

PENN-DELCO SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2016



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INTRODUCTORY SECTION

PENN-DELCO SCHOOL DISTRICT

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PENN-DELCO SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
Penn-Delco School District
Aston, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Penn-Delco School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Penn-Delco School 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 activities, each major fund and the aggregate remaining fund information of the Penn-Delco School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of School Directors
Penn-Delco School District
Aston, Pennsylvania

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, budgetary comparison information on pages 48 and 49, postemployment benefits other than pension funding progress on page 52, schedule of the school district's proportionate share of net pension liability on page 50, schedule of the school district's contributions on page 51 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 Penn-Delco School District's basic financial statements. The schedule of expenditures of federal and certain state awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards, are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal and certain state awards 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 and certain state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of the Penn-Delco School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Penn-Delco School District's internal control over financial reporting and compliance.



Oaks, Pennsylvania
November 16, 2016

FINANCIAL SECTION

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

The discussion and analysis of Penn-Delco School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the financial statements and financial statements.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, presented in the MD&A.

SCHOOL DISTRICT HIGHLIGHTS

The Penn-Delco School District consists of six schools--four elementary, one middle and a secondary school--consisting of approximately 3,400 students. The Penn-Delco School District is located in Southeastern Pennsylvania approximately 15 miles southwest of Philadelphia. The School District encompasses Brookhaven and Parkside Boroughs and Aston Township. The School District employs approximately 470 full-time and 45 part-time employees.

FINANCIAL HIGHLIGHTS

The trends of the prior year indicated that during fiscal year 2014- 2015 the Penn-Delco School District would experience another year of increasing costs for salaries and benefits for our employees, with the most significant being attributed to the District's healthcare contribution and increased obligation to the retirement system. In the budgeting process, the Board of School Directors was able to balance the budget with a 2.2% tax increase to the taxpayers of the Penn-Delco School District.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

Government-Wide Financial Statements

The first two statements are government-wide financial statements--the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net Position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- **Governmental Activities:** All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies and grants finance most of these activities.
- **Business-Type Activities:** The District runs a food service operation and charges fees to staff and students to cover the costs of the food service operations.

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The Governmental Funds statements tell how the District's general services were financed in the short-term as well as what remains for future spending. Proprietary Fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary Fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others.

The School District has three kinds of funds:

- **Governmental Funds** - Most of the District's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental Funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the District's operations and the services it provides. Governmental Fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds is reconciled in the financial statements.
- **Proprietary Fund** - This fund is used to account for District activities that are similar to business operations in the private sector, or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides--whether to outside customers or to other units in the District--these services are generally reported in the Proprietary Fund. The Food Service Fund is the District's Proprietary Fund and is the same as the business-type activities we report in the government-wide statements.

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

- **Fiduciary Fund** - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

Revenues of the School District come from two major program sources. These sources include charges for services (\$1.22 million) and operating and capital grants and contributions from local, state and federal sources (\$8.2 million). In addition to program sources, the general revenues of the School District include local taxes (\$39.6 million), state grants and subsidies for general operations (\$6.6 million) and miscellaneous local income and investments earnings (\$166 thousand).

The following table presents condensed financial information for the net position of the District as of June 30, 2016.

Schedules of Net Position (In Millions of Dollars)						
Years Ended June 30, 2015 and 2016						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
ASSETS						
Current assets	\$ 29.88	\$ 26.13	\$ 0.21	\$ 0.27	\$ 30.09	\$ 26.40
Capital assets, net	100.20	100.00	0.03	0.02	100.23	100.02
TOTAL ASSETS	<u>130.08</u>	<u>126.13</u>	<u>0.24</u>	<u>0.29</u>	<u>130.32</u>	<u>126.42</u>
DEFERRED OUTFLOWS OF RESOURCES						
	6.04	7.45	-	-	6.04	7.45
LIABILITIES						
Long-term liabilities	156.10	160.69	-	-	156.10	160.69
Other liabilities	4.80	4.46	0.27	0.32	5.07	4.78
TOTAL LIABILITIES	<u>160.90</u>	<u>165.15</u>	<u>0.27</u>	<u>0.32</u>	<u>161.17</u>	<u>165.47</u>
DEFERRED INFLOWS OR RESOURCES						
	5.22	0.49	-	-	5.22	0.49
NET POSITION						
Net investment in capital assets	24.10	24.44	0.03	0.02	24.13	24.46
Unrestricted	(54.10)	(56.50)	(0.06)	(0.05)	(54.16)	(56.55)
TOTAL NET POSITION	<u>\$ (30.00)</u>	<u>\$ (32.06)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (30.03)</u>	<u>\$ (32.09)</u>

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

The following table presents condensed financial information for the Statement of Activities in a different format so that you can see our total revenues for the year.

Changes in Net Position (In Millions of Dollars)						
Years Ended June 30, 2015 and 2016						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
REVENUES						
Program revenues	\$ 7.99	\$ 8.06	\$ 1.35	\$ 1.33	\$ 9.34	\$ 9.39
General revenues	45.20	46.32	-	-	45.20	46.32
TOTAL REVENUES	53.19	54.38	1.35	1.33	54.54	55.71
EXPENSES	54.96	56.44	1.29	1.33	56.25	57.77
CHANGE IN NET POSITION	\$ (1.77)	\$ (2.06)	\$ 0.06	\$ -	\$ (1.71)	\$ (2.06)

Governmental Activities

Governmental activities consist of the General Fund, the Capital Reserve Fund and the Capital Projects Fund. Revenues for the governmental activities include property taxes, grants and entitlements, investment earnings, personal income tax, rental income, charges for services and other miscellaneous items. Expenditures are classified as instruction, support services, operation of non-instructional services and debt service. Total revenues for governmental activities were \$54.4 million, and total expenditures were \$56.0 million.

Business-Type Activities

Business-type activities include the food service program. This program has revenues of \$1.33 million and expenses of approximately \$1.33 million. The program is designed to operate at or near break-even point so that the cost for the services offered will benefit the School District residents.

The Food Service program provided over 200,000 lunches last year. Food Service receives both federal and state subsidies for milk, lunch and breakfast programs and also receives some government commodities on a routine basis.

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
YEAR ENDED JUNE 30, 2016

THE DISTRICT FUNDS

General Fund

At June 30, 2016, the District reported a fund balance of \$20.3 million of which \$15.1 million is in the General Fund, \$2.9 million is in the Capital Reserve Fund and \$2.2 million is in the Capital Projects Fund. The Capital Projects Fund had a decrease of \$2.2 million dollars as the final payments were made for both the Coebourn Elementary and Northley Middle School projects.

Revenue - Revenues totaled \$54,416,564 for the 2015-2016 year. The following table reflects sources of revenue.

