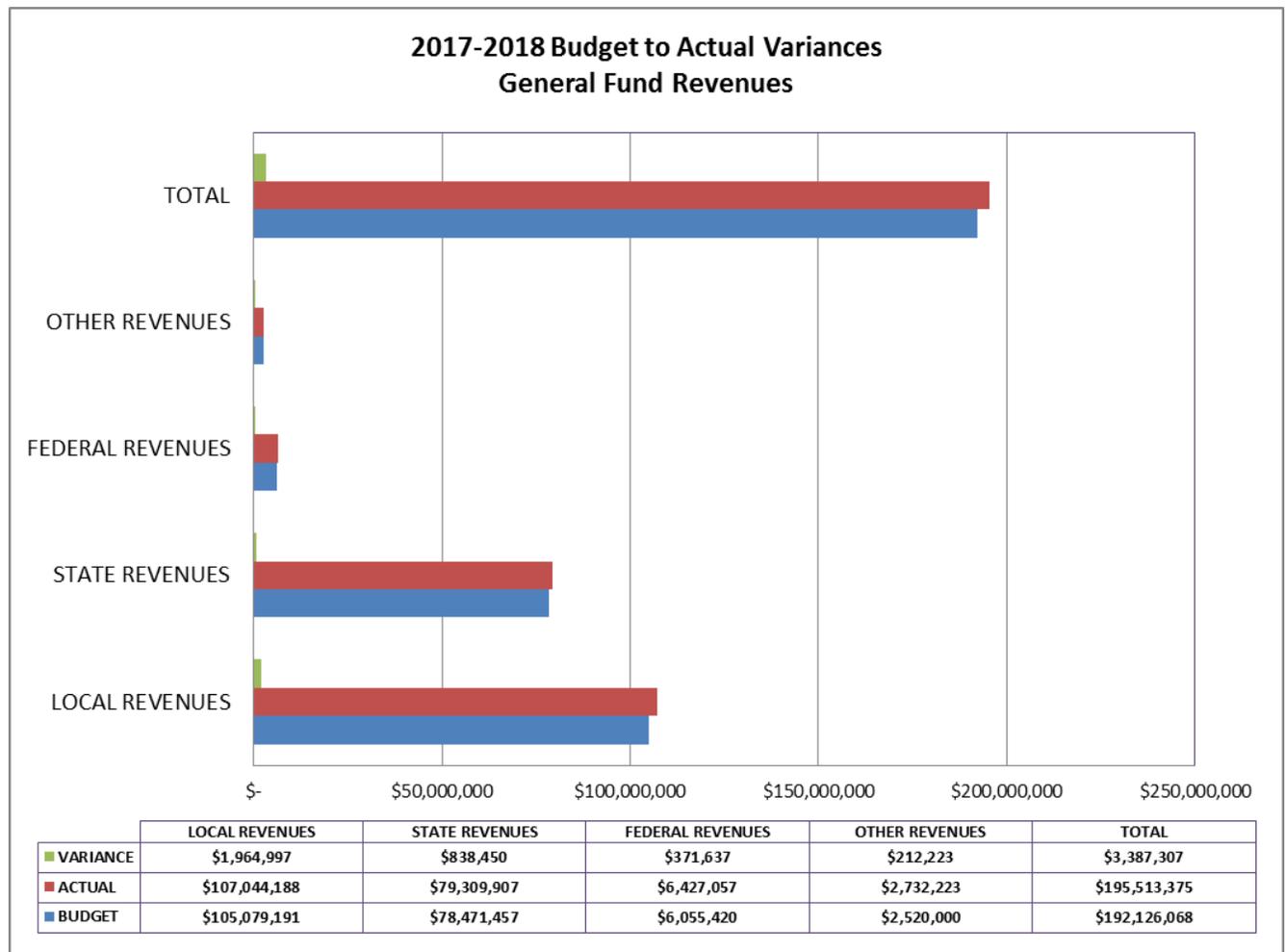
The District maintains its financial records and prepares its financial statements on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and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

The General Fund's final approved budget for 2018 included \$192,126,068 of revenues and other financing sources and \$199,146,490 of expenditures and other financing uses. The District committed \$7,020,422 to be used from its unassigned fund balance to cover the shortfall.

# Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

Actual revenues and other financing sources were \$3,387,307 more than the budgeted amounts and actual expenditures and other financing uses were \$4,143,084 less than the final budgeted amounts. The actual net of revenues over expenditures was \$509,969. As such, funds committed to cover the projected shortfall in the amount of \$7,020,422 were not used. Major budgetary highlights for 2017-2018 were as follows:



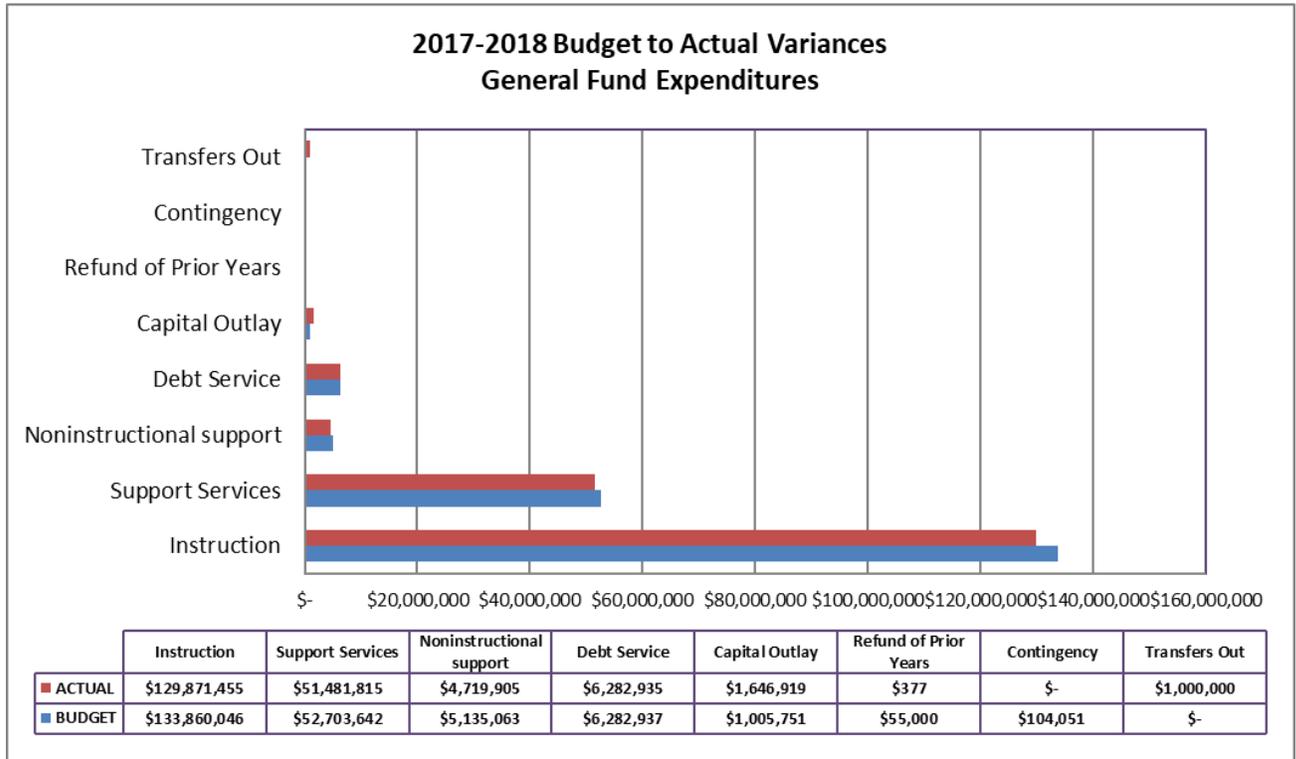
- Local revenues were \$1,964,997, or 1.87% more than budgeted due to better than anticipated collection of transfer and delinquent taxes; increases in investment returns due to increasing interest rates; and unanticipated tuition for foster children from other Districts.
- State revenues were \$838,450, or 1.06% more than budgeted. The increase is primarily related to subsidized transportation cost, an increasing aid ratio for Social Security and retirement subsidies, and an increase in special education related to claims for out-of-state and extraordinary cost reimbursements.
- Federal revenues were \$371,637, or 6.14% more than budgeted. The increase relates to additional federal awards for Title II and Title IV received post adoption of the budget.

# Upper Darby School District

## Management's Discussion and Analysis

(Unaudited)

June 30, 2018



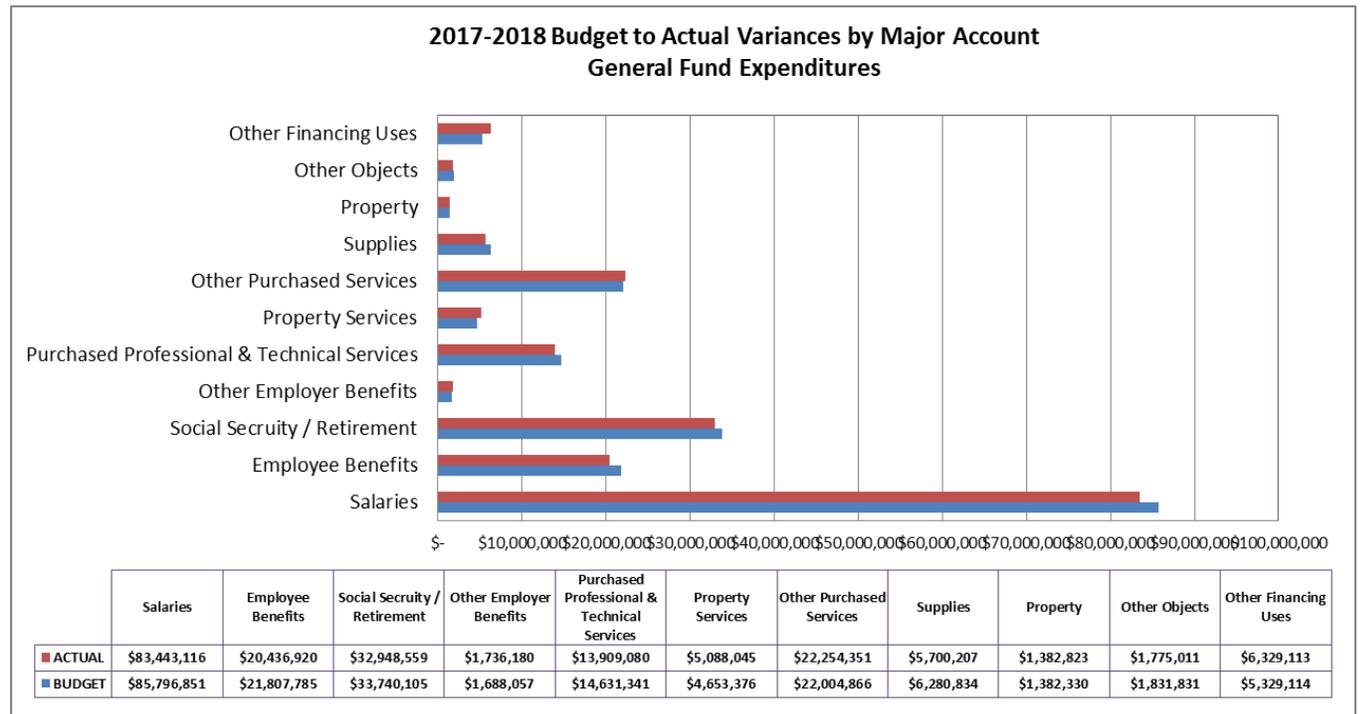
|                          | <u>Budget</u>         | <u>Actual</u>         | <u>(Under) Over Budget</u> | <u>% Change</u> |
|--------------------------|-----------------------|-----------------------|----------------------------|-----------------|
| Instruction              | \$ 133,860,046        | \$ 129,871,455        | \$ (3,988,591)             | (2.98) %        |
| Support services         | 52,703,642            | 51,481,815            | (1,221,827)                | (2.32)          |
| Noninstructional support | 5,135,063             | 4,719,905             | (415,158)                  | (8.80)          |
| Debt service             | 6,282,937             | 6,282,935             | (2)                        | 0.00            |
| Capital outlay           | 1,005,751             | 1,646,919             | 641,168                    | 63.75           |
| Refund of prior years    | 55,000                | 377                   | (54,623)                   | (99.31)         |
| Contingency              | 104,051               | -                     | (104,051)                  | 100.00          |
| Transfers out            | -                     | 1,000,000             | 1,000,000                  | 100.00          |
| <b>Total</b>             | <u>\$ 199,146,490</u> | <u>\$ 195,003,406</u> | <u>\$ (4,143,084)</u>      | <u>(2.08) %</u> |

