



**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2016

SOUTHEAST DELCO SCHOOL DISTRICT

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SOUTHEAST DELCO SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

December 9, 2016

Board of School Directors
Southeast Delco School District
Folcroft, 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 Southeast Delco School District ("the District"), Folcroft, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.

Board of School Directors
Southeast Delco School District

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 Southeast Delco School District, Folcroft, Pennsylvania, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District has adopted the requirements of GASB Statement No. 72, "Fair Value Measurement and Application." This statement modifies the required disclosures for assets and liabilities valued at fair value on the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated December 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, schedule of the District's proportionate share of the net pension liability on page 51, and schedule of District contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards on pages 59 and 60 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal 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 awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

This discussion and analysis of the financial performance of the Southeast Delco School District ("the District") provides an overview of the District's financial activities for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

Total net position for the District increased by \$1,903,860. Net position of governmental activities increased by \$1,774,122, and net position of business-type activities increased by \$129,738. Program revenues accounted for \$17.3 million, or 23.8 percent of total governmental activities revenues (\$72.6 million); and general revenues accounted for \$55.3 million, or 76.2 percent of the total governmental activities revenues.

The District's proportionate share of the Public School Employee Retirement System ("PSERS") net pension liability totaled \$97,026,000 at June 30, 2016.

As of June 30, 2016, the general fund reported a positive fund balance of \$7.2 million, of which \$3.8 million is unassigned, \$2.2 million is committed for capital projects, \$1 million is committed for technology, and \$196 thousand is classified as non-spendable. The debt service fund reported a restricted fund balance of \$6.9 million for debt service. The capital projects fund did not report a fund balance. The general fund will continue to fund any ongoing capital projects within the capital projects fund.

Impact of GASB Statements No. 68 and No. 71

Last year, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measure Date - An Amendment of GASB Statement No. 68." The purpose of these statements is to improve the transparency, consistency, and comparability of the pension information reported by state and local governments (e.g. school districts).

The adoption of GASB Statements No. 68 and 71 have had and will continue to have a profound effect on the financial statements and net position of school districts and governments not only in Pennsylvania, but across the nation. By recognizing the impact of any unfunded liability faced by defined benefit pension plans, plan administrators (at the direction of elected officials) and participants will be required to evaluate the cost of providing for certain retirement benefits to the work force.

More specifically, the District contributes to the Pennsylvania Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. In cost-sharing multi-employer plans, the plan assets and liabilities are shared. Plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new standards have shifted pension reporting from a funding-based approach, in which the District reported

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

only its contributions to the plan, to an accounting-based approach. Under this new approach, the District now reports its proportionate share of the net pension liability on the statement of net position of the government-wide and proprietary fund financial statements. Reporting in the governmental fund statements is not affected by the implementation of these statements.

The net pension liability is the difference between the market value of pension fund assets and the actuarial present value of projected benefit payments at the measurement date. Included in the calculation are projected employer and employee contributions as well as expectation that the assets will grow at the long-term assumed rate of return on plan investments.

While the net pension liability is significant to the District's financial statements, it is a liability that the District has limited control over. Over the last six years, the PSERS employer contribution rate has risen significantly, from four percent in 2009 - 2010 to 25.84 percent in 2015 - 2016. These increases are expected to improve the plan's funding level, which will reduce net position in future years. This rate is anticipated to continue to increase to a level of over 30 percent in future years.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities report information about the District as a whole and about its overall activities. These statements include all the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the District (except for fiduciary funds held in trust for student purposes) using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net position and changes during the fiscal year. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as the District's property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at a conclusion regarding the overall health of the District.

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

- **Governmental Activities:** All 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 operates a food service function and charges fees to staff, students, and visitors. The food service function also is subsidized through state and federal subsidies.

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

The reader is invited to review additional tax, enrollment, budget, and financial information at the District's business office located in the administrative offices, which are located at 1560 Delmar Drive, Folcroft, Pennsylvania. Also available for review are official offering statements of recent District bond issues that contain related housing, commercial, and demographic information about the Southeast Delco School District.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by \$64.2 million at the close of the most recent fiscal year. In the prior year, liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by \$66.1 million. This is due to the District accounting for and reporting its proportionate share of annual pension costs and outstanding obligations in PSERS, which is a requirement of GASB Statement No. 68.

The following table is a comparative analysis of fiscal year 2016 to 2015:

STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Assets:						
Current and other assets	\$ 25,028,945	\$ 23,844,361	\$ 210,495	\$ 55,762	\$ 25,239,440	\$ 23,900,123
Capital assets	67,193,741	68,336,506	40,564	56,366	67,234,305	68,392,872
Total Assets	<u>92,222,686</u>	<u>92,180,867</u>	<u>251,059</u>	<u>112,128</u>	<u>92,473,745</u>	<u>92,292,995</u>
Deferred outflows of resources:						
Deferred pension contributions	7,177,653	5,833,081	179,515	145,887	7,357,168	5,978,968
Deferred pension	216,152	84,294	5,406	2,108	221,558	86,402
Deferred amounts on bond refunding	79,362	85,528	-	-	79,362	85,528
Total Deferred Outflows of Resources	<u>7,473,167</u>	<u>6,002,903</u>	<u>184,921</u>	<u>147,995</u>	<u>7,658,088</u>	<u>6,150,898</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 99,695,853</u>	<u>\$ 98,183,770</u>	<u>\$ 435,980</u>	<u>\$ 260,123</u>	<u>\$ 100,131,833</u>	<u>\$ 98,443,893</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)						
Liabilities:						
Current liabilities	\$ 11,166,774	\$ 12,109,873	\$ 2,545	\$ 2,103	\$ 11,169,319	\$ 12,111,976
Long-term liabilities	147,685,181	141,519,598	2,367,435	2,184,581	150,052,616	143,703,879
Total Liabilities	<u>158,851,955</u>	<u>153,629,171</u>	<u>2,369,980</u>	<u>2,186,684</u>	<u>161,221,935</u>	<u>155,815,855</u>

SOUTHEAST DELCO SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2015

STATEMENT OF NET POSITION

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Deferred inflows of resources:						
Deferred pension	3,043,872	8,528,695	76,128	213,305	3,120,000	8,742,000
Total Deferred Inflows of Resources	3,043,872	8,528,695	76,128	213,305	3,120,000	8,742,000
Net Position (Deficit):						
Net investment in capital assets	15,259,802	15,231,158	40,564	56,366	15,300,366	15,287,524
Restricted for capital projects	6,870,138	4,619,248	-	-	6,870,138	4,619,248
Unrestricted (deficit)	(84,329,914)	(83,824,502)	(2,050,692)	(2,196,232)	(86,380,606)	(86,020,734)
Total Net Position (Deficit)	(62,199,974)	(63,974,096)	(2,010,128)	(2,139,866)	(64,210,102)	(66,113,962)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	<u>\$ 99,695,853</u>	<u>\$ 98,183,770</u>	<u>\$ 435,980</u>	<u>\$ 260,123</u>	<u>\$100,131,833</u>	<u>\$ 98,443,893</u>

Total net deficit of the District decreased by \$1,903,860. The District's net investment in capital assets increased by \$12,842. Total long-term liabilities increased by \$6,348,737, mainly attributable to the increase in the net pension liability during the current year due to investment performance in the pension plan and an increase in the total pension liability.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities.