	<u>Amount Received</u>
Local revenues	\$ 40,042,180
State sources	13,533,614
Federal sources	<u>840,770</u>
	<u>\$ 54,416,564</u>

The District balanced its budget with funds from three sources: the Taxpayers of Aston, Brookhaven and Parkside, the State of Pennsylvania and the Federal Government. For the Taxpayers of Aston, Brookhaven and Parkside, the millage rate increased from 25.907 mills to 26.476 mills in 2015-2016. State gaming revenue was available again this year in the amount of 1.4 million dollars which equals the homestead tax credit applied to eligible properties.

General Fund Budget - During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. Those adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on page 48 of this report.

The District applies for federal, state and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted revenues are adjusted to reflect actual revenues received for all approved grants.

Budgeted expenditures are also adjusted to reflect the actual expenditures made for all approved grants. Transfers between specific categories of expenditures/financing uses occur during the year.

The Budgetary Reserve includes amounts that will be funded for operating contingencies such as unpredictable change in the cost of goods and services and the occurrence of events which are vaguely perceptible during the time of the budget process, but which nonetheless may require expenditures by the District during the year of operation.

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

CAPITAL ASSETS

At June 30, 2016, the District had \$100,024,483 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$205,151 or .20% from last year.

The following schedule shows the investment in capital assets and the corresponding amount of accumulated depreciation.

Schedules of Capital Assets and Accumulated Depreciation						
As of June 30, 2015 and 2016						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
CAPITAL ASSETS						
Land and site improvements	\$ 948,970	\$ 948,970	\$ -	\$ -	\$ 948,970	\$ 948,970
Buildings and building improvements	104,613,329	129,527,149	-	-	104,613,329	129,527,149
Furniture and equipment	11,185,086	11,219,098	638,944	581,065	11,824,030	11,800,163
Construction in progress	23,903,969	1,791,632	-	-	23,903,969	1,791,632
TOTAL CAPITAL ASSETS	140,651,354	143,486,849	638,944	581,065	141,290,298	144,067,914
Accumulated depreciation	(40,449,319)	(43,486,308)	(611,345)	(557,123)	(41,060,664)	(44,043,431)
CAPITAL ASSETS, net	\$ 100,202,035	\$ 100,000,541	\$ 27,599	\$ 23,942	\$ 100,229,634	\$ 100,024,483

DEBT ADMINISTRATION

Debt Service Schedule			
June 30, 2016			
	Principal Outstanding July 1, 2015	Additions (Payments)	Principal Outstanding June 30, 2016
GENERAL OBLIGATION BONDS			
Series A of 2002	\$ 105,000	\$ (105,000)	\$ -
Series A of 2004	20,000	(5,000)	15,000
Series A of 2009	1,635,000	(680,000)	955,000
Series B of 2009	2,475,000	(2,475,000)	-
Series of 2010	15,080,000	(15,080,000)	-
Series of 2011	7,880,000	(5,000)	7,875,000
Series of 2012	4,510,000	(335,000)	4,175,000
Series of 2013	24,445,000	(5,000)	24,440,000
Series of 2013A	23,155,000	(5,000)	23,150,000
Series of 2015	-	6,445,000	6,445,000
Series of 2015A	-	8,595,000	8,595,000
	\$ 79,305,000	\$ (3,655,000)	\$ 75,650,000

PENN-DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Other obligations include accrued vacation pay and severance for specific employees of the District. More detailed information about our long-term liabilities is included in the Notes to the Basic Financial Statements.

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

The government of the Commonwealth of Pennsylvania has changed the way that school taxes are levied on taxpayers through legislation titled Act 1 that was passed on June 27, 2006. However, real estate taxes will continue to be the main source of revenue for the School District, and it is anticipated that gaming revenue will continue to be an offset to property taxes.

The financial markets and the U.S. economy continue to impact the revenue side of the financials. Interest rates remain low and property values have not recovered, although the district has begun to see an increase in home sales resulting in an increase in transfer tax revenue for the 2015-2016 fiscal year. Additionally, the Board of School Directors approved refunding the 2010 General Obligation Bonds for a 300,000 saving.

The Penn-Delco School Board, administration and staff are strongly committed to continue providing a high quality education and sound financial management.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, creditors and any other stakeholder with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office.

PENN-DELCO SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 20,118,637	\$ 200,422	\$ 20,319,059
Taxes receivable, net	1,097,183	-	1,097,183
Due from other governments	2,458,538	48,531	2,507,069
Other receivables, net	2,408,551	13,891	2,422,442
Inventories	50,680	5,438	56,118
Capital assets			
Land and site improvements	948,970	-	948,970
Buildings and building improvements	129,527,149	-	129,527,149
Furniture and equipment	11,219,098	581,065	11,800,163
Construction in progress	1,791,632	-	1,791,632
Accumulated depreciation	(43,486,308)	(557,123)	(44,043,431)
TOTAL ASSETS	126,134,130	292,224	126,426,354
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	130,675	-	130,675
Deferred outflows of resources, pension activity	7,322,000	-	7,322,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,452,675	-	7,452,675
LIABILITIES			
Accounts payable	1,227,124	204,126	1,431,250
Accrued salaries and benefits	2,909,612	-	2,909,612
Accrued interest	434,105	-	434,105
Internal balances	(113,482)	113,482	-
Unearned revenue	1,341	-	1,341
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	3,905,000	-	3,905,000
Bond premium, net of discount	193,412	-	193,412
Compensated absences	98,105	-	98,105
Portion due or payable after one year			
Bonds payable	71,745,000	-	71,745,000
Bond premium, net of discount	2,244,813	-	2,244,813
Compensated absences	882,945	-	882,945
Net pension liability	80,393,000	-	80,393,000
Net OPEB obligation	1,231,169	-	1,231,169
TOTAL LIABILITIES	165,152,144	317,608	165,469,752
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	495,000	-	495,000
NET POSITION			
Net investment in capital assets	24,439,370	23,942	24,463,312
Unrestricted	(56,499,709)	(49,326)	(56,549,035)
TOTAL NET POSITION	\$ (32,060,339)	\$ (25,384)	\$ (32,085,723)

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	\$ 23,439,348	\$ 17,375	\$ 1,999,883	\$ -
Special programs	9,257,922	-	3,619,351	-
Vocational education	386,720	25,144	-	-
Other instructional programs	129,689	11,094	6,230	-
Support services				
Pupil personnel services	1,956,879	-	171,809	-
Instructional staff services	1,943,163	1,489	170,695	-
Administration services	4,200,354	-	329,046	-
Pupil health services	791,129	-	144,416	-
Business services	1,280,002	-	78,498	-
Operation and maintenance of plant services	4,451,484	112,861	925,289	-
Student transportation services	3,030,249	-	242,563	-
Central services	1,664,210	-	105,026	-
Other services	34,103	-	-	-
Operation of non-instructional services				
Student activities	939,292	28,283	62,696	-
Community services	201,769	-	6,282	-
Interest on long-term debt	2,734,180	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	56,440,493	196,246	7,861,784	-
BUSINESS-TYPE ACTIVITIES				
Food service	1,328,246	1,024,798	305,073	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 57,768,739	\$ 1,221,044	\$ 8,166,857	\$ -