# Upper Darby School District

## Management's Discussion and Analysis

(Unaudited)

June 30, 2018



|                                 | <u>Budget</u>         | <u>Actual</u>         | <u>(Under) Over Budget</u> | <u>% Change</u> |
|---------------------------------|-----------------------|-----------------------|----------------------------|-----------------|
| Salaries                        | \$ 85,796,851         | \$ 83,443,117         | \$ (2,353,734)             | (2.74) %        |
| Employee health benefits        | 21,807,785            | 20,436,920            | (1,370,865)                | (6.29)          |
| Social Security/retirement      | 33,740,105            | 32,948,559            | (791,546)                  | (2.35)          |
| Other employer benefits         | 1,688,057             | 1,736,180             | 48,123                     | 2.85            |
| <b>Total wages and benefits</b> | <b>143,032,798</b>    | <b>138,564,776</b>    | <b>(4,468,022)</b>         | <b>(3.12)</b>   |
| Purch svc/prof/tech             | 14,631,341            | 13,909,080            | (722,261)                  | (4.94)          |
| Purch property svcs             | 4,653,376             | 5,088,045             | 434,669                    | 9.34            |
| Other purchased svcs            | 22,004,866            | 22,254,351            | 249,485                    | 1.13            |
| Supplies                        | 6,280,834             | 5,700,207             | (580,627)                  | (9.24)          |
| Property                        | 1,382,330             | 1,382,823             | 493                        | 0.04            |
| Other objects                   | 1,831,831             | 1,775,011             | (56,820)                   | (3.10)          |
| Other financial uses            | 5,329,114             | 6,329,113             | 999,999                    | 18.76           |
| <b>Total other</b>              | <b>56,113,692</b>     | <b>56,438,630</b>     | <b>324,938</b>             | <b>(0.58)</b>   |
| <b>Total</b>                    | <b>\$ 199,146,490</b> | <b>\$ 195,003,406</b> | <b>\$ (4,143,084)</b>      | <b>(2.08) %</b> |

- Total actual expenditures and other financing used were under budget by \$4,143,084 or 2.08% below budget

## Upper Darby School District

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### Management's Discussion and Analysis

(Unaudited)

June 30, 2018

- The Actual Variance Analysis by Account provides clearer detail to the budget to actual differences. Salaries and benefits provided for a total variance under-budget in the amount of \$4,468,022 or 3.12% below budget. This is due to a decrease in teaching and support position salaries and benefits resulting from staff turnover. The level of teacher turnover (excluding attrition) exceeded prior levels by 30%. Further complicating the issue, fulfillment of these positions has become increasingly more difficult due to not just a local, but nation-wide shortage of teachers.
- Actual expenditures for instruction were under budget by \$3,988,591, or 2.98%. The main components under the area of instruction are Regular and Special Education.
  - In the area of Regular Education, cost fell below expectations by \$2,496,618. Contributing factor to costs falling below expectations include: \$2,343,340 in salaries and benefits and \$170,928 in supplies. Despite contractual increases and required increases in annual retirement contributions, the cost reductions are related to a significant amount of staff turnover, changes in the demographics of the District's benefit pool and to staffing support shortages. In 2017-18, there was an increase in resignations of 30% over levels in the prior year. Other cost reductions of \$170,928 were realized in supplies due to implementation of a requisition system and increased budgetary controls.
  - In the area of Special Education, costs fell below expectations by \$1,439,644. Contributing factor to costs falling below expectations include: \$966,898 in salaries and benefits due to turnover and \$1,010,424 in contracted substitute services and other professional purchased services. Internal changes were made during the fiscal year to reassign contracted positions (10 month) into administrative positions (12 month). This change provided for the largest part of the variance. In addition, it promoted greater efficiencies in departmental operations.
  - In the area of Other Instructional Programs, costs fell below budget by \$52,329, primarily in homebound instruction due to implementation and services provided by the cyber academy.
- Actual expenditures for Support Services were under budget by \$1,221,827. The main components consist of \$701,384 in salaries and benefits related to employee turnover and unfilled transportation and maintenance positions; \$155,301 in repair costs and \$105,947 in supply costs in maintenance and transportation departments due to enhanced budgetary controls; and \$200,804 in fuel and utility costs.
- Actual expenditures for Noninstructional Support Services service were under budget by \$415,158. The main components consist of \$148,855 in the after-school program in salaries and benefits and other operational costs resulting from declining enrollment; and \$54,941 in staffing costs for crossing guards

## Upper Darby School District

Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

### Business-Type Activity/Proprietary Fund

The District's business-type activity/proprietary fund consists of the District's food service program. The District's food service program is managed by an outside third party contractor. During 2017-2018, the net position of the business-type activity/proprietary fund increased by \$70,576. As of June 30, 2018, the business-type activity/proprietary fund had net position of \$2,905,232.

The Fund invested \$401,753 in capital equipment and delivery-service vehicles for the program in preparation to expand operations in implementing the Community Eligibility Program in 2018-2019.

### Capital Assets

The District's capital assets at June 30, 2018 are summarized below:

|                               | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activity</u> | <u>Totals</u>        |
|-------------------------------|------------------------------------|-----------------------------------|----------------------|
| Land and improvements         | \$ 6,718,750                       | \$ -                              | \$ 6,718,750         |
| Building and improvements     | 112,430,248                        | -                                 | 112,430,248          |
| Furniture and equipment       | 30,207,884                         | 1,650,407                         | 31,858,291           |
| Construction in progress      | 191,601                            | -                                 | 191,601              |
| Total                         | 149,548,483                        | 1,650,407                         | 151,198,890          |
| Less accumulated depreciation | 94,106,709                         | 939,682                           | 95,046,391           |
| Net capital assets            | <u>\$ 55,441,774</u>               | <u>\$ 710,725</u>                 | <u>\$ 56,152,499</u> |

Current year capital additions were \$3,631,837.

Major capital additions placed in service in 2018 included:

|   |            |
|---|------------|
| Security systems/camera   | \$ 796,224 |
| UDHS gymnasium roof replacement   | 711,968    |
| (3) 48 passenger bus; (1) 72 passenger bus; (1) van   | 446,248    |
| UDHS courtyard concrete replacement   | 440,117    |
| BHMS HVAC replacement   | 292,547    |
| Technology upgrades   | 291,645    |
| Fire panels (UDHS/BHMS)   | 197,070    |
| UDHS elevator   | 86,872     |
| Maintenance vehicles and equipment  | 73,110     |
| Food Service: refrigeration/kitchen<br>equipment/refrigerated display cases/<br>display warmers | 326,574    |
| Food Service delivery vehicle   | 75,180     |

# Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

## Long-Term Debt

At July 1, 2017, the principal or face amount of the District's general obligation debt was \$23,805,713. During the year, the District made principal payments of \$3,282,190. The principal or face amount balance of outstanding debt at June 30, 2018 is \$20,523,523.

State statutes limit the amount of general obligation debt the District may issue to 225% of its borrowing base capacity which is the annual arithmetic average of total revenues for the three preceding fiscal years. The long-term debt amount for the District is approximately 6.14% of its legal limit of \$407 million. In the 2018-2019 school year, \$3,372,190 of this debt is scheduled for repayment. Additional information on the District's long-term debt can be found in the Notes to the Financial Statements.

## Economic Condition and Outlook

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

- The District's local revenue sources continue to be adversely impacted. The District continues to anticipate an increased burden on local taxpayers due to continued reductions in assessed taxable values and nominal return on investments. This trend reinforces expectation that greater local tax efforts will be required to be the mechanism to fund instructional programming.
- The District does not expect significant residential nor commercial business growth in the near future given the existing developed commercial and residential nature of the local economy and a lack of developable land remaining within the District. In fact, the District has experienced only decreases in the assessed values of residential and commercial properties within the District, which restricts the growth in tax revenues for the District.
- The Commonwealth implemented a new funding formula for the Basic and Special Education Subsidies. Yet the District remains the 12<sup>th</sup> most underfunded school district in the State. The hold harmless legislation leaves the District under-funded in excess of \$16 million dollar for the 2018-2019 School Year.
- The District adopted a 2018-19 budget totaling \$210,756,893. The 2018-2019 budget included:
  - Approximately \$1.997 million dollars (net of savings realized through attrition) in staffing needs;
  - The School Board of Directors approved the addition of 2.5 Teachers; 1 Special Ed Administrator, 2 Special Ed Teachers, 4 Special Ed Therapist and 4 Special Ed Assistants.
  - \$1.69 million in technology and security upgrades
  - The real estate millage rate was increased by 2.50% or 0.9058 mills for a total millage rate of 37.1395 which includes an approximately 0.5% tax increase to fund the Capital Reserve by \$500,000.
  - \$6,881,390 of General Fund balance was committed to cover the anticipated revenue shortfall.

## Upper Darby School District

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Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018

- In August 2015, the Upper Darby Education Association agreed to a three year contract extension which expired on June 30, 2018. Contract negotiations are currently ongoing with a tentative four year agreement expected to be ratified by the membership on December 3, 2018.
- In September 2015, the Upper Darby Education Support Personnel Association ("UDESPEA") agreed to a three year contract extension which expired on June 30, 2018. Contract negotiations are currently ongoing with a tentative five year agreement expected to be ratified by the membership in mid-December 2018.
- In September 2018, the Transit Workers' Union ("TWU") agreed to a three year contract extension which expires June 30, 2020. TWU bargains for maintenance, custodial and transportation employees. The contract calls for salary increases of 2.5% in 2017-2018 and 2018-2019 and 2.6% for 2019-2020.
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("House Bill 2497") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the Public School Employees' Retirement System ("PSERS") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation, the employer contribution rate for 2019-20 is projected at 35.53%. Currently, the employer contribution rate for 2018-2019 is 33.43%, which is an increase of 2.64% from the 2017-2018 employer contribution rate of 32.57%. It is estimated that the increase in the employer contribution rate for 2019-2020 will increase the District's net retirement expense by approximately \$2,991,000, of which the District's share is estimated at \$784,000.
- The District continues to face overcapacity issues. In June 2015, the Board of School Directors approved a resolution directing the proper officers to submit PlanCon Part A - Project Justification for the Phase I Project. However, the District did not include a facility study that resulted in the rejection of the submission. In March 2017, the District engaged Bonnett and Associates as the architect of record to complete a facility study.