STATEMENT OF ACTIVITIES

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
PROGRAM EXPENSES				
Governmental Activities:				
Instruction	\$ 46,431,449	\$ (35,057,229)	\$ 45,709,775	\$ (34,613,169)
Instructional support staff	4,700,982	(4,168,717)	4,226,836	(3,805,198)
Administration	5,528,961	(5,001,571)	5,715,033	(5,250,111)
Maintenance	5,167,041	(4,673,689)	5,238,569	(4,814,516)
Pupil transportation	4,254,820	(2,574,715)	4,181,116	(2,586,891)
Student activities	793,256	(690,107)	687,454	(618,009)
Community services	141,856	(111,581)	128,971	(111,664)
Interest and fiscal charges	3,748,759	(1,229,442)	3,634,555	(1,138,061)
Total Governmental Activities	<u>\$ 70,767,124</u>	<u>\$ (53,507,051)</u>	<u>\$ 69,522,309</u>	<u>\$ (52,937,619)</u>
Business-type Activities:				
Food service	<u>\$ 2,143,327</u>	<u>\$ 129,738</u>	<u>\$ 2,106,789</u>	<u>\$ 24,331</u>

The net cost of services for governmental activities increased by \$569 thousand, primarily due to an increase in retirement contributions to PSERS, and the cost of services of providing education programs.

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2016**

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues:						
Charges for services	\$ 112,251	\$ 84,789	\$ 349,922	\$ 457,032	\$ 462,173	\$ 541,821
Operating grants/contributions	15,609,378	14,968,091	1,923,143	1,674,088	17,532,521	16,642,179
Capital grants/contributions	1,538,444	1,531,810	-	-	1,538,444	1,531,810
Total Program Revenues	<u>17,260,073</u>	<u>16,584,690</u>	<u>2,273,065</u>	<u>2,131,120</u>	<u>19,533,138</u>	<u>18,715,810</u>
General Revenues:						
Property and other taxes	36,720,304	34,632,637	-	-	36,720,304	34,632,637
Grants and entitlements	17,426,427	16,879,032	-	-	17,426,427	16,879,032
Investment earnings	1,070,813	341,531	-	-	1,070,813	341,531
Miscellaneous	63,629	42,523	-	-	63,629	42,523
Total General Revenues	<u>55,281,173</u>	<u>51,895,723</u>	<u>-</u>	<u>-</u>	<u>55,281,173</u>	<u>51,895,723</u>
TOTAL REVENUES	<u>72,541,246</u>	<u>68,480,413</u>	<u>2,273,065</u>	<u>2,131,120</u>	<u>74,814,311</u>	<u>70,611,533</u>
EXPENSES						
Program Expenses:						
Instruction	46,431,449	45,709,775	-	-	46,431,449	45,709,775
Support Services:						
Instructional support staff	4,700,982	4,226,836	-	-	4,700,982	4,226,836
Administration	5,528,961	5,715,033	-	-	5,528,961	5,715,033
Maintenance	5,167,041	5,238,569	-	-	5,167,041	5,238,569
Pupil transportation	4,254,820	4,181,116	-	-	4,254,820	4,181,116
Student activities	793,256	687,454	-	-	793,256	687,454
Community services	141,856	128,971	-	-	141,856	128,971
Interest and fiscal charges	3,748,759	3,634,555	-	-	3,748,759	3,634,555
Food service	-	-	2,143,327	2,106,789	2,143,327	2,106,789
TOTAL EXPENSES	<u>70,767,124</u>	<u>69,522,309</u>	<u>2,143,327</u>	<u>2,106,789</u>	<u>72,910,451</u>	<u>71,629,098</u>
CHANGE IN NET DEFICIT	<u>\$ 1,774,122</u>	<u>\$ (1,041,896)</u>	<u>\$ 129,738</u>	<u>\$ 24,331</u>	<u>\$ 1,903,860</u>	<u>\$ (1,017,565)</u>

Governmental Activities

The cost of all governmental activities in 2015-2016 was \$70.8 million. The amount that taxpayers ultimately financed for these activities through tax revenues was \$36.7 million, or 51.9 percent. A majority of the other costs were paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions totaling \$34.6 million. As indicated by the governmental program expenses, instructional programs account for approximately 65.6 percent of the total expenses of the District's governmental activities.

Business-type Activities

Business-type activities is made up of the food service program. This program had an increase in net position of \$130 thousand for the fiscal year.

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2016**

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend 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 basic financial statements.

Proprietary funds – Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements; therefore, the statements will essentially match the business-type activities portion of the entity-wide statements.

Fiduciary funds – The District is the trustee, or fiduciary, for its scholarship program and other items listed as private-purpose trusts. In addition, the District accounts for funds held on behalf of students of the District. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The District excludes these activities from its other financial statements because the assets cannot be used by the District to finance its operations.

Fund Financial Statements

The fund financial statements of the District's major funds provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by state statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary, and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

The District's governmental funds reported a combined fund balance of \$14.1 million, which is an increase of \$1.6 million from the previous year total. The schedule below indicates the fund balance and the total change in fund balances from June 30, 2015 to June 30, 2016.

	<u>Fund Balance June 30, 2016</u>	<u>Fund Balance June 30, 2015</u>	<u>Increase (Decrease)</u>
General Fund	\$ 7,227,623	\$ 7,868,430	\$ (640,807)
Debt Service Fund	<u>6,870,138</u>	<u>4,619,248</u>	<u>2,250,890</u>
	<u>\$ 14,097,761</u>	<u>\$ 12,487,678</u>	<u>\$ 1,610,083</u>

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2016**

The decrease in fund balance for the general fund can be attributed mainly to an increase in the cost of instructional programs as well as an increase in retirement contributions PSERS.

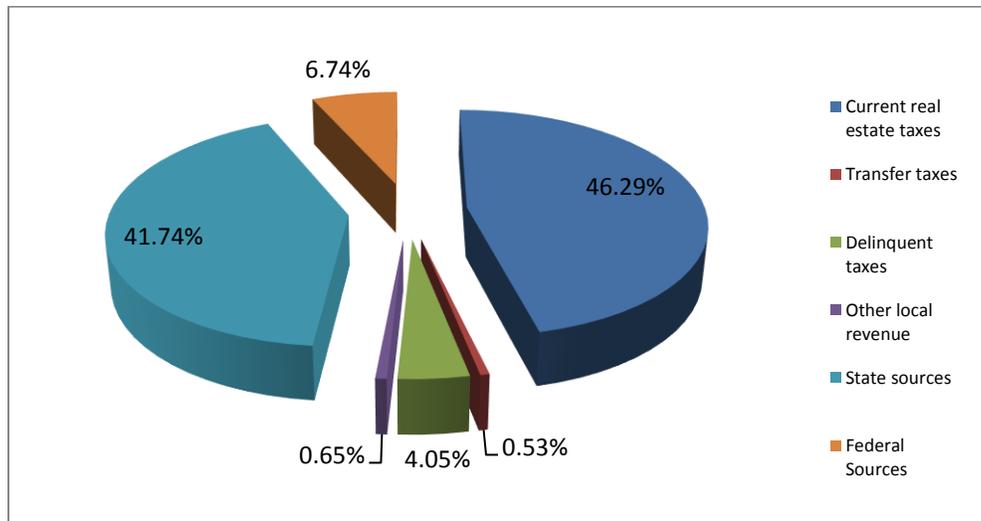
The capital projects fund does not report any fund balance due to the fact that the general fund subsidizes the cost of these capital projects and transfers funds to capital projects as funds are spent.

REVENUES

	Fiscal Year		Variance	
	2016	2015	Amount	%
General Fund:				
Current real estate taxes	\$ 32,955,423	\$ 31,927,202	\$ 1,028,221	3.22%
Transfer taxes	377,132	397,125	(19,993)	-5.03%
Delinquent taxes	2,885,222	2,669,384	215,838	8.09%
Other local revenue	460,152	790,799	(330,647)	-41.81%
State sources	29,719,958	28,310,751	1,409,207	4.98%
Federal sources	4,801,593	4,509,087	292,506	6.49%
TOTAL REVENUE	\$ 71,199,480	\$ 68,604,348	\$ 2,595,132	3.78%

Total general fund expenditures and other financing uses exceeded revenues and other financing sources by \$641 thousand. The millage rate for 2015-2016 was 39.4786 mills. The current year collection rate for 2015-2016 was approximately 91.49 percent.