GENERAL REVENUES

Taxes

Property taxes, levied for general purposes

Public utility taxes

Earned income taxes

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (21,422,090)	\$ -	\$ (21,422,090)
(5,638,571)	-	(5,638,571)
(361,576)	-	(361,576)
(112,365)	-	(112,365)
(1,785,070)	-	(1,785,070)
(1,770,979)	-	(1,770,979)
(3,871,308)	-	(3,871,308)
(646,713)	-	(646,713)
(1,201,504)	-	(1,201,504)
(3,413,334)	-	(3,413,334)
(2,787,686)	-	(2,787,686)
(1,559,184)	-	(1,559,184)
(34,103)	-	(34,103)
(848,313)	-	(848,313)
(195,487)	-	(195,487)
(2,734,180)	-	(2,734,180)
(48,382,463)	-	(48,382,463)
-	1,625	1,625
(48,382,463)	1,625	(48,380,838)
36,569,736	-	36,569,736
42,135	-	42,135
2,980,302	-	2,980,302
6,558,620	-	6,558,620
89,350	456	89,806
76,850	-	76,850
46,316,993	456	46,317,449
(2,065,470)	2,081	(2,063,389)
(29,994,869)	(27,465)	(30,022,334)
\$ (32,060,339)	\$ (25,384)	\$ (32,085,723)

PENN-DELCO SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 14,815,880	\$ 2,906,378	\$ 2,396,379	\$ 20,118,637
Taxes receivable, net	1,097,183	-	-	1,097,183
Due from other funds	208,422	16,400	31,320	256,142
Due from other governments	2,458,538	-	-	2,458,538
Other receivables	2,361,682	-	62,165	2,423,847
Inventories	50,680	-	-	50,680
TOTAL ASSETS	\$ <u>20,992,385</u>	\$ <u>2,922,778</u>	\$ <u>2,489,864</u>	\$ <u>26,405,027</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 994,058	\$ 8,204	\$ 224,862	\$ 1,227,124
Due to other funds	145,194	-	12,762	157,956
Unearned revenue	1,341	-	-	1,341
Accrued salaries and benefits	2,909,612	-	-	2,909,612
Compensated absences	981,050	-	-	981,050
TOTAL LIABILITIES	<u>5,031,255</u>	<u>8,204</u>	<u>237,624</u>	<u>5,277,083</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues, property taxes	824,938	-	-	824,938
FUND BALANCES				
Nonspendable				
Inventories	50,680	-	-	50,680
Restricted for capital projects	-	-	2,252,240	2,252,240
Assigned to technology and technology infrastructure	1,200,000	-	-	1,200,000
Committed to				
Capital projects	4,300,000	2,914,574	-	7,214,574
Debt service	2,361,929	-	-	2,361,929
Retirement rate stabilization	3,000,000	-	-	3,000,000
Unassigned	4,223,583	-	-	4,223,583
TOTAL FUND BALANCES	<u>15,136,192</u>	<u>2,914,574</u>	<u>2,252,240</u>	<u>20,303,006</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>20,992,385</u>	\$ <u>2,922,778</u>	\$ <u>2,489,864</u>	\$ <u>26,405,027</u>

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2016

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 20,303,006

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:

Land and site improvements	948,970
Buildings and building improvements	129,527,149
Furniture and equipment	11,219,098
Construction in progress	1,791,632
Accumulated depreciation	(43,486,308)

Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Deferred amounts on refunding	130,675
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Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.

6,827,000

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest	(434,105)
Bonds payable	(75,650,000)
Bond premium	(2,438,225)
Net pension liability	(80,393,000)
Net OPEB obligation	(1,231,169)

Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

824,938

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (32,060,339)

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 40,042,180	\$ 4,273	\$ 5,874	\$ 40,052,327
State sources	13,533,614	-	-	13,533,614
Federal sources	840,770	-	-	840,770
TOTAL REVENUES	<u>54,416,564</u>	<u>4,273</u>	<u>5,874</u>	<u>54,426,711</u>
EXPENDITURES				
Instruction	30,202,716	-	-	30,202,716
Support services	17,173,565	-	-	17,173,565
Operation of non-instructional services	1,036,596	-	4,100	1,040,696
Facilities acquisition, construction and improvement services	216,995	501,613	2,326,458	3,045,066
Debt service	5,803,584	546,419	-	6,350,003
Refund of prior year revenues	70	-	-	70
TOTAL EXPENDITURES	<u>54,433,526</u>	<u>1,048,032</u>	<u>2,330,558</u>	<u>57,812,116</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(16,962)</u>	<u>(1,043,759)</u>	<u>(2,324,684)</u>	<u>(3,385,405)</u>
OTHER FINANCING SOURCES				
Proceeds from refunding bonds	-	-	15,040,000	15,040,000
Payment to bond refunding agent	-	-	(15,526,509)	(15,526,509)
Bond premium	-	-	557,520	557,520
Bond discount	-	-	(71,011)	(71,011)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(16,962)</u>	<u>(1,043,759)</u>	<u>(2,324,684)</u>	<u>(3,385,405)</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>15,153,154</u>	<u>3,958,333</u>	<u>4,576,924</u>	<u>23,688,411</u>
FUND BALANCES AT END OF YEAR	<u>\$ 15,136,192</u>	<u>\$ 2,914,574</u>	<u>\$ 2,252,240</u>	<u>\$ 20,303,006</u>

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (3,385,405)

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation and construction in progress in the current period. (201,494)

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. Also, Governmental Funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 3,785,675

Bond premiums are reported in Governmental Funds as revenues; however, in the statement of activities, the revenues from bond premiums are allocated over the term lives of debt instruments as an offset to interest expense. (395,007)

Because some property taxes and earned income taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year. (51,688)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:

Accrued interest not reflected in Governmental Funds 11,880
Pension plan expense (1,449,000)

The net change in the asset for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements. (380,431)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,065,470)