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

In November 2017, the Facility Committee provided the Board and the public with a costing out update of Scenario 32. The major capital improvements and potential new cost of an elementary school were presented to the Board. The overall major elementary capital improvement construction costs are estimated to total \$180,000,000. The Facilities Committee also reviewed future enrollment trends, redistricting of elementary and middle school students, as well as a timeline for the completion of a new elementary school should the Board decide to move in that direction. The Facilities Committee recommended to the Board to review the cost to renovate Drexel Hill Middle School prior to taking action on the Elementary Facilities Study. After a review of the capital improvements priority list, along with a review of future enrollment trends, the Facilities Committee stated that the immediate

# Upper Darby School District

## Management's Discussion and Analysis

(Unaudited)

June 30, 2018

facilities concerns seem to be with Drexel Hill Middle School and Beverly Hills Middle School. In order to complete a more in-depth look of both middle schools, the Facilities Committee asked the Board to consider taking action on a class size of 27 for planning purposes. Members of the Board approved the 27-class size in December 2017.

In April 2018, the Facilities Committee provided the Board and the Public with 40 different scenarios to solve our current and future middle school enrollment needs. The Facilities Committee's recommendation to the Board was to cost out a third middle school and consider either a concept school or a neighborhood school. The Board agreed to move forward with costing out a new middle school with at least 500 students. The location and type of middle school has not yet been determined.

To date the Facility report remains uncompleted.

- In September 2018, two Legislative Educational Grants were awarded to the District and will be used to support educational access and job training. The District will use \$3,325,000 to update textbooks and curricular materials in the area of English, Language Arts, Math, Social Studies and Science. The additional grant money, totaling \$175,000 will be used to meet the requirements of the Future Ready PA index.
- In July 2018, the District issued \$5,000,000 of general obligation bonds to finance HVAC system replacements at Highland Park Elementary School; Cooling tower and HVAC replacement at Beverly Hills Middle School; Roof replacement at Hillcrest Elementary School and bathroom remodeling in the C-Wing of the Upper Darby High School. The debt service on the bonds is as follow:

Years ending June 30:

|      |    |           |
|------|----|-----------|
| 2019 | \$ | 88,742    |
| 2020 |    | 138,629   |
| 2021 |    | 138,542   |
| 2022 |    | 138,448   |
| 2023 |    | 138,344   |
| 2024 |    | 138,232   |
| 2025 |    | 2,512,447 |
| 2026 |    | 2,526,844 |
| 2027 |    | 75,984    |

### Requests for Information

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

**Upper Darby School District**

Statement of Net Position (Deficit)

June 30, 2018

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activity</u> | <u>Total</u>          |
|---|------------------------------------|-----------------------------------|-----------------------|
| <b>Assets and Deferred Outflows of Resources</b>                              |                                    |                                   |                       |
| <b>Current Assets</b>   |                                    |                                   |                       |
| Cash and cash equivalents   | \$ 1,320,772                       | \$ 2,168,623                      | \$ 3,489,395          |
| Investments   | 35,370,000                         | -                                 | 35,370,000            |
| Taxes receivable, net   | 8,324,365                          | -                                 | 8,324,365             |
| Due from other governments  | 9,720,267                          | 847,497                           | 10,567,764            |
| Other receivables   | 1,981,396                          | 432,294                           | 2,413,690             |
| Internal balances   | 931,999                            | (931,999)                         | -                     |
| Prepaid expenses  | 202,037                            | -                                 | 202,037               |
| Inventories   | 326,049                            | 86,759                            | 412,808               |
| Total current assets  | <u>58,176,885</u>                  | <u>2,603,174</u>                  | <u>60,780,059</u>     |
| <b>Noncurrent Assets</b>  |                                    |                                   |                       |
| Capital assets  | 55,441,774                         | 710,725                           | 56,152,499            |
| Restricted cash   | 324,996                            | -                                 | 324,996               |
| Total noncurrent assets   | <u>55,766,770</u>                  | <u>710,725</u>                    | <u>56,477,495</u>     |
| Total assets  | <u>113,943,655</u>                 | <u>3,313,899</u>                  | <u>117,257,554</u>    |
| <b>Deferred Outflows of Resources</b>   |                                    |                                   |                       |
| Pension   | 70,043,655                         | -                                 | 70,043,655            |
| Other postemployment benefits   | 1,896,617                          | -                                 | 1,896,617             |
| Deferred amounts on bond refunding  | 10,941                             | -                                 | 10,941                |
| Total deferred outflows of resources  | <u>71,951,213</u>                  | <u>-</u>                          | <u>71,951,213</u>     |
| Total assets and deferred outflows of resources                               | <u>\$ 185,894,868</u>              | <u>\$ 3,313,899</u>               | <u>\$ 189,208,767</u> |
| <b>Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)</b> |                                    |                                   |                       |
| <b>Liabilities</b>  |                                    |                                   |                       |
| Current liabilities:  |                                    |                                   |                       |
| Accounts payable  | \$ 2,579,876                       | \$ 379,925                        | \$ 2,959,801          |
| Current maturities of:  |                                    |                                   |                       |
| Bonds and note payable  | 3,372,190                          | -                                 | 3,372,190             |
| Capital lease obligations   | 1,470,298                          | -                                 | 1,470,298             |
| Authority lease obligations   | 128,274                            | -                                 | 128,274               |
| Accrued salaries and benefits   | 20,854,867                         | -                                 | 20,854,867            |
| Accrued interest payable  | 114,164                            | -                                 | 114,164               |
| Other current liabilities   | 1,695,797                          | -                                 | 1,695,797             |
| Current portion of compensated absences                                       | 315,571                            | -                                 | 315,571               |
| Current portion of special termination benefits                               | 41,417                             | -                                 | 41,417                |
| Current portion of other postemployment benefits                              | 429,000                            | -                                 | 429,000               |
| Unearned revenues   | 398,789                            | 28,742                            | 427,531               |
| Total current liabilities   | <u>31,400,243</u>                  | <u>408,667</u>                    | <u>31,808,910</u>     |
| Bonds and note payable  | 18,140,895                         | -                                 | 18,140,895            |
| Capital lease obligations   | 2,147,012                          | -                                 | 2,147,012             |
| Authority lease obligations   | 2,164,883                          | -                                 | 2,164,883             |
| Compensated absences  | 2,541,350                          | -                                 | 2,541,350             |
| Special termination benefits  | 866,689                            | -                                 | 866,689               |
| Other postemployment benefits   | 24,246,740                         | -                                 | 24,246,740            |
| Net pension liability   | 308,776,000                        | -                                 | 308,776,000           |
| Total liabilities   | <u>390,283,812</u>                 | <u>408,667</u>                    | <u>390,692,479</u>    |
| <b>Deferred Inflows of Resources</b>  |                                    |                                   |                       |
| Pension   | 10,632,000                         | -                                 | 10,632,000            |
| Other postemployment benefits   | 593,000                            | -                                 | 593,000               |
| Total deferred inflows of resources   | <u>11,225,000</u>                  | <u>-</u>                          | <u>11,225,000</u>     |
| <b>Net Position (Deficit)</b>   |                                    |                                   |                       |
| Net investment in capital assets  | 30,311,379                         | 710,725                           | 31,022,104            |
| Restricted  | 1,622,235                          | -                                 | 1,622,235             |
| Unrestricted  | (247,547,558)                      | 2,194,507                         | (245,353,051)         |
| Total net position (deficit)  | <u>(215,613,944)</u>               | <u>2,905,232</u>                  | <u>(212,708,712)</u>  |
| Total liabilities, deferred inflows of resources, and net position (deficit)  | <u>\$ 185,894,868</u>              | <u>\$ 3,313,899</u>               | <u>\$ 189,208,767</u> |

See notes to financial statements

## Upper Darby School District

Statement of Activities  
Year Ended June 30, 2018

| Functions/Programs                                 | Expenses       | Program Revenues           |  | Net Revenue (Expense) and<br>Change in Net Position (Deficit) |                           |                  |
|--|----------------|----------------------------|--|---|---------------------------|------------------|
|  |                | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                                    | Business-Type<br>Activity | Total            |
| <b>Governmental Activities</b>                     |                |                            |  |   |                           |                  |
| Instruction  | \$ 135,738,114 | \$ 274,660                 | \$ 32,998,077                            | \$ (102,465,377)  |                           | \$ (102,465,377) |
| Instructional student support                      | 16,823,308     | -                          | 2,821,448                                | (14,001,860)  |                           | (14,001,860)     |
| Administrative and financial support services      | 14,325,978     | -                          | 1,578,244                                | (12,747,734)  |                           | (12,747,734)     |
| Operation and maintenance of plant services        | 13,410,776     | -                          | 1,117,961                                | (12,292,815)  |                           | (12,292,815)     |
| Pupil transportation                               | 8,887,185      | 29,000                     | 4,019,634                                | (4,838,551)   |                           | (4,838,551)      |
| Student activities                                 | 2,138,151      | -                          | 431,594                                  | (1,706,557)   |                           | (1,706,557)      |
| Community service                                  | 2,795,461      | 1,506,030                  | 303,985                                  | (985,446)   |                           | (985,446)        |
| Interest on long-term debt                         | 797,362        | -                          | 1,531,735                                | 734,373   |                           | 734,373          |
| Depreciation                                       | 3,469,516      | -                          | -  | (3,469,516)   |                           | (3,469,516)      |
| Total governmental activities                      | 198,385,851    | 1,809,690                  | 44,802,678                               | (151,773,483)   |                           | (151,773,483)    |
| <b>Business-Type Activity, Food Service</b>        | 5,791,970      | 778,658                    | 5,999,979                                | -   | \$ 986,667                | 986,667          |
| Total  | \$ 204,177,821 | \$ 2,588,348               | \$ 50,802,657                            | (151,773,483)   | 986,667                   | (150,786,816)    |
| <b>General Revenues</b>                            |                |                            |  |   |                           |                  |
| Real estate taxes levied for general purposes, net |                |                            |  | 107,694,100   | -                         | 107,694,100      |
| Grants, subsidies and contributions not restricted |                |                            |  | 37,892,077  | -                         | 37,892,077       |
| Miscellaneous income                               |                |                            |  | 212,995   | -                         | 212,995          |
| Investment earnings                                |                |                            |  | 710,291   | 15,908                    | 726,199          |
| Transfers  |                |                            |  | 931,999   | (931,999)                 | -                |
| Total general revenues                             |                |                            |  | 147,441,462   | (916,091)                 | 146,525,371      |
| <b>Change in Net Position</b>                      |                |                            |  | (4,332,021)   | 70,576                    | (4,261,445)      |
| <b>Net Position (Deficit), Beginning</b>           |                |                            |  |   |                           |                  |
| As previously reported                             |                |                            |  | (190,231,899)   | 2,834,656                 | (187,397,243)    |
| Effect of adoption of GASB No. 75                  |                |                            |  | (21,050,024)  | -                         | (21,050,024)     |
| As restated  |                |                            |  | (211,281,923)   | 2,834,656                 | (208,447,267)    |
| <b>Net Position (Deficit), Ending</b>              |                |                            |  | \$ (215,613,944)  | \$ 2,905,232              | \$ (212,708,712) |