The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

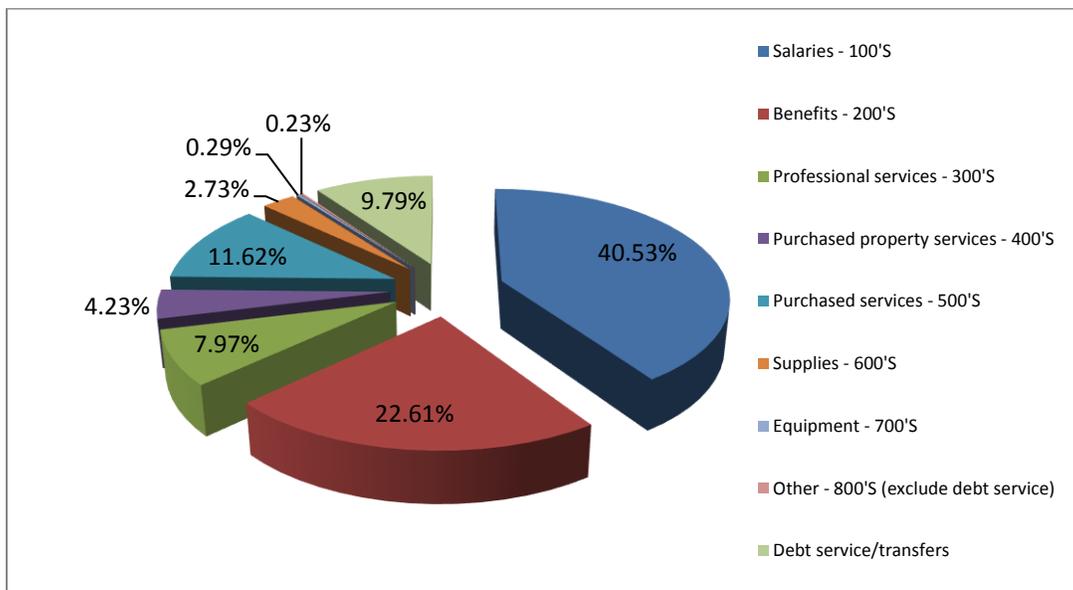


**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2016**

The District's current real estate tax revenue accounts for 46.29 percent of total general fund revenues, as illustrated in the graph on the previous page. State sources which include grants and subsidies accounted for 41.74 percent of general fund revenues.

As the graph below illustrates, the largest portion of general fund expenditures are for salaries and fringe benefits. The District is a service entity and, as such, is labor-intensive.



EXPENDITURES

Object	Fiscal Year		Variance	
	<u>2016</u>	<u>2015</u>	<u>Amount</u>	<u>%</u>
Salaries	\$ 29,114,311	\$ 28,704,340	\$ 409,971	1.4%
Benefits	16,242,084	15,076,110	1,165,974	7.7%
Professional services	5,727,398	5,569,639	157,759	2.8%
Purchased property services	3,040,289	2,991,285	49,004	1.6%
Purchased services	8,351,076	7,119,360	1,231,716	17.3%
Supplies	1,961,713	1,817,949	143,764	7.9%
Equipment	205,726	140,662	65,064	46.3%
Other	155,972	82,411	73,561	89.3%
Debt service/transfers	7,041,718	7,571,641	(529,923)	-7.0%
Total Expenditures by Object	<u>\$ 71,840,287</u>	<u>\$ 69,073,397</u>	<u>\$ 2,766,890</u>	<u>4.0%</u>

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2016**

General fund expenditures increased by \$2.77 million, or 4.0 percent. This can be attributed to the rising cost of retirement contributions to PSERS and the cost of providing instructional programs.

General Fund Budget Information

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the general fund.

The final budget amounts for expenditures reflect required changes in functional categories due to spending patterns.

EXPENDITURES:

Function Code	Description	Budgeted Amounts		Variance	
		Original	Final	Amount	%
	Instruction:				
1100	Regular programs	\$ 27,613,236	\$ 27,320,889	\$ (292,347)	-1.1%
1200	Special programs	14,667,829	14,667,829	-	0.0%
1300	Vocational programs	891,196	891,196	-	0.0%
1400	Other instructional programs	1,800,097	2,085,449	285,352	13.7%
1600	Higher education programs	340,056	340,056	-	0.0%
	Total Instruction	<u>45,312,414</u>	<u>45,305,419</u>	<u>(6,995)</u>	<u>-0.2%</u>
	Support Services:				
2100	Pupil personnel services	2,001,668	2,001,668	-	0.0%
2200	Instructional staff support	1,670,378	1,677,373	6,995	0.4%
2300	Administrative services	4,100,990	4,100,990	-	0.0%
2400	Pupil health	640,621	640,621	-	0.0%
2500	Business office	1,283,565	1,283,565	-	0.0%
2600	Maintenance and facilities	5,310,552	5,310,552	-	0.0%
2700	Student transportation services	4,101,359	4,101,359	-	0.0%
2800	Information services	454,742	454,742	-	0.0%
2900	Other support services	29,550	29,550	-	0.0%
	Total Support Services	<u>19,593,425</u>	<u>19,600,420</u>	<u>6,995</u>	<u>0.0%</u>
	Operation of Noninstructional Services:				
3200	Student activities	669,041	669,041	-	0.0%
3300	Community services	155,000	155,000	-	0.0%
	Total Operation of Noninstructional Services	<u>824,041</u>	<u>824,041</u>	<u>-</u>	<u>0.0%</u>
5110	Debt service	6,217,255	6,217,255	-	0.0%
	TOTAL EXPENDITURES	<u>\$ 71,947,135</u>	<u>\$ 71,947,135</u>	<u>\$ -</u>	<u>0.0%</u>

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2016**

Using spending variances in excess of \$50,000 and using 10 percent as a spending tolerance, the final budget amount for regular and other instructional programs was revised to cover the cost of increased other instructional programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$67.2 million invested in capital assets, net of accumulated depreciation; \$40 thousand of capital assets were allocated to the food service fund. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Debt

At June 30, 2016, the District had \$52 million in outstanding bonds, notes, and capital leases payable. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The District's property tax base is relatively flat and has remained so for a number of years. Assessed market values of taxable real estate increased slightly over the previous year. Very little new housing or industrial development is occurring within the District, which will ultimately create an increased burden on taxpayers in future years as education costs continue to rise.

The District's student enrollment for 2015-2016 was 4,572 and the enrollment in November 2016 was approximately the same as the 2015-2016 enrollment.

Future costs for the employer portion of the Pennsylvania School Employees' Retirement System are expected to increase and significantly impact future budgets. In addition, escalating healthcare premiums and contractual wage increases will increase expenditures in future periods.