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

JUNE 30, 2016

	Enterprise Fund <u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 200,422
Due from other governments	48,531
Other receivables	13,891
Due from other funds	34,685
Inventories	<u>5,438</u>
TOTAL CURRENT ASSETS	<u>302,967</u>
CAPITAL ASSETS	
Furniture and equipment	581,065
Accumulated depreciation	<u>(557,123)</u>
TOTAL CAPITAL ASSETS	<u>23,942</u>
TOTAL ASSETS	<u>\$ 326,909</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 204,126
Due to other funds	<u>148,167</u>
TOTAL CURRENT LIABILITIES	<u>352,293</u>
NET POSITION	
Net investment in capital assets	23,942
Unrestricted	<u>(49,326)</u>
TOTAL NET POSITION	<u>(25,384)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 326,909</u>

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Enterprise Fund
	<u>Food Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ 997,776
Miscellaneous	<u>27,022</u>
TOTAL OPERATING REVENUES	<u>1,024,798</u>
OPERATING EXPENSES	
Purchased property services	570
Supplies	1,315,703
Depreciation	3,657
Repairs and maintenance	<u>8,316</u>
TOTAL OPERATING EXPENSES	<u>1,328,246</u>
OPERATING LOSS	<u>(303,448)</u>
NONOPERATING REVENUES	
Interest and investment revenue	456
Federal sources	289,095
State sources	<u>15,978</u>
TOTAL NONOPERATING REVENUES	<u>305,529</u>
CHANGE IN NET POSITION	2,081
NET POSITION AT BEGINNING OF YEAR	<u>(27,465)</u>
NET POSITION AT END OF YEAR	<u>\$ (25,384)</u>

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2016

	Enterprise Fund <u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 988,358
Cash paid for operating expenses	<u>(1,221,019)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(232,661)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal sources	236,629
State sources	<u>15,978</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>252,607</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>456</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>456</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>180,020</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 200,422</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (303,448)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	3,657
Donated food	52,466
(Increase) decrease in	
Due from other governments	(35,334)
Other receivables	(1,766)
Inventories	660
Increase in	
Accounts payable	<u>51,104</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (232,661)</u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated food	\$ 52,466

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 266,801
Due from other funds	<u>15,296</u>
TOTAL ASSETS	<u>\$ 282,097</u>
LIABILITIES	
Accounts payable	<u>\$ 282,097</u>
TOTAL LIABILITIES	<u>\$ 282,097</u>

See accompanying notes to the basic financial statements.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Penn-Delco School District (the "School District") operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The School District operates under a locally elected nine-member board form of government.

The basic financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. In addition, component units can be other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the Penn-Delco School District. The School District is not a component unit of another reporting entity nor does it have any component units.

Basis of Presentation and Accounting

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the Fiduciary Fund. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Proprietary Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the School District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust Funds are reported using the economic resources measurement focus.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Reserve Fund - The Capital Reserve Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements.

Special Revenue Funds - These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The School District's *Capital Projects Fund* is accounted for in this fund type as required by Section 29432 of the Municipal Code.

Proprietary Fund

Food Service Fund - The Food Service Fund is used to account for operations (1) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund

Agency Fund - The Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled under Act 72 of the Pennsylvania General Assembly of 1971. Monies for all funds, including the Proprietary Fund, are maintained in this pool. Individual fund integrity is maintained throughout the School District's records.

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories and Prepaid Items

Inventory of food and milk in the Food Service Fund consists of supplies purchased and donated food received from the federal government. The donated food is valued at its fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems - Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$5,000. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and building improvements	15-40
Furniture and equipment	5-20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District only has two items that qualify for reporting in this category. They are the deferred amounts on refunding and the deferred outflow related to pension activity, both of which are reported in the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow related to pension activity is the result of changes in the School District's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School District's proportionate share of total contributions, and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has two items that qualify for reporting in this category. The first item, *unavailable revenues*, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. The second item, deferred inflows related to pension activity, are reported in the government-wide statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Typically, the General Fund has been used to liquidate other long-term liabilities, such as compensated absences, in prior years.

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The benefits are accrued when incurred in the government-wide, Proprietary and Fiduciary Funds financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position from the net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

GASB Statement No. 54

The School District has adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal action by the Board of School Directors. This includes the budget reserve account.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 14). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District's deposit policy for custodial credit risk follows the Commonwealth of Pennsylvania School Code. As of June 30, 2016, \$14,662,377 of the School District's bank balance of \$23,032,929 is uninsured and collateralized with securities held by the pledging bank's trust department not in the School District's name and \$8,120,552 is uninsured and uncollateralized. The uninsured and uncollateralized funds are placed with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT).

Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

Credit Risk - State law permits the School District to invest funds in the following types of investments:

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The School District's investment policy does not further limit its investment choices. As of June 30, 2016, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE C - PROPERTY TAXES

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. Property taxes are based on assessed valuations of real property within the School District.

Taxes are levied on July 1 and payable in the following periods:

Discount period July 1 to August 31 - 2% of gross levy
 Flat period September 1 to November 1
 Penalty period November 2 to December 31 - 10% of gross levy
 Lien date January 1

School District taxes are billed and collected by the local elected tax collector. Property taxes attach as an enforceable lien on property as of July 1.

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016, consisted of taxes, interest, other revenue and intergovernmental grants and entitlements. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	General Fund	Capital Reserve Fund	Capital Projects Fund	Food Service Fund
Real estate taxes	\$ 997,506	\$ -	\$ -	\$ -
Real estate transfer taxes	99,677	-	-	-
Due from other governments	2,458,538	-	-	48,531
Other receivables	<u>2,361,682</u>	<u>-</u>	<u>62,165</u>	<u>13,891</u>
	<u>\$ 5,917,403</u>	<u>\$ -</u>	<u>\$ 62,165</u>	<u>\$ 62,422</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land and site improvements	\$ 948,970	\$ -	\$ -	\$ 948,970
Construction in progress	23,903,969	1,791,632	(23,903,969)	1,791,632
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	24,852,939	1,791,632	(23,903,969)	2,740,602
Capital assets being depreciated				
Buildings and building improvements	104,613,329	24,913,820	-	129,527,149
Furniture and equipment	11,185,086	34,012	-	11,219,098
TOTAL CAPITAL ASSETS BEING DEPRECIATED	115,798,415	24,947,832	-	140,746,247
Accumulated depreciation				
Buildings and building improvements	(30,018,590)	(2,828,626)	-	(32,847,216)
Furniture and equipment	(10,430,729)	(208,363)	-	(10,639,092)
TOTAL ACCUMULATED DEPRECIATION	(40,449,319)	(3,036,989)	-	(43,486,308)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	75,349,096	21,910,843	-	97,259,939
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	100,202,035	23,702,475	(23,903,969)	100,000,541
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	638,944	-	(57,879)	581,065
Accumulated depreciation	(611,345)	(3,657)	57,879	(557,123)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	27,599	(3,657)	-	23,942
CAPITAL ASSETS, net	\$ 100,229,634	\$ 23,698,818	\$ (23,903,969)	\$ 100,024,483