See notes to financial statements

# Upper Darby School District

## Balance Sheet - Governmental Funds

June 30, 2018

|   | Major Funds          |                     | Totals               |
|---|----------------------|---------------------|----------------------|
|   | General              | Capital Reserve     |                      |
| <b>Assets</b>                               |                      |                     |                      |
| Cash and cash equivalents                   | \$ 1,320,772         | \$ -                | \$ 1,320,772         |
| Restricted cash                             | -                    | 324,996             | 324,996              |
| Investments                                 | 34,870,000           | 500,000             | 35,370,000           |
| Taxes receivable, net                       | 8,324,365            | -                   | 8,324,365            |
| Due from other governments                  | 9,720,267            | -                   | 9,720,267            |
| Other receivables                           | 1,981,396            | -                   | 1,981,396            |
| Due from other funds                        | 984,782              | 1,000,000           | 1,984,782            |
| Prepaid expenses                            | 202,037              | -                   | 202,037              |
| Inventories                                 | 326,049              | -                   | 326,049              |
| Total                                       | <u>\$ 57,729,668</u> | <u>\$ 1,824,996</u> | <u>\$ 59,554,664</u> |
| <b>Liabilities</b>                          |                      |                     |                      |
| Accounts payable                            | \$ 2,570,876         | \$ 9,000            | \$ 2,579,876         |
| Accrued salaries and benefits               | 20,854,867           | -                   | 20,854,867           |
| Unearned revenues                           | 398,789              | -                   | 398,789              |
| Due to other funds                          | 1,000,000            | 52,782              | 1,052,782            |
| Other current liabilities                   | 1,554,818            | 140,979             | 1,695,797            |
| Total liabilities                           | <u>26,379,350</u>    | <u>202,761</u>      | <u>26,582,111</u>    |
| <b>Deferred Inflows of Resources</b>        |                      |                     |                      |
| Unavailable revenues -<br>real estate taxes | <u>6,940,986</u>     | <u>-</u>            | <u>6,940,986</u>     |
| <b>Fund Balances</b>                        |                      |                     |                      |
| Nonspendable                                | 326,049              | -                   | 326,049              |
| Restricted                                  | -                    | 1,622,235           | 1,622,235            |
| Committed                                   | 6,881,390            | -                   | 6,881,390            |
| Assigned                                    | 5,782,248            | -                   | 5,782,248            |
| Unassigned                                  | 11,419,645           | -                   | 11,419,645           |
| Total fund balances                         | <u>24,409,332</u>    | <u>1,622,235</u>    | <u>26,031,567</u>    |
| Total                                       | <u>\$ 57,729,668</u> | <u>\$ 1,824,996</u> | <u>\$ 59,554,664</u> |

See notes to financial statements

## Upper Darby School District

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2018

|   |                                       |
|---|---------------------------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | <b>\$ 26,031,567</b>                  |
| Amounts reported for governmental activities in the statement of net position are different because:  |                                       |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds  | 55,441,774                            |
| 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 | 6,940,985                             |
| Deferred gain on debt refundings are included in the statement of net position  | 10,941                                |
| Accrued interest payable is included in the statement of net position   | (114,164)                             |
| Deferred outflows of resources related to the net pension liability is included in the statement of net position                                    | 70,043,655                            |
| Deferred outflows of resources related to the other postretirement benefits liability is included in the statement of net position                  | 1,896,617                             |
| Deferred inflows of resources related to the net pension liability is included in the statement of net position                                     | (10,632,000)                          |
| Deferred inflows of resources related to the other postretirement benefits liability is included in the statement of net position                   | (593,000)                             |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:                       |                                       |
| Bonds and note payable  | (21,513,085)                          |
| Capital lease obligations   | (3,617,310)                           |
| Authority lease obligations   | (2,293,157)                           |
| Compensated absences  | (2,856,921)                           |
| Special termination benefits  | (908,106)                             |
| Other postretirement benefits   | (24,675,740)                          |
| Net pension liability   | <u>(308,776,000)</u>                  |
| <b>Total Net Deficit - Governmental Activities</b>  | <b><u><u>\$ (215,613,944)</u></u></b> |

See notes to financial statements

# Upper Darby School District

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2018

|   | Major Funds          |                     | Total<br>Governmental<br>Funds |
|---|----------------------|---------------------|--------------------------------|
|   | General              | Capital<br>Reserve  |                                |
| <b>Revenues</b>   |                      |                     |                                |
| Local sources   | \$ 107,044,189       | \$ 15,373           | \$ 107,059,562                 |
| State sources   | 79,309,907           | -                   | 79,309,907                     |
| Federal sources   | 6,427,057            | -                   | 6,427,057                      |
| Total revenues  | <u>192,781,153</u>   | <u>15,373</u>       | <u>192,796,526</u>             |
| <b>Expenditures</b>   |                      |                     |                                |
| Instruction   | 129,871,455          | -                   | 129,871,455                    |
| Support services  | 51,481,815           | -                   | 51,481,815                     |
| Noninstructional services   | 4,719,905            | -                   | 4,719,905                      |
| Capital outlay  | 1,646,919            | 1,050,397           | 2,697,316                      |
| Refund of prior year receipts   | 377                  | -                   | 377                            |
| Debt service  | 6,282,935            | -                   | 6,282,935                      |
| Total expenditures  | <u>194,003,406</u>   | <u>1,050,397</u>    | <u>195,053,803</u>             |
| <b>Revenues Under Expenditures</b>  | <u>(1,222,253)</u>   | <u>(1,035,024)</u>  | <u>(2,257,277)</u>             |
| <b>Other Financing Sources (Uses)</b>                                     |                      |                     |                                |
| Proceeds from extended term financing                                     | 1,800,223            | -                   | 1,800,223                      |
| Transfers in  | 931,999              | 1,000,000           | 1,931,999                      |
| Transfers out   | (1,000,000)          | -                   | (1,000,000)                    |
| Other financing sources, net  | <u>1,732,222</u>     | <u>1,000,000</u>    | <u>2,732,222</u>               |
| <b>Revenues and Other Financing Sources<br/>Over (Under) Expenditures</b> | 509,969              | (35,024)            | 474,945                        |
| <b>Fund Balance, Beginning</b>  | <u>23,899,363</u>    | <u>1,657,259</u>    | <u>25,556,622</u>              |
| <b>Fund Balance, Ending</b>   | <u>\$ 24,409,332</u> | <u>\$ 1,622,235</u> | <u>\$ 26,031,567</u>           |

See notes to financial statements

## Upper Darby School District

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
Year Ended June 30, 2018

**Total Net Change in Fund Balances - Governmental Funds** \$ 474,945

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

Capital outlays are reported in the governmental funds as expenditures.

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

|                            |                    |           |
|----------------------------|--------------------|-----------|
| Capital outlay             | \$ 3,332,605       |           |
| Less: depreciation expense | <u>(3,469,516)</u> | (136,911) |

|   |  |         |
|---|--|---------|
| Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds. This amount is the net change in real estate tax revenue accrued between the prior and current year |  | 391,206 |
|---|--|---------|

|   |  |          |
|---|--|----------|
| Change in allowance for uncollectible taxes |  | (65,526) |
|---|--|----------|

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

Activity during the period is as follows:

|  |              |         |
|--|--------------|---------|
| Amortization of bond premiums/discounts    | 170,458      |         |
| Amortization of deferred refunding charges | <u>9,826</u> | 180,284 |

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

|                  |                |           |
|------------------|----------------|-----------|
| Bonds and notes  | 3,282,190      |           |
| Capital leases   | 1,825,746      |           |
| Authority leases | <u>177,035</u> | 5,284,971 |

|   |  |             |
|---|--|-------------|
| Proceeds from extended term financing is considered a current financial resource and are reported in the funds but not in the statement of activities |  | (1,800,223) |
|---|--|-------------|

|                                    |  |        |
|------------------------------------|--|--------|
| Change in accrued interest payable |  | 20,317 |
|------------------------------------|--|--------|

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

|                               |                  |             |
|-------------------------------|------------------|-------------|
| Retirement                    | (8,345,391)      |             |
| Compensated absences          | (78,111)         |             |
| Special termination benefits  | 269,439          |             |
| Other postretirement benefits | <u>(527,021)</u> | (8,681,084) |

**Change in Net Position of Governmental Activities** \$ (4,332,021)

## Upper Darby School District

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

Budget and Actual - General Fund

Year Ended June 30, 2018

|  | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual<br/>Amounts</b> | <b>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</b> |
|--|----------------------------|-------------------------|---------------------------|---|
| <b>Revenues</b>  |                            |                         |                           |   |
| Local sources  | \$ 105,079,191             | \$ 105,079,191          | \$ 107,044,189            | \$ 1,964,998  |
| State sources  | 78,471,457                 | 78,471,457              | 79,309,907                | 838,450   |
| Federal sources  | 6,055,420                  | 6,055,420               | 6,427,057                 | 371,637   |
| Total revenues   | <u>189,606,068</u>         | <u>189,606,068</u>      | <u>192,781,153</u>        | <u>3,175,085</u>  |
| <b>Expenditures</b>  |                            |                         |                           |   |
| Instruction  | 134,274,988                | 133,860,046             | 129,871,455               | 3,988,591   |
| Support services   | 52,586,234                 | 52,703,642              | 51,481,815                | 1,221,827   |
| Noninstructional services  | 5,123,941                  | 5,135,063               | 4,719,905                 | 415,158   |
| Capital outlay   | 545,000                    | 1,005,751               | 1,646,919                 | (641,168)   |
| Debt service   | 6,366,327                  | 6,282,937               | 6,282,935                 | 2   |
| Refund of prior year receipts  | -                          | 55,000                  | 377                       | 54,623  |
| Total expenditures   | <u>198,896,490</u>         | <u>199,042,439</u>      | <u>194,003,406</u>        | <u>5,039,033</u>  |
| <b>Revenues Under Expenditures</b>   | <u>(9,290,422)</u>         | <u>(9,436,371)</u>      | <u>(1,222,253)</u>        | <u>8,214,118</u>  |
| <b>Other Financing Sources (Uses)</b>  |                            |                         |                           |   |
| Proceeds from extended term financing  | 1,800,000                  | 1,800,000               | 1,800,223                 | 223   |
| Transfers in   | 720,000                    | 720,000                 | 931,999                   | 211,999   |
| Transfers out  | -                          | -                       | (1,000,000)               | (1,000,000)   |
| Budgetary reserve  | (250,000)                  | (104,051)               | -                         | 104,051   |
| Total other financing sources, net   | <u>2,270,000</u>           | <u>2,415,949</u>        | <u>1,732,222</u>          | <u>(683,727)</u>  |
| <b>Excess of Revenues and Other Financing<br/>Sources (Under) Over Expenditures<br/>and Other Financing Uses</b> | <u>(7,020,422)</u>         | <u>(7,020,422)</u>      | <u>509,969</u>            | <u>7,530,391</u>  |
| <b>Fund Balance, Beginning</b>   | <u>23,899,363</u>          | <u>23,899,363</u>       | <u>23,899,363</u>         | <u>-</u>  |
| <b>Fund Balance, Ending</b>  | <u>\$ 16,878,941</u>       | <u>\$ 16,878,941</u>    | <u>\$ 24,409,332</u>      | <u>\$ 7,530,391</u>   |