The District will continue to benefit from notably low interest rates on newly refinanced general obligation debt, as well as from the federally subsidized Qualified Zone Academy Bonds and Qualified School Construction Bonds.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Vanessa R. Scott, Business Manager, at Southeast Delco School District, 1560 Delmar Drive, Folcroft, PA 19032, 610-522-4300.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016
(With Summarized Comparative Data for June 30, 2015)

	Governmental Activities	Business-type Activities	Totals	
			2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Cash and cash equivalents	\$ 11,106,629	\$ 86,667	\$ 11,193,296	\$ 13,967,901
Cash and cash equivalents with fiscal agent	1,839	-	1,839	1,895
Investments with fiscal agent	6,868,299	-	6,868,299	4,617,353
Internal balances	154,589	(154,589)	-	-
Taxes receivable	3,627,304	-	3,627,304	3,097,048
Due from other governments	2,905,236	278,226	3,183,462	2,042,555
Other receivables	169,392	191	169,583	83,615
Prepaid expenses	195,657	-	195,657	75,011
Inventories	-	-	-	14,745
Land	60,811	-	60,811	60,811
Land improvements	5,078,620	-	5,078,620	4,361,399
Construction-in-progress	-	-	-	385,868
Buildings and improvements	86,260,331	-	86,260,331	85,908,896
Furniture and equipment	6,837,238	310,082	7,147,320	6,964,755
Accumulated depreciation	(31,043,259)	(269,518)	(31,312,777)	(29,288,857)
TOTAL ASSETS	92,222,686	251,059	92,473,745	92,292,995
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred pension contributions	7,177,653	179,515	7,357,168	5,978,968
Deferred pension	216,152	5,406	221,558	86,402
Deferred charges on bond refunding	79,362	-	79,362	85,528
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,473,167	184,921	7,658,088	6,150,898
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 99,695,853	\$ 435,980	\$ 100,131,833	\$ 98,443,893
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)				
LIABILITIES:				
Accounts payable	\$ 943,406	\$ 2,545	\$ 945,951	\$ 1,818,580
Due to other governments	-	-	-	693,785
Accrued salaries and benefits	6,303,334	-	6,303,334	5,667,258
Accrued interest	1,239,867	-	1,239,867	1,218,843
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and notes payable in future years, net	2,507,662	-	2,507,662	2,552,357
Capital leases payable	172,505	-	172,505	161,153
Portion due or payable after one year:				
Bonds and notes payable in future years, net	48,714,996	-	48,714,996	49,692,811
Capital leases payable	618,138	-	618,138	784,555
Other post-employment benefits	1,996,315	-	1,996,315	1,931,063
Compensated absences/early retirement incentive plan	1,697,167	-	1,697,167	1,763,450
Net pension liability	94,658,565	2,367,435	97,026,000	89,532,000
TOTAL LIABILITIES	158,851,955	2,369,980	161,221,935	155,815,855
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension	3,043,872	76,128	3,120,000	8,742,000
NET POSITION (DEFICIT):				
Net investment in capital assets	15,259,802	40,564	15,300,366	15,287,524
Restricted for debt service	6,870,138	-	6,870,138	4,619,248
Unrestricted (deficit)	(84,329,914)	(2,050,692)	(86,380,606)	(86,020,734)
TOTAL NET POSITION (DEFICIT)	(62,199,974)	(2,010,128)	(64,210,102)	(66,113,962)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	\$ 99,695,853	\$ 435,980	\$ 100,131,833	\$ 98,443,893

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for the Year Ended June 30, 2015)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Deficit			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
							2016
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 46,431,449	\$ 28,648	\$ 11,345,572	\$ -	\$ (35,057,229)	-	\$ (34,613,169)
Instructional student support	4,700,982	-	532,265	-	(4,168,717)	-	(3,805,198)
Administrative and financial support services	5,528,961	-	527,390	-	(5,001,571)	-	(5,250,111)
Operation and maintenance of plant services	5,167,041	-	493,352	-	(4,673,689)	-	(4,814,516)
Pupil transportation	4,254,820	26,246	1,653,859	-	(2,574,715)	-	(2,586,891)
Student activities	793,256	27,082	76,067	-	(690,107)	-	(618,009)
Community services	141,856	30,275	-	-	(111,581)	-	(111,664)
Interest on long-term debt	3,748,759	-	980,873	1,538,444	(1,229,442)	-	(1,138,061)
TOTAL GOVERNMENTAL ACTIVITIES	70,767,124	112,251	15,609,378	1,538,444	(53,507,051)	-	(52,937,619)
BUSINESS-TYPE ACTIVITIES							
Food service	2,143,327	349,922	1,923,143	-	-	129,738	24,331
TOTAL BUSINESS-TYPE ACTIVITIES	2,143,327	349,922	1,923,143	-	-	129,738	24,331
TOTAL PRIMARY GOVERNMENT	\$ 72,910,451	\$ 462,173	\$ 17,532,521	\$ 1,538,444	(53,507,051)	129,738	(52,913,288)
GENERAL REVENUES							
Property taxes levied for general purposes					36,343,172	-	34,235,512
Taxes levied for specific purposes					377,132	-	397,125
Grants and entitlements not restricted to specific programs					17,426,427	-	16,879,032
Investment earnings					1,070,813	-	341,531
Miscellaneous					63,629	-	42,523
TOTAL GENERAL REVENUES					55,281,173	-	51,895,723
CHANGE IN NET DEFICIT					1,774,122	129,738	(1,017,565)
NET DEFICIT, BEGINNING OF YEAR					(63,974,096)	(2,139,866)	(65,096,397)
NET DEFICIT, END OF YEAR					\$ (62,199,974)	\$ (2,010,128)	\$ (66,113,962)

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL GOVERNMENTAL FUND BALANCES \$ 14,097,761

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

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

Land	\$ 60,811	
Land improvements	5,078,620	
Buildings and improvements	86,260,331	
Furniture and equipment	6,837,238	
Accumulated depreciation	<u>(31,043,259)</u>	67,193,741

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

Bonds and note payable, net	(51,222,658)	
Capital leases payable	(790,643)	
Other post-employment benefits	(1,996,315)	
Accumulated compensated absences/early retirement incentive plan	(1,697,167)	
Accrued interest	(1,239,867)	
Net pension liability	<u>(94,658,565)</u>	(151,605,215)

The issuance of debt resulted in deferred charges which will be amortized over the life of the new debt but do not represent current rights. 79,362

Debt service subsidy reimbursements in the statement of activities differs from the amount reported in the governmental funds because debt service related payments are recognized as expenditures in the funds when they are due; therefore, the related subsidy reimbursement is recognized as the debt payment is accrued, regardless of when it is due. 419,356

Deferred inflows and outflows of resources related to the District's pension plan do not represent current resources or uses of resources and, therefore, are not reported in the funds. Deferred inflows and outflows of resources consist of the following:

Deferred outflows of resources:		
Deferred pension contributions	7,177,653	
Deferred pension	216,152	
Deferred inflows of resources:		
Deferred pension	<u>(3,043,872)</u>	4,349,933

Some of the 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 unavailable in the funds. 3,265,088

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (62,199,974)

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for the Year Ended June 30, 2015)**