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

GOVERNMENTAL ACTIVITIES

Instruction	
Regular programs	\$ 1,326,401
Special programs	520,268
Vocational education	22,162
Other instructional programs	7,317
Support services	
Pupil personnel services	110,692
Instructional staff services	109,777
Administration services	237,071
Pupil health services	44,465
Business services	71,177
Operation and maintenance of plant services	256,044
Student transportation services	171,611
Central services	93,388
Other services	1,954
Operation of non-instructional services	
Student activities	53,192
Community services	11,470
	<u>3,036,989</u>
	<u>\$ 3,036,989</u>

NOTE F - LONG-TERM DEBT

General Obligation Bonds

Series A of 2002 - On August 15, 2002, the School District issued \$9,895,000 in General Obligation Bonds. The bonds were issued to finance various capital projects including the construction, furnishing and equipping of alterations, additions, renovations and improvements to various School District properties including, but not limited to, Pennell Elementary School, Sun Valley High School and the School District's transportation and maintenance service buildings and the acquisition of modular classrooms, furniture and equipment to be used for the School District's purposes. Interest is payable on a semimonthly basis. The bonds matured and no amount is outstanding as of June 30, 2016. A portion of the bonds was advance refunded through the issuance of the General Obligation Bonds, Series of 2007.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - LONG-TERM DEBT (Continued)

Series A of 2004 - On November 1, 2004, the School District issued \$14,000,000 in General Obligation Bonds. The bonds were issued for renovating the heating, ventilation and air conditioning system at Sun Valley High School; planning, designing, acquiring, constructing and equipping of additions and renovations to Aston Elementary School; completion of the construction, furnishing and equipping of alterations, additions, renovations and improvements to various school properties, including, but not limited to, Sun Valley High School, Northley Middle School, Pennell Elementary School and the School District's Services Center and the purchase of certain school buses; and to advance refund all of the School District's outstanding General Obligation Bonds, Series of 1999. The bonds bear interest at a fixed rate, are outstanding in the amount of \$15,000 at June 30, 2016. A portion of the bonds was advance refunded through the issuance of the General Obligation Bonds, Series A of 2006.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 5,000	\$ 578	\$ 5,578
2018	5,000	390	5,390
2019	<u>5,000</u>	<u>200</u>	<u>5,200</u>
	<u>\$ 15,000</u>	<u>\$ 1,168</u>	<u>\$ 16,168</u>

Series A of 2009 - On November 23, 2009, the School District issued \$8,840,000 in General Obligation Bonds. The bonds, along with the General Obligation Bonds, Series B of 2009, were issued to advance refund all of the School District's outstanding General Obligation Bonds, Series of 2003, Series A of 2003 and Series B of 2004, and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 1.50% to 3.00%, are outstanding in the amount of \$955,000 at June 30, 2016.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	<u>\$ 955,000</u>	<u>\$ 30,560</u>	<u>\$ 985,560</u>

Series B of 2009 - On November 23, 2009, the School District issued \$12,195,000 in General Obligation Bonds. The bonds, along with the General Obligation Bonds, Series A of 2009, were issued to advance refund all of the School District's outstanding General Obligation Bonds, Series of 2003, Series A of 2003 and Series B of 2004, and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 2.00% to 4.00%. The bonds matured and there are no amounts outstanding at June 30, 2016.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - LONG-TERM DEBT (Continued)

Series of 2010 - On October 12, 2010, the School District issued \$15,155,000 in General Obligation Bonds. The bonds were issued to advance refund all of the School District's outstanding General Obligation Bonds, Series of 2006, and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 1.500% to 3.375%. There are no amounts outstanding as of June 30, 2016. The bonds were advance refunded through the issuance of the General Obligation Bonds, Series of 2015 and Series A of 2015.

Series of 2011 - On October 26, 2011, the School District issued \$7,895,000 in General Obligation Bonds. The bonds were issued to advance refund all of the School District's outstanding General Obligation Bonds, Series of 2007, and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 1.000% to 2.375%, are outstanding in the amount of \$7,875,000 at June 30, 2016, and mature annually through June 2019.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 2,555,000	\$ 193,119	\$ 2,748,119
2018	2,635,000	116,469	2,751,469
2019	<u>2,685,000</u>	<u>63,769</u>	<u>2,748,769</u>
	<u>\$ 7,875,000</u>	<u>\$ 373,357</u>	<u>\$ 8,248,357</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - LONG-TERM DEBT (Continued)

Series of 2012 - On March 28, 2012, the School District issued \$5,190,000 in General Obligation Bonds. The bonds were issued to advance refund all of the School District's outstanding General Obligation Bonds, Series A of 2007, and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 1.00% to 3.15%, are outstanding in the amount of \$4,175,000 at June 30, 2016, and mature annually through June 2027.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 340,000	\$ 104,121	\$ 444,121
2018	345,000	97,321	442,321
2019	355,000	92,146	447,146
2020	360,000	85,934	445,934
2021	370,000	78,734	448,734
2022 to 2026	1,975,000	247,969	2,222,969
2027	<u>430,000</u>	<u>13,545</u>	<u>443,545</u>
	<u>\$ 4,175,000</u>	<u>\$ 719,770</u>	<u>\$ 4,894,770</u>

Series of 2013 - On December 3, 2012, the School District issued \$24,450,000 in General Obligation Bonds. The bonds were issued to fund the construction, renovation and equipping of the Northley Middle School and other properties, pay capitalized interest on the bonds and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 1.00% to 4.00%, are outstanding in the amount of \$24,440,000 at June 30, 2016, and mature annually through June 2038.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 5,000	\$ 977,350	\$ 982,350
2018	5,000	977,300	982,300
2019	5,000	977,200	982,200
2020	5,000	977,100	982,100
2021	5,000	977,000	982,000
2022 to 2026	2,065,000	4,882,000	6,947,000
2027 to 2031	7,785,000	4,189,400	11,974,400
2032 to 2036	9,985,000	2,145,400	12,130,400
2037 to 2038	<u>4,580,000</u>	<u>276,600</u>	<u>4,856,600</u>
	<u>\$ 24,440,000</u>	<u>\$ 16,379,350</u>	<u>\$ 40,819,350</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - LONG-TERM DEBT (Continued)