See notes to financial statements

# Upper Darby School District

Balance Sheet - Proprietary Fund

June 30, 2018

## Assets

### Current Assets

|  |              |
|--|--------------|
| Cash and cash equivalents              | \$ 2,168,623 |
| Due from other governments             | 847,497      |
| Other receivables and prepaid expenses | 432,294      |
| Inventories                            | 86,759       |

Total current assets 3,535,173

### Capital Assets

710,725

Total assets \$ 4,245,898

## Liabilities and Net Position

### Liabilities

|                           |            |
|---------------------------|------------|
| Current liabilities       |            |
| Accounts payable          | \$ 379,925 |
| Other current liabilities | 28,742     |
| Due to other funds        | 931,999    |

Total liabilities 1,340,666

### Net Position

|                                  |           |
|----------------------------------|-----------|
| Net investment in capital assets | 710,725   |
| Unrestricted net position        | 2,194,507 |

Total net position 2,905,232

Total liabilities and net position \$ 4,245,898

## Upper Darby School District

Statement of Revenues, Expenses, and Change in Net Position -  
Proprietary Fund  
Year Ended June 30, 2018

### Operating Revenues

|                      |                   |
|----------------------|-------------------|
| Food service revenue | <u>\$ 778,658</u> |
|----------------------|-------------------|

### Operating Expenses

|                     |               |
|---------------------|---------------|
| Purchased services  | 5,281,250     |
| Donated commodities | 331,065       |
| Other               | 88,417        |
| Depreciation        | <u>91,238</u> |

|                          |                  |
|--------------------------|------------------|
| Total operating expenses | <u>5,791,970</u> |
|--------------------------|------------------|

### Operating Loss

|  |                    |
|--|--------------------|
|  | <u>(5,013,312)</u> |
|--|--------------------|

### Nonoperating Revenues (Expenses)

|                         |                  |
|-------------------------|------------------|
| Federal subsidies       | 5,725,106        |
| State subsidies         | 274,873          |
| Earnings on investments | 15,908           |
| Transfers out           | <u>(931,999)</u> |

|                            |                  |
|----------------------------|------------------|
| Nonoperating revenues, net | <u>5,083,888</u> |
|----------------------------|------------------|

### Increase in Net Position

|  |        |
|--|--------|
|  | 70,576 |
|--|--------|

### Net Position, Beginning

|  |                  |
|--|------------------|
|  | <u>2,834,656</u> |
|--|------------------|

### Net Position, Ending

|  |                            |
|--|----------------------------|
|  | <u><u>\$ 2,905,232</u></u> |
|--|----------------------------|

## Upper Darby School District

Statement of Cash Flows - Proprietary Fund  
Year Ended June 30, 2018

### Cash Flows From Operating Activities

|                                       |                    |
|---------------------------------------|--------------------|
| Receipts from customers               | \$ 789,565         |
| Payments to suppliers                 | <u>(5,344,664)</u> |
| Net cash used in operating activities | <u>(4,555,099)</u> |

### Cash Flows from Noncapital Financing Activities

|  |                  |
|--|------------------|
| Transfers out  | (703,481)        |
| State subsidies                                      | 269,971          |
| Federal subsidies                                    | <u>5,341,445</u> |
| Net cash provided by noncapital financing activities | <u>4,907,935</u> |

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

|                               |                  |
|-------------------------------|------------------|
| Acquisition of capital assets | <u>(401,753)</u> |
|-------------------------------|------------------|

### Cash Flows Provided by Investing Activities

|                         |               |
|-------------------------|---------------|
| Interest on investments | <u>15,908</u> |
|-------------------------|---------------|

### Net Decrease in Cash

(33,009)

### Cash, Beginning

2,201,632

### Cash, Ending

\$ 2,168,623

### Supplemental Disclosure of Noncash Transactions

|                          |                          |
|--------------------------|--------------------------|
| USDA donated commodities | <u><u>\$ 337,036</u></u> |
|--------------------------|--------------------------|

### Reconciliation of Operating Loss to Net Cash Used in Operating Activities

|   |                              |
|---|------------------------------|
| Operating loss  | \$ (5,013,312)               |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                              |
| Depreciation  | 91,238                       |
| USDA donated commodities  | 337,036                      |
| Changes in:   |                              |
| Other receivables and prepaid expenses  | 682                          |
| Inventories   | (5,971)                      |
| Accounts payable  | 25,004                       |
| Other current liabilities   | <u>10,224</u>                |
| Net cash used in operating activities   | <u><u>\$ (4,555,099)</u></u> |

See notes to financial statements

# Upper Darby School District

## Statement of Net Position - Fiduciary Funds

June 30, 2018

|  | <u>Private Purpose<br/>Trust Fund</u> | <u>Activity<br/>Agency<br/>Fund</u> | <u>Other Agency<br/>Fund</u> |
|--|---------------------------------------|-------------------------------------|------------------------------|
| <b>Assets</b>                            |                                       |                                     |                              |
| Cash                                     | <u>\$ 679,642</u>                     | <u>\$ 243,946</u>                   | <u>\$ 281,478</u>            |
| <b>Liabilities and Net Position</b>      |                                       |                                     |                              |
| Other current liabilities                | \$ -                                  | <u>\$ 243,946</u>                   | <u>\$ 281,478</u>            |
| Net position restricted for scholarships | <u>679,642</u>                        |                                     |                              |
| Total liabilities and net position       | <u>\$ 679,642</u>                     |                                     |                              |

See notes to financial statements

## Upper Darby School District

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

Year Ended June 30, 2018

|                                | <u>Private Purpose<br/>Trust Fund</u> |
|--------------------------------|---------------------------------------|
| <b>Additions</b>               |                                       |
| Contribution income            | \$ 180,373                            |
| Interest income                | <u>5,638</u>                          |
| Total additions                | 186,011                               |
| <b>Deductions</b>              |                                       |
| Scholarships awarded           | <u>244,459</u>                        |
| <b>Change in Net Position</b>  | (58,448)                              |
| <b>Net Position, Beginning</b> | <u>738,090</u>                        |
| <b>Net Position, Ending</b>    | <u><u>\$ 679,642</u></u>              |

See notes to financial statements

# Upper Darby School District

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Notes to Financial Statements

June 30, 2018

## 1. Nature of Operations and Summary of Significant Accounting Policies

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

### Nature of Operations

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

### Reporting Entity

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

Based on these criteria, the District has determined that there are no related organizations that should be included in the District's financial statements, nor is the District considered to be a component unit of any other government.

### Basis of Presentation - Government-Wide Financial Statements

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

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

# Upper Darby School District

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Notes to Financial Statements

June 30, 2018

## **Basis of Presentation - Fund Financial Statements**

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

### **Governmental Fund Types**

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

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

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

#### **Capital Projects Fund**

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

#### **Capital Reserve Fund (Major)**

The Capital Reserve Fund was established under the Pennsylvania Municipal Code to account for (1) moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the District at the end of a fiscal year, and (3) interest earnings of the fund itself. Bond proceeds and other local, state and federal revenue may not be deposited in this fund. No transfers out of this fund are allowable for any purpose. Expenditures from this fund are limited to: capital improvements, replacement and additions to public works and improvements, for deferred maintenance, for the purchase or replacement of school buses, and for no other purpose.

### **Proprietary Fund Type**

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

# Upper Darby School District

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Notes to Financial Statements

June 30, 2018

## **Fiduciary Fund Types**

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

### **Activity Fund**

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

### **Private Purpose Trust Fund**

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

### **Other Agency Fund**

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

## **Measurement Focus**

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

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

### **Fund Financial Statements**

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

# Upper Darby School District

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Notes to Financial Statements

June 30, 2018

## **Basis of Accounting**

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

### **Accrual Basis**

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

### **Modified Accrual Basis**

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

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

### **Allocation of Indirect Expenses**

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

# Upper Darby School District

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Notes to Financial Statements

June 30, 2018

## **Budgetary Data**

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

## **Cash and Cash Equivalents**

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

## **Investments**

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

## **Inventories**

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

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

## **Capital Assets**

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

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

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

## Upper Darby School District

### Notes to Financial Statements

June 30, 2018

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

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

The District does not have any infrastructure capital assets.

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

### Compensated Absences

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

### Pensions/ Other Postemployment Benefits ("OPEB")

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

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

# Upper Darby School District

Notes to Financial Statements

June 30, 2018

## Governmental Fund Balance Classifications

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

- *Nonspendable* fund balances are amounts that cannot be spent because they are either not in spendable form or, are legally or contractually required to be maintained intact. Nonspendable fund balance consists entirely of inventories which are not considered to be in spendable form.
- *Restricted* fund balances are amounts that are restricted to specific purposes by constraints placed on their use that are externally imposed by creditors, grantors, contributions, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts reported in the Capital Reserve Fund are restricted by Pennsylvania law to expenditures for capital assets.
- *Committed* fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolution of the District's School Board of Directors. These amounts cannot be used for any other purpose unless the School Board of Directors removes or changes the specific use by taking the same action it employed to previously commit the amounts. In June 2018, the Board of School Directors committed \$6,881,390 of fund balance to balance the 2018-2019 budget.
- *Assigned* fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. The District's School Board of Directors has designated the Chief Financial Officer to assign fund balance amounts as deemed financially necessary and appropriate. At June 30, 2018, the Chief Financial Officer has assigned fund balance for compensated absences/OPEB - \$1,462,454, PSERS retirement contribution - \$1,816,176, technology and educational resources - \$1,000,000, emergency capital replacement - \$1,500,000 and encumbrances - \$3,618.
- *Unassigned* fund balance is a residual classification and represents amounts that have not been assigned to other funds, and has not been restricted, committed or assigned to a specific purpose within the General Fund.

## Eliminations and Internal Balances

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

## Use of Restricted Net Position/Fund Balances

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

# Upper Darby School District

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Notes to Financial Statements

June 30, 2018

## **Deferred Outflows/Inflows of Resources**

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

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

## **Use of Estimates**

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

## **Joint Ventures**

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

### **Delaware County Vocational-Technical School Authority**

The Delaware County Vocational-Technical School Authority ("Vo-Tech Authority") is responsible for acquiring, holding, constructing, improving, and maintaining the vocational-technical school buildings used in providing vocational-technical education to students of Delaware County. The District is responsible for an allocated portion of the outstanding debt of the Vo-Tech Authority. At June 30, 2018 there is no allocated outstanding debt. The Vo-Tech Authority's financial statements are available from the Vo-Tech Authority, 200 Yale Avenue, Morton, PA 19070.

### **Community College of Delaware County Authority**

The Community College of Delaware County Authority ("Authority") was responsible for acquiring, holding, constructing, improving and maintaining the Delaware County Community College facilities. During 1993, the Authority released all the land, building and furniture to the Delaware County Community College and as of December 31, 1993, the Authority is on "inactive status." The District is responsible for an allocated portion of the outstanding debt of the Community College of Delaware County and has included such in the accompanying statement of net position.