	Major Funds			Totals	
	General Fund	Debt Service Fund	Capital Projects Fund	2016	2015
REVENUES:					
Local sources	\$ 36,677,929	\$ 889,542	\$ -	\$ 37,567,471	\$ 36,010,866
State sources	29,719,958	-	-	29,719,958	28,310,751
Federal sources	4,801,593	-	-	4,801,593	4,509,087
TOTAL REVENUES	<u>71,199,480</u>	<u>889,542</u>	<u>-</u>	<u>72,089,022</u>	<u>68,830,704</u>
EXPENDITURES:					
Current:					
Instruction	44,794,274	-	-	44,794,274	42,643,874
Support services	19,040,040	-	-	19,040,040	18,072,939
Operation of noninstructional services	911,198	-	-	911,198	784,943
Capital outlay	-	-	849,558	849,558	1,121,494
Debt service	4,830,812	-	-	4,830,812	4,759,042
TOTAL EXPENDITURES	<u>69,576,324</u>	<u>-</u>	<u>849,558</u>	<u>70,425,882</u>	<u>67,382,292</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,623,156</u>	<u>889,542</u>	<u>(849,558)</u>	<u>1,663,140</u>	<u>1,448,412</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	1,361,348	849,558	2,210,906	2,812,599
Transfers out	(2,210,906)	-	-	(2,210,906)	(2,812,599)
Refund of prior year receipts	(53,057)	-	-	(53,057)	-
Refund of prior year expenditures	-	-	-	-	4,857
Proceeds from sale of capital assets	-	-	-	-	6,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,263,963)</u>	<u>1,361,348</u>	<u>849,558</u>	<u>(53,057)</u>	<u>11,357</u>
NET CHANGE IN FUND BALANCES	(640,807)	2,250,890	-	1,610,083	1,459,769
FUND BALANCES, BEGINNING OF YEAR	<u>7,868,430</u>	<u>4,619,248</u>	<u>-</u>	<u>12,487,678</u>	<u>11,027,909</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,227,623</u>	<u>\$ 6,870,138</u>	<u>\$ -</u>	<u>\$ 14,097,761</u>	<u>\$ 12,487,678</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,610,083
Amounts reported for governmental activities in the statement of activities are different because:	
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 depreciation and disposals exceeded capital outlays in the period.	(1,142,765)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	502,527
Debt proceeds are reported as financing sources in the governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, incurring debt increases liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	1,201,124
Governmental funds report bond discounts as expenditures, and deferred bond refunding option proceeds and bond premiums as revenue. However, these amounts are reported on the statement of net position as deferred charges and credits and are amortized over the life of the debt.	(29,715)
In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave), other post-employment benefits ("OPEB"), and special termination benefits (early retirement) – are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the net effect of the differences in the treatment of these items.	1,031
Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the District's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.	(349,893)
Debt service subsidy reimbursements in the statement of activities differs from the amount reported in the governmental funds because debt service-related payments are recognized as expenditures in the funds when they are due, therefore, the related subsidy reimbursements are recognized as the related debt payment is accrued, regardless of when it is due.	2,754
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>(21,024)</u>
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,774,122</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 36,695,012	\$ 36,695,012	\$ 36,677,929	\$ (17,083)
State sources	30,076,742	30,076,742	29,719,958	(356,784)
Federal sources	4,474,791	4,474,791	4,801,593	326,802
TOTAL REVENUES	<u>71,246,545</u>	<u>71,246,545</u>	<u>71,199,480</u>	<u>(47,065)</u>
EXPENDITURES				
Instruction:				
Regular programs	27,613,236	27,320,889	27,073,358	247,531
Special programs	14,667,829	14,667,829	14,280,863	386,966
Vocational programs	891,196	891,196	858,438	32,758
Other instructional programs	1,800,097	2,085,449	2,241,319	(155,870)
Community/Junior college educational programs	340,056	340,056	340,296	(240)
Total Instruction	<u>45,312,414</u>	<u>45,305,419</u>	<u>44,794,274</u>	<u>511,145</u>
Support services:				
Pupil personnel services	2,001,668	2,001,668	2,133,171	(131,503)
Instructional staff services	1,670,378	1,677,373	1,859,568	(182,195)
Administrative services	4,100,990	4,100,990	3,873,356	227,634
Pupil health	640,621	640,621	618,750	21,871
Business services	1,283,565	1,283,565	1,016,128	267,437
Operation and maintenance of plant services	5,310,552	5,310,552	4,989,747	320,805
Student transportation services	4,101,359	4,101,359	4,104,794	(3,435)
Central	454,742	454,742	414,128	40,614
Other support services	29,550	29,550	30,398	(848)
Total Support Services	<u>19,593,425</u>	<u>19,600,420</u>	<u>19,040,040</u>	<u>560,380</u>
Operation of noninstructional activities:				
Student activities	669,041	669,041	769,342	(100,301)
Community services	155,000	155,000	141,856	13,144
Total Operation of Noninstructional Services	<u>824,041</u>	<u>824,041</u>	<u>911,198</u>	<u>(87,157)</u>
Debt service	6,217,255	6,217,255	4,830,812	1,386,443
TOTAL EXPENDITURES	<u>71,947,135</u>	<u>71,947,135</u>	<u>69,576,324</u>	<u>2,370,811</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(700,590)</u>	<u>(700,590)</u>	<u>1,623,156</u>	<u>2,323,746</u>
OTHER FINANCING USES				
Transfers out	-	-	(2,210,906)	(2,210,906)
Refunds of prior year receipts	-	-	(53,057)	(53,057)
TOTAL OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>(2,263,963)</u>	<u>(2,263,963)</u>
NET CHANGE IN FUND BALANCE	(700,590)	(700,590)	(640,807)	59,783
FUND BALANCE, BEGINNING OF YEAR	7,868,430	7,868,430	7,868,430	-
FUND BALANCE, END OF YEAR	<u>\$ 7,167,840</u>	<u>\$ 7,167,840</u>	<u>\$ 7,227,623</u>	<u>\$ 59,783</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2016
(With Comparative Data for June 30, 2015)

	Major Fund	
	Food Service Fund	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 86,667	\$ 90,145
Due from other governments	278,226	79,582
Other receivables	191	7,060
Inventories	-	14,745
Total Current Assets	365,084	191,532
CAPITAL ASSETS:		
Furniture and equipment	310,082	310,082
Accumulated depreciation	(269,518)	(253,716)
Capital Assets, Net	40,564	56,366
TOTAL ASSETS	405,648	247,898
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	179,515	145,887
Deferred pension	5,406	2,108
TOTAL DEFERRED OUTFLOWS OF RESOURCES	184,921	147,995
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 590,569	\$ 395,893
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,545	\$ 1,565
Accrued salaries and benefits	-	538
Due to other funds	154,589	135,770
Total Current Liabilities	157,134	137,873
NONCURRENT LIABILITIES:		
Net pension liability	2,367,435	2,184,581
DEFERRED INFLOWS OF RESOURCES		
Deferred pension	76,128	213,305
NET POSITION (DEFICIT):		
Net investment in capital assets	40,564	56,366
Unrestricted (deficit)	(2,050,692)	(2,196,232)
Total Net Deficit	(2,010,128)	(2,139,866)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	\$ 590,569	\$ 395,893

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Data for the Year Ended June 30, 2015)

	Major Fund	
	Food Service Fund	
	2016	2015
OPERATING REVENUES		
Food service revenues	\$ 349,922	\$ 457,032
Total Operating Revenues	<u>349,922</u>	<u>457,032</u>
OPERATING EXPENSES		
Salaries	709,067	705,221
Employee benefits	348,346	340,940
Supplies	1,035,213	1,023,597
Equipment repairs	19,504	18,983
Other expenses	15,395	3,844
Depreciation	15,802	14,204
Total Operating Expenses	<u>2,143,327</u>	<u>2,106,789</u>
OPERATING LOSS	<u>(1,793,405)</u>	<u>(1,649,757)</u>
NONOPERATING REVENUES		
State sources	84,872	81,935
Federal sources	1,838,271	1,592,153
Total Nonoperating Revenues	<u>1,923,143</u>	<u>1,674,088</u>
CHANGE IN NET POSITION	129,738	24,331
NET DEFICIT, BEGINNING OF YEAR	<u>(2,139,866)</u>	<u>(2,164,197)</u>
NET DEFICIT, END OF YEAR	<u>\$ (2,010,128)</u>	<u>\$ (2,139,866)</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Data for the Year Ended June 30, 2015)

	Major Fund	
	Food Service Fund	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services	\$ 371,536	\$ 449,972
Payments to suppliers	(954,748)	(1,228,838)
Payments to employees	(1,049,199)	(1,013,491)
NET CASH USED BY OPERATING ACTIVITIES	(1,632,411)	(1,792,357)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State sources	75,927	97,625
Federal sources	1,553,006	1,800,859
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,628,933	1,898,484
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	-	(15,982)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(15,982)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,478)	90,145
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	90,145	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 86,667	\$ 90,145
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,793,405)	\$ (1,649,757)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	15,802	14,204
Donated commodities	95,566	68,445
(Increase) Decrease in:		
Inventories	14,745	-
Other receivables	6,869	(7,060)
Deferred outflows of resources - pension	(36,926)	(35,432)
Increase (Decrease) in:		
Accounts payable	980	(64,280)
Accrued salaries and benefits	(538)	538
Due to other funds	18,819	(186,579)
Net pension liability	182,854	(145,741)
Deferred inflows of resources - pension	(137,177)	213,305
NET CASH USED BY OPERATING ACTIVITIES	\$ (1,632,411)	\$ (1,792,357)
<u>SUPPLEMENTAL DISCLOSURE</u>		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	\$ 95,566	\$ 68,445