Series A of 2013 - On July 18, 2013, the School District issued \$23,165,000 in General Obligation Bonds. The bonds were issued to fund the construction, renovation and equipping of the Northley Middle School, the Coeburn Elementary School and certain other capital improvements of the properties of the School District, pay capitalized interest on the bonds and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 2.00% to 5.00%, are outstanding in the amount of \$23,150,000 at June 30, 2016, and mature annually through June 2038.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 5,000	\$ 1,082,838	\$ 1,087,838
2018	5,000	1,082,738	1,087,738
2019	5,000	1,082,638	1,087,638
2020	5,000	1,082,488	1,087,488
2021	5,000	1,082,338	1,087,338
2022 to 2026	2,525,000	5,408,876	7,933,876
2027 to 2031	7,215,000	4,636,925	11,851,925
2032 to 2036	9,085,000	2,482,250	11,567,250
2037 to 2038	4,300,000	325,000	4,625,000
	<u>\$ 23,150,000</u>	<u>\$ 18,266,091</u>	<u>\$ 41,416,091</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - LONG-TERM DEBT (Continued)

Series of 2015 - On November 23, 2015, the School District issued \$6,445,000 in General Obligation Bonds. The bonds were issued to fund the refunding of outstanding General Obligation Bonds, Series of 2010 and pay capitalized interest on the bonds and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 2.00% to 3.00%, are outstanding in the amount of \$6,445,000 at June 30, 2016, and mature annually through February 2024. The new issue will reduce debt service payments for the District by \$294,982, with an economic gain of \$296,577.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 35,000	\$ 162,866	\$ 197,866
2018	60,000	136,290	196,290
2019	65,000	135,090	200,090
2020	65,000	133,140	198,140
2021	65,000	131,190	196,190
2022 to 2024	<u>6,155,000</u>	<u>324,620</u>	<u>6,479,620</u>
	<u>\$ 6,445,000</u>	<u>\$ 1,023,196</u>	<u>\$ 7,468,196</u>

Series A of 2015 - On November 23, 2015, the School District issued \$8,595,000 in General Obligation Bonds. The bonds were issued to fund the refunding of outstanding General Obligation Bonds, Series of 2010, not refunded by General Obligation Bonds, Series of 2015, and pay capitalized interest on the bonds and pay the costs and expenses of issuing and insuring the bonds. The bonds bear interest at rates ranging from 2.00% to 3.00%, are outstanding in the amount of \$8,595,000 at June 30, 2016, and mature annually through February 2022. The new issue will reduce debt service payments for the district by \$355,540, with an economic gain of \$349,994.

Future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 5,000	\$ 318,823	\$ 323,823
2018	75,000	282,600	357,600
2019	170,000	281,100	451,100
2020	2,675,000	276,000	2,951,000
2021	2,780,000	169,000	2,949,000
2022	<u>2,890,000</u>	<u>57,800</u>	<u>2,947,800</u>
	<u>\$ 8,595,000</u>	<u>\$ 1,385,323</u>	<u>\$ 9,980,323</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Balance July 1, 2015</u>
GENERAL OBLIGATION BONDS	
Series A of 2002	\$ 105,000
Series A of 2004	20,000
Series A of 2009	1,635,000
Series B of 2009	2,475,000
Series of 2010	15,080,000
Series of 2011	7,880,000
Series of 2012	4,510,000
Series of 2013	24,445,000
Series A of 2013	23,155,000
Series of 2015	-
Series A of 2015	-
TOTAL GENERAL OBLIGATION BONDS	<u><u>79,305,000</u></u>
BOND PREMIUM (DISCOUNT)	
Series A of 2009	5,092
Series B of 2009	49,808
Series of 2010	(156,810)
Series of 2011	42,885
Series of 2012	(4,013)
Series of 2013	1,972,619
Series A of 2013	133,637
Series of 2015	-
Series A of 2015	-
TOTAL BOND PREMIUM (DISCOUNT)	<u><u>2,043,218</u></u>
COMPENSATED ABSENCES	<u><u>955,998</u></u>
NET PENSION LIABILITY	<u><u>72,948,000</u></u>
NET OPEB OBLIGATION	<u><u>850,738</u></u>
TOTAL LONG-TERM LIABILITIES	<u><u>\$ 156,102,954</u></u>

<u>Additions</u>	<u>Refundings</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
\$ -	\$ -	\$ (105,000)	\$ -	\$ -
-	-	(5,000)	15,000	5,000
-	-	(680,000)	955,000	955,000
-	-	(2,475,000)	-	-
-	(15,080,000)	-	-	-
-	-	(5,000)	7,875,000	2,555,000
-	-	(335,000)	4,175,000	340,000
-	-	(5,000)	24,440,000	5,000
-	-	(5,000)	23,150,000	5,000
6,445,000	-	-	6,445,000	35,000
8,595,000	-	-	8,595,000	5,000
<u>15,040,000</u>	<u>(15,080,000)</u>	<u>(3,615,000)</u>	<u>75,650,000</u>	<u>3,905,000</u>
-	-	(5,092)	-	-
-	-	(49,808)	-	-
-	156,810	-	-	-
-	-	(14,296)	28,589	14,296
-	-	402	(3,611)	(402)
-	-	(89,664)	1,882,955	89,664
-	-	(5,810)	127,827	5,810
(71,011)	-	8,876	(62,135)	(8,876)
557,520	-	(92,920)	464,600	92,920
<u>486,509</u>	<u>156,810</u>	<u>(248,312)</u>	<u>2,438,225</u>	<u>193,412</u>
<u>25,052</u>	<u>-</u>	<u>-</u>	<u>981,050</u>	<u>98,105</u>
<u>7,445,000</u>	<u>-</u>	<u>-</u>	<u>80,393,000</u>	<u>-</u>
<u>380,431</u>	<u>-</u>	<u>-</u>	<u>1,231,169</u>	<u>-</u>
<u>\$ 23,376,992</u>	<u>\$ (14,923,190)</u>	<u>\$ (3,863,312)</u>	<u>\$ 160,693,444</u>	<u>\$ 4,196,517</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE H - DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred revenue until such time as it becomes available. Program grants received prior to the incurrence of qualifying expenditures are recorded as unearned revenue.

At June 30, 2016, deferred inflows of resources consisted of delinquent taxes receivable of \$824,938. The School District had \$1,341 in unearned revenue as of June 30, 2016.

NOTE I - PENSION PLAN

Summary of Significant Accounting Policies

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's 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.

General Information About the Pension Plan

Plan Description - PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System 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.pasers.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 one 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 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 three 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 by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five 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 ten years of service.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average 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 one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten 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.