## Accounting Principles Adopted in 2018

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 generally establishes that governments report the total OPEB liability related to their employees. Additionally, Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures, including a sensitivity analysis of the discount rate and a healthcare cost trend rate assumptions used for the valuation, and required supplementary information about their OPEB liabilities. The effect of this adoption decreased the District's governmental activities net position at July 1, 2017 by \$21,050,024 and expanded note disclosures and required supplementary information. There was no effect on the business-type activity as the food service function is outsourced.

The District adopted GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. Statement No. 82 addresses certain issues that have been raised with respect to Statement No. 67, Statement No. 68, and Statement No. 73. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard did not have an effect on the District's financial statements.

The District adopted GASB Statement No. 85, *Omnibus 2017*. GASB 85 addresses practice issues identified during implementation and application of certain GASB Statements, including blending component units, goodwill, fair value measurement and application, and OPEB. The adoption of this standard did not have an effect on the District's financial statements.

The District adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. The adoption of this standard did not have an effect on the District's financial statements.

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### 2. Deposits and Investments

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

#### Deposits with Financial Institutions and PSDLAF

##### Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The District does not have a formal policy for custodial credit risk. At June 30, 2018, the bank balance of the District's deposits with financial statements, including cash equivalents, was \$8,605,952 compared to the carrying amount of \$5,019,457. The difference is caused by items in-transit and outstanding checks. \$7,973,786 of the District's deposits were exposed to custodial credit risk at June 30, 2018 and were uninsured but collateralized by securities pledged by the financial institutions for such funds but not in the District's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

The Pennsylvania School District Liquid Asset Fund ("Fund") contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each school district owns shares of the Fund, which invests the pooled assets. Since the Fund has the characteristics of a mutual fund, it is not subject to the disclosure requirements noted above. Due to the short term nature and liquidity of the investments held within these pools, the fair value of the underlying investments approximates amortized cost. Shares with PSDLAF can be withdrawn at any time in any amount, with no liquidity fees or redemption gates. At June 30, 2018, the carrying amount of the Fund was \$132,166.

##### Investments

The District's investments consist of the following:

|                         | Fair Value   | Less than<br>1 Year | 1-5 Years |
|-------------------------|--------------|---------------------|-----------|
| Certificates of deposit | \$ 1,565,000 | \$ 1,565,000        | \$ -      |
| PSDLAF                  | 33,305,000   | 33,305,000          | -         |

The District was not exposed to custodial credit risk on the certificates of deposit as all were fully insured.

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### 3. Real Estate Taxes

The tax on real estate, as levied by the Board of School Directors, was 36.2337 mills (\$36.2337 per \$1,000 of assessed valuation) for fiscal year 2018. Delaware County determines the assessed value of property and the tax collector is responsible for collection. The District's Chief Financial Officer is the tax collector. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

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

Delinquent real estate taxes receivable at June 30, 2018 totaled \$6,940,986 and are included in taxes receivable. The amount of real estate taxes receivable is reported net of an allowance for doubtful collections of \$714,851. Taxes receivable also includes \$37,872 of interim taxes, \$259,701 of real estate transfer taxes receivable and \$1,085,806 of delinquent real estate taxes collected by Delaware County but not yet remitted to the District. Real estate tax revenue includes an offset of \$65,523 due to an increase in the allowance for doubtful accounts.

### 4. Due from Other Governments

Due from other governments consists of the following:

|                                       |                     |
|---------------------------------------|---------------------|
| Governmental activities:              |                     |
| Pennsylvania Department of Education: |                     |
| State source revenues                 | \$ 8,576,674        |
| Federal source revenues               | 969,540             |
| Other school districts,               |                     |
| Local source revenues                 | <u>174,053</u>      |
| Total governmental activities         | <u>\$ 9,720,267</u> |
| Business-type activity:               |                     |
| Pennsylvania Department of Education: |                     |
| State source revenues                 | \$ 43,638           |
| Federal source revenues               | <u>803,859</u>      |
| Total business-type activity          | <u>\$ 847,497</u>   |

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### 5. Capital Assets

The changes in the District's capital assets in 2018 are summarized as follows:

|                                   | <u>Balance<br/>July 1, 2017</u> | <u>Transfers/<br/>Additions</u> | <u>Transfers/<br/>Retirements</u> | <u>Balance<br/>June 30, 2018</u> |
|-----------------------------------|---------------------------------|---------------------------------|-----------------------------------|----------------------------------|
| Governmental activities:          |                                 |                                 |                                   |                                  |
| Cost:                             |                                 |                                 |                                   |                                  |
| Land                              | \$ 680,000                      | \$ -                            | \$ -                              | \$ 680,000                       |
| Land improvements                 | 5,996,621                       | 42,129                          | -                                 | 6,038,750                        |
| Buildings and<br>improvements     | 110,613,536                     | 1,816,712                       | -                                 | 112,430,248                      |
| Furniture and equipment           | 28,666,114                      | 1,772,998                       | (231,228)                         | 30,207,884                       |
| Construction-in-progress          | 490,832                         | 3,332,606                       | (3,631,837)                       | 191,601                          |
| Total cost                        | <u>146,447,103</u>              | <u>6,964,445</u>                | <u>(3,863,065)</u>                | <u>149,548,483</u>               |
| Less accumulated<br>depreciation: |                                 |                                 |                                   |                                  |
| Land improvements                 | (4,543,302)                     | (179,726)                       | -                                 | (4,723,028)                      |
| Buildings and<br>improvements     | (62,449,789)                    | (2,460,049)                     | -                                 | (64,909,838)                     |
| Furniture and equipment           | <u>(23,875,326)</u>             | <u>(829,745)</u>                | <u>231,228</u>                    | <u>(24,473,843)</u>              |
| Total accumulated<br>depreciation | <u>(90,868,417)</u>             | <u>(3,469,520)</u>              | <u>231,228</u>                    | <u>(94,106,709)</u>              |
| Total                             | <u>\$ 55,578,686</u>            | <u>\$ 3,494,925</u>             | <u>\$ (3,631,837)</u>             | <u>\$ 55,441,774</u>             |
| Business-type activity:           |                                 |                                 |                                   |                                  |
| Furniture and equipment           | \$ 1,248,654                    | \$ 401,753                      | \$ -                              | \$ 1,650,407                     |
| Less accumulated<br>depreciation  | <u>(848,444)</u>                | <u>(91,238)</u>                 | <u>-</u>                          | <u>(939,682)</u>                 |
| Total                             | <u>\$ 400,210</u>               | <u>\$ 310,515</u>               | <u>\$ -</u>                       | <u>\$ 710,725</u>                |

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### 6. Bonds and Notes Payable

The following summarizes the changes in the District's bonds and note payable in 2018:

|  | <u>Interest<br/>Rate</u> | <u>Current<br/>Portion</u> | <u>Balance<br/>July 1,<br/>2017</u> | <u>Additions</u> | <u>Retirements</u>    | <u>Balance<br/>June 30,<br/>2018</u> |
|--|--------------------------|----------------------------|-------------------------------------|------------------|-----------------------|--------------------------------------|
| Series of 2010,<br>matures March<br>1, 2026          | 5.00%                    | \$ 339,333                 | \$ 3,053,998                        | \$ -             | \$ (339,333)          | \$ 2,714,665                         |
| Series A of 2011,<br>matures<br>September 1,<br>2025 | 5.09%                    | 26,857                     | 241,715                             | -                | (26,857)              | 214,858                              |
| Series of 2012,<br>matures<br>February 15,<br>2024   | 1.75% -<br>2.10%         | 80,000                     | 4,360,000                           | -                | (5,000)               | 4,355,000                            |
| Series of 2014,<br>matures<br>May 1, 2024            | 2.12%                    | 1,000                      | 1,875,000                           | -                | (1,000)               | 1,874,000                            |
| Series of 2015,<br>matures May 1,<br>2024            | 1.25% -<br>5.00%         | <u>2,925,000</u>           | <u>14,275,000</u>                   | <u>-</u>         | <u>(2,910,000)</u>    | <u>11,365,000</u>                    |
| Total  |                          | <u>\$ 3,372,190</u>        | 23,805,713                          | -                | (3,282,190)           | 20,523,523                           |
| Bond and note<br>premiums                            |                          |                            | <u>1,160,020</u>                    | <u>-</u>         | <u>(170,458)</u>      | <u>(170,458)</u>                     |
| Total  |                          |                            | <u>\$ 24,965,733</u>                | <u>\$ -</u>      | <u>\$ (3,452,648)</u> | <u>\$ 20,353,065</u>                 |

Total interest paid on these bonds and notes in 2018 was \$916,543. No interest was capitalized in 2018. No interest is reported as a direct expense in the statement of activities.

The District issued the Series of 2010 and Series A of 2011 general obligation notes to the state Public School Building Authority to participate in the Authority's qualified school construction bond program. Under the program, the Authority issued qualified school construction bonds and loaned a portion of the proceeds to the District as secured by the general obligation notes. Interest on these notes is subsidized by the federal government. The District's subsidy rate for 2018 was 90.01% on the Series of 2010 and 93.25% on the Series A of 2011. In 2018, the District received \$247,092 in interest subsidies which is included in federal source revenues.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2018

The following summarizes the District's scheduled future debt service on its bonds and notes payable as of June 30, 2018:

|                       | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|-----------------------|----------------------|---------------------|----------------------|
| Years ending June 30: |                      |                     |                      |
| 2019                  | \$ 3,372,190         | \$ 800,035          | \$ 4,172,225         |
| 2020                  | 3,442,190            | 750,088             | 4,192,278            |
| 2021                  | 3,570,191            | 637,587             | 4,207,778            |
| 2022                  | 3,048,190            | 490,422             | 3,538,612            |
| 2023                  | 3,141,190            | 416,170             | 3,557,360            |
| 2024-2027             | <u>3,949,572</u>     | <u>900,042</u>      | <u>4,849,614</u>     |
| Total                 | <u>\$ 20,523,523</u> | <u>\$ 3,994,344</u> | <u>\$ 24,517,867</u> |

### 7. Authority Lease Obligations

The District's portion of authority bonds is allocated based on the annual usage of the facility, as required by lease agreements. The agreements provide that, if the individual authorities retire all of the bonds issued to finance school facilities or accumulate sufficient reserves to retire the bonds, the subsequently scheduled rental payments need not be made. Since annual rentals include reserve funds that are either invested by the authorities or used for advance retirement of obligations, it is anticipated that less than the presently scheduled rentals will eventually be paid. At June 30, 2018, the District's authority lease obligations consisted of the following:

|   | <u>Balance<br/>July 1, 2017</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Balance<br/>June 30, 2018</u> |
|---|---------------------------------|------------------|---------------------|----------------------------------|
| Delaware County<br>Community<br>College | <u>\$ 2,470,192</u>             | <u>\$ -</u>      | <u>\$ (177,035)</u> | <u>\$ 2,293,157</u>              |

Interest expense on authority lease obligations was \$95,198 in 2018.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2018

The aggregate maturities of authority lease obligations are as follows:

|                                   |                     |
|-----------------------------------|---------------------|
| Years ending June 30:             |                     |
| 2019                              | \$ 216,282          |
| 2020                              | 215,994             |
| 2021                              | 215,656             |
| 2022                              | 208,022             |
| 2023                              | 200,667             |
| 2024-2028                         | 926,728             |
| 2029-2033                         | 926,838             |
| 2034-2036                         | <u>129,657</u>      |
| Total lease payments              | 3,039,844           |
| Less amount representing interest | <u>(746,687)</u>    |
| Total authority lease obligations | <u>\$ 2,293,157</u> |

## 8. Leases

### Capital Lease Obligations

The District leases certain equipment under the terms of lease agreements that have been classified as capital leases. The following summarizes the changes in capital lease obligations in 2018:

|                        |                     |
|------------------------|---------------------|
| Balance, July 1, 2017  | \$ 3,642,832        |
| Additions              | 1,800,223           |
| Payments               | <u>(1,825,745)</u>  |
| Balance, June 30, 2018 | <u>\$ 3,617,310</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, 2018:

|   |                     |
|---|---------------------|
| Years ending June 30:                       |                     |
| 2019  | \$ 1,513,107        |
| 2020  | 1,110,973           |
| 2021  | 741,456             |
| 2022  | <u>373,274</u>      |
| Total minimum lease payments                | 3,738,810           |
| Less amount representing interest           | <u>(121,500)</u>    |
| Present value of net minimum lease payments | <u>\$ 3,617,310</u> |

Interest expense on capital leases was \$37,278 in in 2018.