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2016**

	Private - Purpose Trust	Agency
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 7,383	\$ 89,525
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 7,383</u>	<u>\$ 89,525</u>
LIABILITIES AND NET POSITION		
LIABILITIES:		
Due to student groups	\$ -	\$ 89,525
NET POSITION:		
Reserved for trust	<u>7,383</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,383</u>	<u>\$ 89,525</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Data for the Year Ended June 30, 2015)

	Private-Purpose Trust	
	2016	2015
ADDITIONS		
Local sources	\$ 1,005	\$ 8,477
TOTAL ADDITIONS	1,005	8,477
DEDUCTIONS		
Operation of non-instructional activities	6,777	8,900
TOTAL DEDUCTIONS	6,777	8,900
CHANGE IN NET POSITION	(5,772)	(423)
NET POSITION, BEGINNING OF YEAR	13,155	13,578
NET POSITION, END OF YEAR	\$ 7,383	\$ 13,155

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southeast Delco School District ("the District") operates one full-day kindergarten, four elementary schools (1-8), and one senior high school to provide education and related services to the residents of the Township of Darby and the Boroughs of Collingdale, Folcroft, and Sharon Hill. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member Board form of government.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 and GASB Statement No. 61, established the criteria for determining the activities, organizations, and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Entity-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements include the financial activities of the primary government, except for fiduciary funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental program. Expenses are those that are specifically associated with a service or

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on their use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital projects funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for the acquisition, construction, and renovation of major capital facilities and their related capital assets.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, 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 government considers tax revenue and similar revenue streams to be available if collected within 60 days of the end of the fiscal period. During the year ended June 30, 2016, the District recognized certain revenues from the Commonwealth of Pennsylvania which were received more than 60 days after year end but are usually received within 60 days of year end. The District determined that their exclusion would be misleading to the financial statements. Revenue from federal, state, and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs such as depreciation and amortization are not recognized in the governmental funds.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Specifically, general fund expenditures that partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the proprietary fund; similarly, the proprietary fund does not recognize a cost for the building space it occupies.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's proprietary fund include food production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations, and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of students of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The 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.

Investments

Investments are recorded at fair value.

In establishing the fair value of investments, the District uses the following hierarchy. The lowest available level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances." The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Property Taxes

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

July 1 - August 31	-	Discount period, 2% of gross levy
September 1 - October 31	-	Face Period
November 1 to collection	-	Penalty Period, 10% of gross levy
February 28	-	Lien Date

Assessed valuations of property are determined by the Delaware County Board of Assessments. The District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal year 2015-2016 was 39.4786 mills (\$39.4786 for \$1,000 of assessed valuation).

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

Buildings	45 - 50 years
Land improvements	20 - 30 years
Furniture and equipment	3 - 20 years

Compensated Absences

District policies permit employees to accumulate earned but unused vacation and sick days as stipulated in each bargaining unit's contract. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities, net of premiums and discounts, in the entity-wide financial statements and the proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types 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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, generally are reported as debt service expenditures.

Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the financial statements will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The District currently has four types of items that qualify for reporting in this category. Deferred amounts on the refunding of bonds are reflected as deferred outflows of resources on the entity-wide statement of net position. Delinquent taxes not collected within 60 days of year end and, therefore, not available under modified accrual reporting, are reflected as deferred inflows of resources on the general fund balance sheet. Pension

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

contributions made subsequent to the measurement date, and therefore not reflected in the net pension liability under full accrual basis reporting, are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

Fund Equity

Fund balances of the governmental funds are classified as applicable, as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable 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 constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of School Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Finance Committee or the Business Manager may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board, Finance Committee, or Business Manager have provided otherwise in their commitment or assignment actions.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Implementation of GASB Statement

During the year ended June 30, 2016, the District implemented GASB Statement No. 72, "Fair Value Measurement and Application." GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the District's financial statement footnotes.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for all capital projects funds.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to the date final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont'd)

Excess of Expenditures Over Appropriations

General fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2016:

Other instructional programs	\$	155,870
Community/Junior college educational programs	\$	240
Pupil personnel services	\$	131,503
Instructional staff services	\$	182,195
Student transportation services	\$	3,435
Other support services	\$	848
Student activities	\$	100,301

The excess of expenditures over appropriations was financed with positive budget variances in other functions.

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2016, the carrying amount of the District's deposits was \$11,292,043, and the bank balance was \$11,923,744. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,204,356 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

The remaining cash deposits of the District in the amount of \$10,469,388 are in the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. As of June 30, 2016, PLGIT was rated as AAAM by a nationally recognized statistical rating agency.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

Investments

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation, or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools, or mutual funds. During the year ended June 30, 2016, permitted investments were expanded to include highly-rated commercial paper, bankers' acceptances, and negotiable certificates of deposit.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Matures in Greater Than Five Years</u>
U.S. Treasury bonds and notes	\$ 6,868,299	\$ 6,868,299	\$ 6,868,299

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the District's investments in U.S. Treasury bonds and notes had maturity dates of greater than five years.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

Credit Risk

The District has an investment policy that limits its investment choices to those with the highest credit rating available for such instruments issued by a recognized organization. The District's investments in U.S. Treasury bonds and notes are backed by the full faith and credit of the U.S. government and are not considered to have credit risk.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 60,811	\$ -	\$ -	\$ 60,811
Construction-in-progress	385,868	-	385,868	-
Total Capital Assets Not Being Depreciated	<u>446,679</u>	<u>-</u>	<u>385,868</u>	<u>60,811</u>
Capital assets being depreciated:				
Land improvements	4,361,399	717,221	-	5,078,620
Buildings	85,908,896	351,435	-	86,260,331
Furniture and equipment	6,654,673	182,565	-	6,837,238
Total Capital Assets Being Depreciated	<u>96,924,968</u>	<u>1,251,221</u>	<u>-</u>	<u>98,176,189</u>
Less accumulated depreciation for:				
Land improvements	2,651,427	226,565	-	2,877,992
Buildings	19,506,649	1,840,328	-	21,346,977
Furniture and equipment	6,877,065	163,618	222,393	6,818,290
Total Accumulated Depreciation	<u>29,035,141</u>	<u>2,230,511</u>	<u>222,393</u>	<u>31,043,259</u>
Total Capital Assets Being Depreciated, Net	<u>67,889,827</u>	<u>(979,290)</u>	<u>(222,393)</u>	<u>67,132,930</u>
Governmental Activities Assets, Net	<u>\$68,336,506</u>	<u>\$(979,290)</u>	<u>\$ 163,475</u>	<u>\$67,193,741</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated:				
Furniture and equipment	\$ 310,082	\$ -	\$ -	\$ 310,082
Total Capital Assets Being Depreciated	<u>310,082</u>	<u>-</u>	<u>-</u>	<u>310,082</u>
Less accumulated depreciation for:				
Furniture and equipment	253,716	15,802	-	269,518
Total Accumulated Depreciation	<u>253,716</u>	<u>15,802</u>	<u>-</u>	<u>269,518</u>
Business-type Activities, Net	<u>\$ 56,366</u>	<u>\$ (15,802)</u>	<u>\$ -</u>	<u>\$ 40,564</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
Instruction	\$ 1,546,571
Instructional student support	159,217
Administrative and financial support services	184,163
Operation and maintenance of plant services	172,276
Pupil transportation	141,722
Student activities	<u>26,562</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,230,511</u>
Business-type Activities - Food Service	<u>\$ 15,802</u>

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Bonds and notes payable, net	\$ 52,245,168	\$ -	\$ 1,022,510	\$ 51,222,658
Capital leases payable	945,708	-	155,065	790,643
Other post-employment benefits	1,931,063	65,252	-	1,996,315
Accumulated compensated absences/early retirement incentive plan	1,763,450	-	66,283	1,697,167
TOTALS	\$ 56,885,389	\$ 65,252	\$ 1,243,858	\$ 55,706,783

Payments of long-term debt are expected to be funded by the general fund.