Contributions

Members Contributions

- Active members who joined the System 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 the System 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 the System 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 services rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (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 7.5% and 9.5% and the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2016, was 25.84% 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 the plan from the School District were \$5,928,000 for the year ended June 30, 2016.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the School District reported a liability of \$80,393,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School District's proportion of the 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, 2015, the School District's proportion was 0.1856%, which was an increase of 0.0013% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$7,377,000. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 332,000
Net difference between projected and actual investment earnings	-	163,000
Changes in proportions	1,368,000	-
Difference between employer contributions and proportionate share of total contributions	26,000	-
Contributions subsequent to the measurement date	<u>5,928,000</u>	<u>-</u>
	<u>\$ 7,322,000</u>	<u>\$ 495,000</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

\$5,928,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>June 30,</u>	
2017	\$ (39,000)
2018	(39,000)
2019	(39,000)
2020	<u>1,016,000</u>
	<u>\$ 899,000</u>

Actuarial Assumptions - The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Actuarial Cost Method** - Entry Age Normal - level % of pay
- **Investment Return** - 7.5%, includes inflation at 3.00%
- **Salary Increases** - Effective average of 5.50%, which reflects an allowance for inflation of 3.00, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

The long-term expected rate of return on 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 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 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<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, 2015.

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's proportionate share of the net pension liability	\$ <u>99,092,000</u>	\$ <u>80,393,000</u>	\$ <u>64,677,000</u>

Pension Plan Fiduciary Net Position - Detailed information about PSERS's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The School District provides medical and prescription drug insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administered by School District Supervisors and can be amended by the School District through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the School District's General Fund.

Funding Policy

The School District negotiates the contribution percentage between the School District and employees through union contracts and the personnel policy. The required contribution rates of the employer and the members vary depending on the applicable agreement. The School District currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the School District.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

The components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the School District's net OPEB obligation to the plan are as follows:

Normal cost	\$ 286,212
Amortization of unfunded actuarial accrued liability	545,244
ANNUAL REQUIRED CONTRIBUTION (ARC)	831,456
Adjustment to ARC	(94,825)
ANNUAL OPEB EXPENSE	736,631
Net OPEB contributions during the year	(356,200)
INCREASE IN NET OPEB OBLIGATION	380,431
Net OPEB obligation at beginning of year	850,738
NET OPEB OBLIGATION AT END OF YEAR	\$ 1,231,169

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2014	\$ 477,302	56.0%	\$ 498,033
2015	713,105	50.5%	850,738
2016	736,631	48.4%	1,231,169

Funded Status and Funding Progress

As of July 1, 2014, the actuarial accrued liability for benefits was \$3,812,000 and the actuarial value of assets was \$0, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 52, will present multiyear trend information in the future about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.25% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.8% initially, reduced to an ultimate rate of 5.5% after 40 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016, was eight years.

NOTE K - COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

School District employees who are required to work on a 12-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation (for most employee categories) may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay.

The School District pays a percentage of an employee's salary, depending on job classification, to employees for unused sick time. All unused vacation time is converted to unused sick time. Compensation payable in future years, which was \$981,050 at June 30, 2016, is recorded in compensated absences on the statement of net position.

The Early Retirement Incentive Policy (ERIP) is designed for employees who qualify for annuity payments in accordance with provisions of the PSERS but do not qualify for Social Security benefits. The primary purpose of the ERIP is to supplement the retiree's PSERS payments with an annual School District funded payment until such time as the employee becomes eligible for Social Security benefits.

In order to obtain ERIP benefits, employees must qualify for retirement in accordance with provisions of the PSERS and must have served as a full-time School District employee for a minimum of 15 years prior to the effective date of retirement.

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE L - CONTINGENCIES

The School District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

The School District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. School District officials do not expect any significant adjustments as a result of these examinations.

NOTE M - RISK MANAGMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

PENN-DELCO SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 39,999,574	\$ 39,999,574	\$ 40,042,180	\$ 42,606
State sources	13,631,602	13,631,602	13,533,614	(97,988)
Federal sources	975,000	975,000	840,770	(134,230)
TOTAL REVENUES	<u>54,606,176</u>	<u>54,606,176</u>	<u>54,416,564</u>	<u>(189,612)</u>
EXPENDITURES				
Instruction	31,010,185	30,893,305	30,202,716	690,589
Support services	18,195,608	18,348,013	17,173,565	1,174,448
Operation of non-instructional services	1,085,196	1,086,030	1,036,596	49,434
Facilities acquisition, construction and improvement services	-	-	216,995	(216,995)
Debt service	6,178,456	6,178,456	5,803,584	374,872
Refund of prior year revenues	-	-	70	(70)
Budgetary reserve	350,000	313,641	-	313,641
TOTAL EXPENDITURES	<u>56,819,445</u>	<u>56,819,445</u>	<u>54,433,526</u>	<u>2,385,919</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(2,213,269)</u>	<u>(2,213,269)</u>	<u>(16,962)</u>	<u>2,196,307</u>
NET CHANGE IN FUND BALANCE	<u>\$ (2,213,269)</u>	<u>\$ (2,213,269)</u>	(16,962)	<u>\$ 2,196,307</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>15,153,154</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 15,136,192</u>	

See accompanying note to the budgetary comparison schedule.

PENN-DELCO SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

NOTE A - BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for the Capital Projects Fund.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the School District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Board may, by resolution, transfer unencumbered budgeted amounts between departments within any fund.
5. The operating budget is adopted on a basis prescribed by the Department of Education.

Controls over spending in the Capital Reserve Fund are achieved by the use of internal spending limits. Effective expenditure control is achieved in the Capital Reserve Fund through bond indenture provisions.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

PENN-DELCO SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	<u>0.1856%</u>	<u>0.1843%</u>
School District's proportionate share of the net pension liability (asset)	\$ <u>80,393,000</u>	\$ <u>72,948,000</u>
School District's covered-employee payroll	\$ <u>23,875,209</u>	\$ <u>23,518,112</u>
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>336.72%</u>	<u>310.18%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>45.64%</u>	<u>57.24%</u>

PENN-DELCO SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT'S CONTRIBUTIONS
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 5,928,000	\$ 4,813,000
Contributions in relation to the contractually required contribution	<u>5,928,000</u>	<u>4,813,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u> -</u>	\$ <u> -</u>
School District's covered-employee payroll	\$ <u>23,712,000</u>	\$ <u>23,478,049</u>
Contributions as a percentage of covered-employee payroll	<u>25.00%</u>	<u>20.50%</u>

PENN-DELCO SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2016

SCHEDULE OF FUNDING PROGRESS

Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
July 1, 2010	\$ -	\$ 2,399,000	\$ 2,399,000	0%	\$ 23,269,019	10.31%
2012	-	2,643,000	2,643,000	0%	24,083,435	10.97%
2014	-	3,812,000	3,812,000	0%	-	0.00%

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

To the Board of School Directors
Penn-Delco School District
Aston, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Penn-Delco School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Penn-Delco School District's basic financial statements, and have issued our report thereon dated November 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Penn-Delco School 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 Penn-Delco School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Penn-Delco School 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 a 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of School Directors
Penn-Delco School District
Aston, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Penn-Delco School 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Maillie LLP".