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### Operating Leases

The District leases buildings for use as elementary schools and a recreation center. These leases have been accounted for as operating leases. Rent expense under these leases was \$538,382 in 2018. Future minimum payments under these leases are as follows:

|                              |    |                  |
|------------------------------|----|------------------|
| Years ending June 30:        |    |                  |
| 2019                         | \$ | 520,585          |
| 2020                         |    | 520,585          |
| 2021                         |    | 282,631          |
| 2022                         |    | 33,123           |
| 2023                         |    | 36,436           |
| Thereafter                   |    | <u>346,175</u>   |
| Total minimum lease payments | \$ | <u>1,739,535</u> |

## 9. Retirement Plan

### Plan Description

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

### Benefits Provided

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

## Upper Darby School District

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### Notes to Financial Statements

June 30, 2018

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

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

### **Member Contributions**

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

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

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

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

### **District Contributions**

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were approximately \$26,000,000 for the year ended June 30, 2018.

## Upper Darby School District

Notes to Financial Statements

June 30, 2018

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

At June 30, 2018, the District reported a liability of \$308,776,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.6252%, which was an increase from its proportion measured as of June 30, 2017 of 0.6088%.

For the year ended June 30, 2018, the District recognized pension expense of \$34,757,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Net difference between projected and actual earnings on pension plan investments                              | \$ 7,155,000                                  | \$ 1,866,000                                 |
| Changes in assumptions  | 8,388,000                                     | -  |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 25,211,000                                    | 8,766,000                                    |
| Difference between expected and actual experience   | 3,221,000                                     | -  |
| District contributions subsequent to the measurement date   | <u>26,068,655</u>                             | <u>-</u>                                     |
| Total   | <u>\$ 70,043,655</u>                          | <u>\$ 10,632,000</u>                         |

The \$26,068,655 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

|                       |                      |
|-----------------------|----------------------|
| Years ending June 30: |                      |
| 2019                  | \$ 6,858,000         |
| 2020                  | 17,760,000           |
| 2021                  | 8,233,000            |
| 2022                  | <u>492,000</u>       |
| Total                 | <u>\$ 33,343,000</u> |

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the District's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

| <b>Asset Class</b>      | <b>Target Allocation</b> | <b>Long-Term Expected Real Rate of Return</b> |
|-------------------------|--------------------------|---|
| Global public equity    | 20.0 %                   | 5.1 %   |
| Fixed income            | 36.0                     | 2.6   |
| Commodities             | 8.0                      | 3.0   |
| Absolute return         | 10.0                     | 3.4   |
| Risk parity             | 10.0                     | 3.8   |
| Infrastructure/MLPs     | 8.0                      | 4.8   |
| Real estate             | 10.0                     | 3.6   |
| Alternative investments | 15.0                     | 6.2   |
| Cash                    | 3.0                      | .6  |
| Financing (LIBOR)       | (20.0)                   | 1.1   |
|                         | <u>100.00 %</u>          |   |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

### Discount Rate

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

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

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

|   | <u>1%<br/>Decrease<br/>(6.25%)</u> | <u>Current<br/>Discount Rate<br/>(7.25%)</u> | <u>1%<br/>Increase<br/>(8.25%)</u> |
|---|------------------------------------|--|------------------------------------|
| District's proportionate share of the net pension liability | \$ 380,077,000                     | \$ 308,776,000                               | \$ 248,579,000                     |

### Pension Plan Fiduciary Net Position

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

## 10. Compensated Absences and Special Termination Benefits

### Compensated Absences

The changes in compensated absences in 2018 are summarized as follows:

|                        |                     |
|------------------------|---------------------|
| Balance, July 1, 2017  | \$ 2,778,810        |
| Increases              | 170,253             |
| Decreases              | <u>(92,142)</u>     |
| Balance, June 30, 2018 | <u>\$ 2,856,921</u> |

# Upper Darby School District

Notes to Financial Statements

June 30, 2018

## Special Termination Benefits

The District's current agreement with its administrators includes a retirement incentive provision (must be employed as an administrator prior to July 1, 2012 and must retire with a minimum ten years of service as an administrator to the District) equal to 75% of the administrator's final salary. Payments made under this provision are non-elective employer contributions to the employees' 403(b) accounts in accordance with IRS regulations. The District has recorded a liability of \$908,106 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 special termination benefits liability in 2018 were as follows:

|                              |                   |
|------------------------------|-------------------|
| Balance, July 1, 2017        | \$ 1,177,545      |
| Increases                    | 57,901            |
| Payments and other decreases | <u>(327,340)</u>  |
| Balance, June 30, 2018       | <u>\$ 908,106</u> |

## 11. Other Postemployment Benefits ("OPEB")

### District OPEB Plan

#### Plan Description and Benefits

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

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

## Upper Darby School District

Notes to Financial Statements

June 30, 2018

### Employees Covered by District Plan

At July 1, 2016, the following employees were covered by the District Plan:

|   |                     |
|---|---------------------|
| Active employees  | 1,557               |
| Inactive employees entitled to but not yet receiving benefit payments | -                   |
| Inactive employees currently receiving benefit payments               | <u>345</u>          |
| Total   | <u><u>1,902</u></u> |

### District Plan Total OPEB Liability

The District Plan's total OPEB liability of \$11,937,740 was measured as of July 1, 2017, as rolled forward from an actuarial valuation as of July 1, 2016.

### District Plan Actuarial Assumptions

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

- Discount rate – 3.13% based on the S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017
- Salary increases – 2.50% cost of living adjustment, 1.00% real wage growth, and for teachers and administrators, a merit increase which varies by age from 2.75% to 0%
- Mortality rates – separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation (Note 9). Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement
- Healthcare cost trend rates - 6.00% in 2017, and 5.50% in 2018 through 2023. Rates gradually decrease from 5.40% in 2024 to 3.90% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model

### Changes in the District Plan Total OPEB Liability

|                          |                             |
|--------------------------|-----------------------------|
| Balance at July 1, 2017  | \$ 10,837,134               |
| Service cost             | 810,359                     |
| Interest                 | 284,515                     |
| Changes in assumptions   | 414,032                     |
| Benefit payments         | <u>(408,300)</u>            |
| Balance at June 30, 2018 | <u><u>\$ 11,937,740</u></u> |

Changes in assumptions includes a change in the discount rate from 2.49% to 3.13% as well as assumptions for salary, mortality, withdrawal and retirement based on new PSERS assumptions.

## Upper Darby School District

Notes to Financial Statements

June 30, 2018

### Sensitivity to Changes in the Discount Rate

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

|                                    | <u>1%<br/>Decrease<br/>(2.13%)</u> | <u>Discount Rate<br/>(3.13%)</u> | <u>1%<br/>Increase<br/>(4.13%)</u> |
|------------------------------------|------------------------------------|----------------------------------|------------------------------------|
| Total District Plan OPEB Liability | \$ 12,930,507                      | \$ 11,937,740                    | \$ 11,015,346                      |

### Sensitivity to Changes in the Healthcare Cost Trend Rates

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

|                                    | <u>1%<br/>Decrease</u> | <u>Healthcare Cost<br/>Trend Rates</u> | <u>1%<br/>Increase</u> |
|------------------------------------|------------------------|--|------------------------|
| Total District Plan OPEB Liability | \$ 10,489,186          | \$ 11,937,740                          | \$ 13,695,550          |

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$625,021 for the District Plan. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the District Plan from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| District contributions subsequent to the measurement date | \$ 510,088                                    | \$ -   |
| Changes in assumptions                                    | 379,529                                       | -  |
| Total   | <u>\$ 889,617</u>                             | <u>\$ -</u>                                  |

The \$510,088 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the District Plan's total OPEB liability in the year ended June 30, 2019.

\$34,503 of the changes in assumption amount of \$379,529 will be recognized in OPEB expense each year for the period from 2019 through 2029.

# Upper Darby School District

Notes to Financial Statements

June 30, 2018

## PSERS Plan

### Plan Description and Benefits

PSERS provides premium assistance through a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program ("HOP"). As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

### Premium Assistance Eligibility Criteria

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

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

### District Contributions

The District's contractually required contribution rate for the year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were approximately \$691,000 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$12,738,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the District's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was .6252%, which was an increase of .0164% from its proportion measured as of June 30, 2017.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2018

For the year ended June 30, 2018, the District recognized OPEB expense of \$595,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Changes in assumptions   | \$ -  | \$ 593,000                                   |
| Net differences between projected and actual investment earnings | 13,000  | -  |
| Changes in proportion  | 303,000                                       |  |
| District contributions subsequent to the measurement date        | <u>691,000</u>                                | <u>-</u>                                     |
| Total  | <u>\$ 1,007,000</u>                           | <u>\$ 593,000</u>                            |

The \$691,000 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the PSERS Plan's total OPEB liability in the year ended June 30, 2019.

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

|                       |                     |
|-----------------------|---------------------|
| Years ending June 30: |                     |
| 2019                  | \$ (46,000)         |
| 2020                  | (45,000)            |
| 2021                  | (45,000)            |
| 2022                  | (45,000)            |
| 2023                  | (48,000)            |
| Thereafter            | <u>(48,000)</u>     |
| Total                 | <u>\$ (277,000)</u> |

### Actuarial Assumptions

The PSERS total OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Premium assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year

# Upper Darby School District

## Notes to Financial Statements

June 30, 2018

- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Participation rate:
  - Eligible retirees will elect to participate pre age 65 at 50%
  - Eligible retirees will elect to participate post age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017
- Cost method: Amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date
- Asset valuation method: Market value
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits).