General Obligation Bonds

Series of 1999, capital appreciation bonds, maturing through February 1, 2025, accreting interest from 4.4% to 5.3%, payable on February 1. \$ 5,798,821

Series of 2011, maturing through October 1, 2028, bearing interest from 1.00% to 3.65%, payable on April 1 and October 1. The proceeds of the bonds were used to refund a portion of the District's outstanding General Obligation Bonds, Series of 2006. 9,975,000

Series of 2012, maturing through October 1, 2029, bearing interest from 1.00% to 3.70%, payable on April 1 and October 1. The proceeds of the bonds were used to refund a portion of the District's outstanding General Obligation Bonds, Series of 2006. 4,140,000

General Obligation Notes

Series of 2004, maturing through September 25, 2019, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. 653,000

Series B of 2010 QZAB, requiring sinking fund deposits through September 2028, bearing interest of 6.495%, interest payable semi-annually in March and September. 15,750,000

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 GENERAL LONG-TERM DEBT (cont'd)

Series C of 2011 QSCB, requiring sinking deposits through September 2029, bearing interest of 5.088%, interest payable semi-annually in March and September.	5,900,000
Series B of 2011 QZAB, requiring sinking fund deposits through September 2026, bearing interest of 5.426%, interest payable semi-annually in March and September.	7,008,000
Series D of 2011 QZAB, requiring sinking fund deposits through September 2029, bearing interest of 5.138%, interest payable semi-annually in March and September.	<u>2,300,000</u>
TOTAL	<u>\$ 51,524,821</u>

Bonds and Notes payable is comprised of the following:

Bonds and Notes payable, at face	\$ 51,524,821
Unamortized discount	<u>(302,163)</u>
Bonds and Notes payable, net	<u>\$ 51,222,658</u>
Amounts due in one year	\$ 2,507,662
Amounts due after one year	<u>48,714,996</u>
Bonds and Notes payable, net	<u>\$ 51,222,658</u>

Presented below is a summary of debt service requirements to maturity by years:

Year Ending June 30,	Principal Maturities	Interest Maturities	Total Maturities
2017	\$ 2,531,211	\$ 3,560,724	\$ 6,091,935
2018	2,607,947	3,595,402	6,203,349
2019	2,596,758	3,626,283	6,223,041
2020	2,614,980	3,652,824	6,267,804
2021	2,695,112	3,680,759	6,375,871
2022 - 2026	15,624,288	16,416,261	32,040,549
2027 - 2030	<u>16,796,607</u>	<u>4,867,920</u>	<u>21,664,527</u>
	45,466,903	39,400,173	84,867,076
Sinking fund deposits	<u>6,057,918</u>	-	<u>6,057,918</u>
	<u>\$ 51,524,821</u>	<u>\$ 39,400,173</u>	<u>\$ 90,924,994</u>

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL LEASES - LESSEE

The District has entered into lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

Office equipment, computers, vehicles, and buses	\$ 1,633,662
Less: accumulated depreciation	<u>(762,193)</u>
 TOTAL	 <u>\$ 871,469</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

Year Ending June 30,

2017	\$ 210,651
2018	156,623
2019	161,994
2020	115,306
2021	115,306
2022 - 2023	<u>144,132</u>
Total minimum lease payments	904,012
Less: amount representing interest	<u>(113,369)</u>
 Present value of minimum lease payments	 <u>\$ 790,643</u>

NOTE 7 OPERATING LEASES

The District currently is obligated under operating lease agreements for equipment. The following is a schedule by years of future minimum lease payments:

Year Ending June 30,

2017	\$ 230,973
2018	876,809
2019	<u>11,280</u>
 Total	 <u>\$ 1,119,062</u>

The total amount charged to expense for the year ended June 30, 2016 was \$262,923.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable to</u>	<u>Amount</u>	<u>Payable from</u>	<u>Amount</u>
General Fund	\$ 145,689	Food Service	\$ 145,689
Capital Projects Fund	<u>8,900</u>	Food Service	<u>8,900</u>
	<u>\$ 154,589</u>		<u>\$ 154,589</u>

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end.

Interfund transfers for the year ended June 30, 2016 are as follows:

<u>Transfer In</u>	<u>Amount</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects Fund	\$ 849,558	General Fund	\$ 849,558
Debt Service Fund	<u>1,361,348</u>	General Fund	<u>1,361,348</u>
	<u>\$2,210,906</u>		<u>\$2,210,906</u>

Transfers represent funds transferred from the general fund to subsidize capital needs and to support future debt service.

NOTE 9 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in 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 comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at www.pfers.state.pa.us.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

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 introduces benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service. Benefits are generally equal to two percent or two and one-half percent, depending upon the 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 may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to two percent or two and one-half percent, depending upon the 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 for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Member Contributions

Active members who joined the system prior to July 22, 1983 contributed at 5.25 percent (Membership Class T-C), or at 6.50 percent (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 percent (Membership Class T-C), or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

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

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

Employer Contributions

The District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the 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. For the year ended June 30, 2016, the rate of the employer contribution was 25.84 percent of covered payroll, which was comprised of 25.00 percent for pension contributions and 0.84 percent for healthcare contributions. The District's contribution to PSERS for the year ended June 30, 2016 was \$7,604,369, of which \$7,357,168 related to pension contributions and \$247,201 related to post-employment health insurance assistance.

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

At June 30, 2016, the District reported a liability of \$97,026,000 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 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 District's proportion was 0.2240 percent, which was a decrease of 0.0022 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$7,715,812. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 196,000
Changes in proportions	-	2,524,000
Difference between expected and actual experience	-	400,000
Difference between employer contributions and proportionate share of total contributions	221,558	-
Contributions subsequent to the date of measurement	7,357,168	-
	<u>\$ 7,578,726</u>	<u>\$ 3,120,000</u>

Deferred outflows of resources were reported as \$7,357,168, resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions and will be recognized in pension expense as follows:

Year Ended June 30,

2017	\$ (1,236,186)
2018	(1,236,186)
2019	(1,236,186)
2020	810,116
	<u>\$ (2,898,442)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2016 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 percentage of pay.
- Investment return – 7.50 percent, including inflation of 3.00 percent.
- Salary increases – Effective average of 5.50 percent, which reflects an allowance for inflation of 3.00 percent, real wage growth of 1.00 percent, and merit or seniority increases of 1.50 percent.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (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.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

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

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

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

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

<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>100.00%</u>	

The above was the PSERS 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.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

Discount Rate

The discount used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates which are actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.50 percent, 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 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease 6.50%	Current Rate Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 119,594,000	\$ 97,026,000	\$ 78,058,000

NOTE 10 JOINT VENTURES

The District participates in a joint venture with the other school districts of Delaware County, Pennsylvania in the operation of a Vocational-Technical School Authority ("DCVTSA"). The DCVTSA is governed by seven members, each of whom must be a citizen of a school district where the DCVTSA leases a project. The DCVTSA oversees acquiring, holding, constructing, improving, and maintaining the public area vocational-technical school buildings. The financial statements of the Vocational-Technical School Authority are available from the DCVTSA located at 200 Yale Avenue, Morton, Pennsylvania 19070.