Oaks, Pennsylvania
November 16, 2016

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance With the Uniform Guidance***

To the Board of School Directors
Penn-Delco School District
Aston, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Penn-Delco School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Penn-Delco School District's major federal programs for the year ended June 30, 2016. Penn-Delco School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Penn-Delco School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 Penn-Delco School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Penn-Delco School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

To the Board of School Directors
Penn-Delco School District
Aston, Pennsylvania

Report on Internal Control Over Compliance

Management of the Penn-Delco School 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 Penn-Delco School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Penn-Delco School District's internal control over compliance.

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

Purpose of this Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Oaks, Pennsylvania
November 16, 2016

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

PENN-DELCO SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2016

	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning Date	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION					
Passed through the Pennsylvania Department of Education					
Title I- Grants to Local Educational Agencies	I	84.010	013-15-0325	July 1, 2014 to September 30, 2015	\$ 278,894
Title I- Grants to Local Educational Agencies	I	84.010	013-16-0325	July 1, 2015 to September 30, 2016	265,853
Total Title I					
Title II A- Improving Teacher Quality	I	84.367	020-15-0325	July 1, 2014 to September 30, 2015	57,509
Title II A- Improving Teacher Quality	I	84.367	020-16-0325	July 1, 2015 to September 30, 2016	56,994
Total Title II					
Passed through the Delaware County Intermediate Unit					
Special Education - Grants to States	I	84.027*	062-15-0325	July 1, 2014 to June 30, 2015	549,531
Special Education - Grants to States	I	84.027*	062-16-0325	July 1, 2015 to June 30, 2016	531,497
Special Education - Preschool Grants	I	84.173*	131-14-0025	July 1, 2014 to June 30, 2015	4,851
Special Education - Preschool Grants		84.173*	131-15-0025	July 1, 2015 to June 30, 2016	3,396
Passed through the Intermediate Unit #1					
Special Education - Grants to States	I	84.027*	062-15-0032	September 1, 2014 to June 30, 2015	
Total Special Education Cluster					
TOTAL U.S. DEPARTMENT OF EDUCATION					
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through the Pennsylvania Department of Public Welfare					
Medical Assistance Program	I	93.778	N/A	July 1, 2015 to June 30, 2016	N/A
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
U.S. DEPARTMENT OF AGRICULTURE					
Passed through the Pennsylvania Department of Education					
National School Lunch Program	I	10.555	N/A	July 1, 2015 to June 30, 2016	N/A
State Matching Share	S	N/A	N/A	July 1, 2015 to June 30, 2016	N/A
Passed through the Pennsylvania Department of Agriculture					
National School Lunch Program - Commodities	I	10.555	N/A	July 1, 2015 to June 30, 2016	N/A
Total Child Nutrition Cluster					
TOTAL U.S. DEPARTMENT OF AGRICULTURE					
TOTAL FEDERAL AND STATE AWARDS					
LESS STATE SHARE					
TOTAL FEDERAL AWARDS					

Footnotes:

- (A) Total amount of foods received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2015.
- (C) Total amount of foods used.
- (D) Ending inventory at June 30, 2016.

Source Codes:

- I = Indirect funding
- S = State share
- * = Major program

See accompany notes to the schedule of expenditures of federal and certain state awards.

Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Amount Passed Through to Sub-Recipients
\$ 196,295	\$ 186,952	\$ 9,343	\$ 9,343	\$ -	\$ -
178,088	-	227,275	227,275	49,187	-
<u>374,383</u>	<u>186,952</u>	<u>236,618</u>	<u>236,618</u>	<u>49,187</u>	<u>-</u>
34,507	34,945	5,314	5,314	5,752	-
38,129	-	53,556	53,556	15,427	-
<u>72,636</u>	<u>34,945</u>	<u>58,870</u>	<u>58,870</u>	<u>21,179</u>	<u>-</u>
186,417	186,417	-	-	-	-
4,000	-	531,497	531,497	527,497	-
1,182	1,182	-	-	-	-
-	-	3,396	3,396	3,396	-
2,790	2,790	-	-	-	-
<u>194,389</u>	<u>190,389</u>	<u>534,893</u>	<u>534,893</u>	<u>530,893</u>	<u>-</u>
641,408	412,286	830,381	830,381	601,259	-
362	362	1,489	1,489	1,489	-
362	362	1,489	1,489	1,489	-
203,516	12,311	236,629	236,629	45,424	-
13,757	887	15,978	15,978	3,108	-
51,806 (A)	(6,098) (B)	52,466	52,466 (C)	(5,438) (D)	-
<u>269,079</u>	<u>7,100</u>	<u>305,073</u>	<u>305,073</u>	<u>43,094</u>	<u>-</u>
<u>269,079</u>	<u>7,100</u>	<u>305,073</u>	<u>305,073</u>	<u>43,094</u>	<u>-</u>
910,849	419,748	1,136,943	1,136,943	645,842	-
<u>(13,757)</u>	<u>(887)</u>	<u>(15,978)</u>	<u>(15,978)</u>	<u>(3,108)</u>	<u>-</u>
<u>\$ 897,092</u>	<u>\$ 418,861</u>	<u>\$ 1,120,965</u>	<u>\$ 1,120,965</u>	<u>\$ 642,734</u>	<u>\$ -</u>

PENN-DELCO SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2016

NOTE A - ORGANIZATION AND SCOPE

The federal programs as listed in the schedule of expenditures of federal and certain state awards are accounted for by the School District in the General Fund for U.S. Department of Education programs and in the Food Service Fund for U.S. Department of Agriculture programs.

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and certain state awards is presented using the modified accrual basis of accounting, which is described in Note A of the School District's basic financial statements.

NOTE C - DONATED FOODS

Donated foods were valued according to cost estimates provided by the U.S.D.A.

NOTE D - PROGRAM DISCLOSURES

U.S. Department of Education

Funds passed through the Pennsylvania Department of Education under Title I are used primarily to provide education to economically disadvantaged children. Funds received under other grants are used to support instructional programs.

U.S. Department of Agriculture

Funds passed through the Pennsylvania Departments of Education and Agriculture are used to provide nutritional meals to economically disadvantaged children.

NOTE E - INDIRECT COST RATES

The School District has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

PENN-DELCO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Penn-Delco School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Penn-Delco School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With Uniform Guidance.
5. The auditors' report on compliance for the major award programs for the Penn-Delco School District expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with the Uniform Grant Guidance.
7. The programs tested as major programs include:

Program	CFDA
SPECIAL EDUCATION CLUSTER (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Preschool Grants (IDEA Preschool)	84.173

8. The threshold used for distinguishing Types A and B programs was \$750,000.
9. Penn-Delco School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.