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

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

| OPEB - Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------|-------------------|--|
| Cash               | 76.4 %            | 0.6 %                                  |
| Fixed income       | 23.6 %            | 1.5 %                                  |
|                    | <u>100.0 %</u>    |  |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

## Upper Darby School District

### Notes to Financial Statements

June 30, 2018

#### Discount Rate

The discount rate used to measure the PSERS Plan's total OPEB liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of premium assistance. The funding policy sets contribution rates necessary to assure solvency of premium assistance through the third fiscal year after the actuarial valuation date. The premium assistance account is funded to establish reserves that are sufficient for the payment of premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

#### Sensitivity to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual premium assistance. As of June 30, 2017, retirees premium assistance benefits are not subject to future healthcare cost increases. The annual premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents PSERS' net OPEB liability for June 30, 2017 calculated using current healthcare cost trends as well as what PSERS' net OPEB liability would be if its health cost trends were 1% lower or higher than the current rate:

|                          | <u>1% Decrease</u> | <u>Healthcare<br/>Trends Cost</u> | <u>1% Increase</u> |
|--------------------------|--------------------|-----------------------------------|--------------------|
| PSERS net OPEB Liability | \$ 12,735,000      | \$ 12,738,000                     | \$ 12,741,000      |

#### Sensitivity to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

|  | <u>1% Decrease<br/>(2.13%)</u> | <u>Discount Rate<br/>(3.13%)</u> | <u>1% Increase<br/>(4.13%)</u> |
|--|--------------------------------|----------------------------------|--------------------------------|
| District's proportionate share of<br>the PSERS net OPEB<br>liability | \$ 14,480,000                  | \$ 12,738,000                    | \$ 11,291,000                  |

#### OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS' website at [www.psers.pa.gov](http://www.psers.pa.gov).

## Upper Darby School District

Notes to Financial Statements

June 30, 2018

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

At June 30, 2018, \$931,999 was due to the General Fund from the Food Service Fund representing reimbursement of maintenance, utility, operative and administrative salaries and benefits and \$52,782 from the Capital Reserve Fund representing reimbursement for architect/engineering costs for projects covered under the 2018 bond issue. These balances were paid in the subsequent year.

Additionally, \$1,000,000 was due from the General Fund to the Capital Reserve Fund at June 30, 2018. The amount due represents a transfer of funds for future capital expenditures. This balance was paid in the subsequent year.

The following summarizes all interfund transfers in 2018:

|                       | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------|---------------------|----------------------|
| General Fund:         |                     |                      |
| Capital Reserve Fund  | \$ -                | \$ 1,000,000         |
| Food Service Fund     | 931,999             | -                    |
| Food Service Fund,    |                     |                      |
| General Fund          | -                   | 931,999              |
| Capital Reserve Fund, |                     |                      |
| General Fund          | 1,000,000           | -                    |
|                       | <u>1,000,000</u>    | <u>-</u>             |
| Total                 | <u>\$ 1,931,999</u> | <u>\$ 1,931,999</u>  |

### 13. Contingencies

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

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

### 14. Pending Accounting Pronouncements

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

## Upper Darby School District

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### Notes to Financial Statements

June 30, 2018

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

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District is required to adopt Statement No. 88 for its 2019 financial statements.

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

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

### **15. Subsequent Event**

In July 2018, the District issued \$5,000,000 of general obligation bonds to fund various capital projects. The bonds are due in varying installments plus interest at rates ranging from 1.65% to 3.00% with final maturity in 2027.

## Upper Darby School District

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

Years Ended June 30

(unaudited)

(dollars in thousands)

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

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

## Upper Darby School District

### Schedule of District PSERS Pension Contributions

Years Ended June 30

(unaudited)

(dollars in thousands)

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

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

## Upper Darby School District

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

Years Ended June 30

(Unaudited)

(dollars in thousands)

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

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

## Upper Darby School District

### Schedule of District PSERS OPEB Contributions

Years Ended June 30

(Unaudited)

(dollars in thousands)

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

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

## Upper Darby School District

### Schedule of Changes in Total OPEB Liability for District Plan

Year Ended June 30, 2018

(Unaudited)

|                                 |                             |
|---------------------------------|-----------------------------|
| Service cost                    | \$ 810,359                  |
| Interest cost                   | 284,515                     |
| Changes of assumptions          | 414,032                     |
| Benefit payments                | <u>(408,300)</u>            |
| Net change                      | 1,100,606                   |
| Total OPEB liability, beginning | <u>10,837,134</u>           |
| Total OPEB liability, ending    | <u><u>\$ 11,937,740</u></u> |

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

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

**Upper Darby School District**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title       | Pass                |                        | Program or Award Amount | Total                 |                                 | Accrued                            |                     | Accrued or           |                                     |
|---|---------------------|------------------------|-------------------------|-----------------------|---------------------------------|------------------------------------|---------------------|----------------------|-------------------------------------|
|   | Federal CFDA Number | Through Grantor Number |                         | Received for the Year | Passed Through to Subrecipients | (Deferred) Revenue at July 1, 2017 | Revenues Recognized | Federal Expenditures | (Deferred) Revenue at June 30, 2018 |
| <b>U. S. DEPARTMENT OF EDUCATION</b>                                |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| <b>Passed through Pennsylvania Department of Education:</b>         |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| Title I Grants to Local Educational Agencies                        | 84.010              | 013-170448             | \$ 4,174,298            | \$ 1,068,902          | \$ -                            | \$ 654,350                         | \$ 414,552          | \$ 414,552           | \$ -                                |
| Title I Grants to Local Educational Agencies                        | 84.010              | 013-180448             | 4,193,531               | 3,015,048             | -                               | -                                  | 3,645,192           | 3,645,192            | 630,144                             |
| Title I Grants to Local Educational Agencies                        | 84.010              | 042-160448             | 169,662                 | 62,507                | -                               | 42,855                             | 19,652              | 19,652               | -                                   |
| Title I Grants to Local Educational Agencies                        | 84.010              | 042-170448             | 160,300                 | -                     | -                               | -                                  | 154,650             | 154,650              | 154,650                             |
| Total Title I Grants to Local Educational Agencies                  |                     |                        |                         | 4,146,457             | -                               | 697,205                            | 4,234,046           | 4,234,046            | 784,794                             |
| English Language Acquisition State Grants                           | 84.365              | 010-170448             | 276,104                 | 128,849               | -                               | 15,526                             | 113,323             | 113,323              | -                                   |
| English Language Acquisition State Grants                           | 84.365              | 010-180448             | 211,296                 | 105,648               | -                               | -                                  | 167,098             | 167,098              | 61,450                              |
| Total English Language Acquisition State Grants                     |                     |                        |                         | 234,497               | -                               | 15,526                             | 280,421             | 280,421              | 61,450                              |
| Improving Teacher Quality State Grants                              | 84.367              | 020-170448             | 437,385                 | 86,080                | -                               | 86,060                             | 20                  | 20                   | -                                   |
| Improving Teacher Quality State Grants                              | 84.367              | 020-180448             | 602,990                 | 432,818               | -                               | -                                  | 444,309             | 444,309              | 11,491                              |
| Total Supporting Effective Instruction State Grant                  |                     |                        |                         | 518,898               | -                               | 86,060                             | 444,329             | 444,329              | 11,491                              |
| School Improvement Grants   | 84.377              | 0142-160448            | 121,916                 | 24,383                | -                               | 5,841                              | 34,798              | 34,798               | 16,256                              |
| School Improvement Grants   | 84.377              | 0142-170448            | 121,916                 | 56,894                | -                               | -                                  | 93,823              | 93,823               | 36,929                              |
| Total School Improvement Grants                                     |                     |                        |                         | 81,277                | -                               | 5,841                              | 128,621             | 128,621              | 53,185                              |
| Student Support and Academic Enrichment Program                     | 84.424              | 0144-180448            | 95,216                  | 95,216                | -                               | -                                  | 79,382              | 79,382               | (15,834)                            |
| <b>Special Education Cluster</b>                                    |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| <b>Passed through Delaware County Intermediate Unit:</b>            |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| Special Education Grants to States                                  | 84.027              | H027A110093            | 1,966,255               | 1,966,255             | -                               | -                                  | 1,966,255           | 1,966,255            | -                                   |
| Special Education - Preschool Grants                                | 84.173              | H39211009              | 10,199                  | 10,199                | -                               | -                                  | 10,199              | 10,199               | -                                   |
| <b>Passed through PaTTAN Intermediate Unit 1:</b>                   |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| Special Education Grants to States                                  | 84.027              | 062-17-0-0032          | 11,955                  | 15,612                | -                               | 9,733                              | 11,495              | 11,495               | 5,616                               |
| Total Special Education Cluster                                     |                     |                        |                         | 1,992,066             | -                               | 9,733                              | 1,987,949           | 1,987,949            | 5,616                               |
| <b>Total U.S. Department of Education</b>                           |                     |                        |                         | 7,068,411             | -                               | 814,365                            | 7,154,748           | 7,154,748            | 900,702                             |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                               |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| <b>Child Nutrition Cluster</b>                                      |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| <b>Passed through Pennsylvania Department of Education:</b>         |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| School Breakfast Program  | 10.553              | 365                    | 2,158,333               | 2,132,192             | -                               | 292,393                            | 2,158,333           | 2,158,333            | 318,534                             |
| National School Lunch Program                                       | 10.555              | 362                    | 3,229,738               | 3,209,254             | -                               | 464,841                            | 3,229,738           | 3,229,738            | 485,325                             |
| <b>Passed through Pennsylvania Department of Agriculture:</b>       |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| Food Donation   | 10.555              | N/A                    | 337,036                 | 337,036               | -                               | -                                  | 337,036             | 337,036              | -                                   |
| <b>Total Child Nutrition Cluster/U.S. Department of Agriculture</b> |                     |                        |                         | 5,678,482             | -                               | 757,234                            | 5,725,107           | 5,725,107            | 803,859                             |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                 |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| <b>Passed through Pennsylvania Department of Public Welfare:</b>    |                     |                        |                         |                       |                                 |                                    |                     |                      |                                     |
| Medical Assistance Program  | 93.778              | 044-007448             | 113,214                 | 94,901                | -                               | 50,525                             | 113,214             | 113,214              | 68,838                              |
| <b>TOTAL</b>  |                     |                        |                         | \$ 12,841,794         | \$ -                            | \$ 1,622,124                       | \$ 12,993,069       | \$ 12,993,069        | \$ 1,773,399                        |

# Upper Darby School District

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## Notes to the Schedule of Expenditures of Federal Awards

June 30, 2018

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Upper Darby School District (the "District") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

### 2. Summary of Significant Accounting Policies

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

### 3. Indirect Cost Rate

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

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

Board of School Directors  
Upper Darby School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Upper Darby School District (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 4, 2018. In our report, an emphasis of a matter paragraph was included, as more fully discussed in Note 1 to the financial statements, to address the District's adoption of a new accounting principle. Our opinion was not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
December 4, 2018

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

Board of School Directors  
Upper Darby School District

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

We have audited Upper Darby School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

## Opinion on the Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

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

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

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

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

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
December 4, 2018

# Upper Darby School District

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018

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## Section I - Summary of Auditors' Results

### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_\_\_ yes     X  no

### Federal Awards

Internal control over major federal program:

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

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

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

Identification of major federal program:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  X  yes    \_\_\_\_\_ no

## Section II - Financial Statement Findings

None.

## Section III - Federal Award Findings and Questioned Costs

None.