The District also participates in a joint venture with other school districts of Delaware County, Pennsylvania to support the Delaware County Community College. The financial statements of the Community College Authority are available from the Delaware County Community College Authority ("DCCCA") located at 901 South Media Line Road, Media, Pennsylvania 19063.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 JOINT VENTURES (cont'd)

The District has entered into a lease agreement with the DCCCA to provide rental payments to retire the Authority's outstanding debt obligations. The lease agreement generally provides that in the event the Authority either retires all of its outstanding obligations which were issued to finance school facilities construction or acquisition, or accumulate sufficient reserves to cover such obligations prior to the expiration of the applicable schedules, there will be no subsequently scheduled rental payments made. Inasmuch as the annual rentals include reserve funds which either are invested by the Authority or used for advance retirement of obligations, it is anticipated that less than scheduled rentals will eventually be paid.

Future Authority rental payments are:

Year Ending June 30,

2017	\$	72,740
2018		72,621
2019		72,589
2020		72,493
2021		72,379
2022 - 2026		323,815
2027 - 2031		310,982
2032 - 2033		167,981
Total		1,165,600
Less: Interest requirements		(304,121)
Outstanding rental payments	\$	861,479

NOTE 11 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the District's finances.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 RISK MANAGEMENT

The 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. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2015-2016 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 13 SPECIAL TERMINATION BENEFITS

The District from time to time offers additional retirement incentives, known as early retirement incentive plans ("ERIPs") to senior professional and administrative staff contemplating retirement. There is no contractual requirement for the District to offer ERIP incentives. These special termination benefits are formally approved by Board action in the year an ERIP plan is implemented.

The District's current ERIP plans provide for the payment of each of the participants' healthcare premiums. Currently, eight retirees of the District are participating in the District's ERIP plans. For five of the eight retirees, the District will pay their medical, dental, drug, and vision insurance costs for the remainder of their lives. For the other retirees, the District will pay the employee's medical, dental, drug, and vision insurance costs until the age of 65. During the year ended June 30, 2016, the District paid \$180,557 in healthcare costs for its retirees. The estimated present value of future healthcare payments for retirees is \$911,176 and is recorded as a liability in the governmental activities as of June 30, 2016. The annual healthcare cost trend rate used to estimate the cost of the medical insurance benefit was 6.5 percent, declining to an ultimate rate of 4.2 percent.

NOTE 14 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. For fiscal year 2016, plan members receiving benefits contributed \$611,735 through their required monthly contributions.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Annual required contribution	\$ 384,938
Interest on net OPEB obligation	86,898
Adjustment to annual required contribution	<u>(118,551)</u>
Annual OPEB cost (expense)	353,285
Contributions made	<u>(288,033)</u>
Increase in net OPEB obligation	65,252
Net OPEB obligation - beginning of year	<u>1,931,063</u>
Net OPEB obligation - end of year	<u>\$ 1,996,315</u>

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2014	\$ -	\$3,301,872	\$3,301,872	0.00%	\$22,884,704	14.43%
7/1/2012	\$ -	\$5,200,460	\$5,200,460	0.00%	\$24,528,124	21.20%
7/1/2010	\$ -	\$7,250,576	\$7,250,576	0.00%	\$26,448,530	27.41%

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Actuarial valuations of an ongoing plan involve 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 healthcare cost trends. 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.

Actuarial 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 actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial 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 normal actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2015 was 22 years.

NOTE 15 HEALTHCARE TRUST

The District participates in the Delaware County Public Schools Healthcare Trust, a cost-sharing multiple-employer welfare benefit plan administered by the Delaware County Intermediate Unit. Both the District and employees contribute to the cost of insurance premiums. The Healthcare Trust was established in 2013 to provide Districts with medical coverage at an affordable price. The Trust works with a broker consultant and carriers to create comprehensive health benefits. The Trust has an excess (stop-loss) insurance policy to limit the self-insured loss retention on individual health insurance claims. The policy provides insurance for losses in excess of the maximum self-insured loss retention of \$250,000. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the trust. The Trust can be reached at 200 Yale Avenue, Morton, PA 19070.

The District's contributions to the Trust, including that of its employees for the year ended June 30, 2016, totaled \$5,431,186.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 16 DEFICIT NET POSITION

For governmental activities, business-type activities, and food service fund, the unrestricted net deficit amounts of \$84,329,914 (governmental activities) and \$2,050,692 (business-type activities and food service fund), respectively, includes the effect of the deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the District's share of the net pension liability. This is offset by the District's actuarially determined pension liability and the deferred inflows resulting from the differences between projected and actual investment earnings, and projected and actual experience.

NOTE 17 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through December 9, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTHEAST DELCO SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Pennsylvania Public School Employees' Retirement System (PSERS)**

	MEASUREMENT DATE	
	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.2240%	0.2262%
District's proportion of the net pension liability - dollar value	\$ 97,026,000	\$ 89,532,000
District's covered employee payroll	\$ 28,326,239	\$ 28,864,272
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	342.53%	310.18%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**SOUTHEAST DELCO SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 7,357,168	\$ 5,806,879
Contributions in relation to the contractually required contribution	<u>7,357,168</u>	<u>5,806,879</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 29,428,672	\$ 28,326,239
Contributions as a percentage of covered-employee payroll	25.00%	20.50%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT SUPPLEMENT

INDEPENDENT AUDITOR'S
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

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December 9, 2016

Board of School Directors
Southeast Delco School District
Folcroft, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southeast Delco School District ("the District"), Folcroft, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Southeast Delco School District

Compliance and Other Matters

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

Purpose of this Report

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

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

December 9, 2016

Board of School Directors
Southeast Delco School District
Folcroft, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Southeast Delco School District's ("the District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

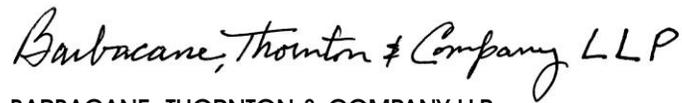
Report on Internal Control Over Compliance

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

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

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

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


BARBACANE, THORNTON & COMPANY LLP

SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major program [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

 Yes X No

Identification of major program:

CFDA Numbers

Name of Federal Program or Cluster

10.555, 10.553

Child Nutrition Cluster

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

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes No

SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (UNEARNED) REVENUE 07/01/2015	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 06/30/2016	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Education											
Passed through Pennsylvania Department of Education											
Title I Grants to Local Educational Agencies	I	84.010	013-15-0402	08/20/14-09/30/15	\$1,375,225	\$ 371,330	\$ 155,485	\$ 215,845	\$ 215,845	\$ -	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-16-0402	09/02/15-09/30/16	1,215,595	1,030,022	-	1,121,821	1,121,821	91,799	-
Total CFDA #84.010						1,401,352	155,485	1,337,666	1,337,666	91,799	-
Title II - Improving Teacher Quality	I	84.367	020-15-0402	08/12/14-09/30/15	279,660	19,900	19,900	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-16-0402	09/02/15-09/30/16	278,573	193,067	-	206,975	206,975	13,908	-
Total CFDA #84.367						212,967	19,900	206,975	206,975	13,908	-
Twenty-First Century Community Learning Centers											
Twenty-First Century Community Learning Centers	I	84.287	4100060877	07/01/14-06/30/15	351,083	227,606	215,476	67,312	67,312	55,182	-
Twenty-First Century Community Learning Centers	I	84.287	4100060877	07/01/15-06/30/16	357,546	196,795	-	357,546	357,546	160,751	-
Twenty-First Century Community Learning Centers	I	84.287	4100068099	07/01/14-06/30/15	160,368	160,368	135,132	25,236	25,236	-	-
Twenty-First Century Community Learning Centers	I	84.287	4100068099	07/01/15-06/30/16	448,776	350,056	-	448,776	448,776	98,720	-
Total CFDA #84.287						934,825	350,608	898,870	898,870	314,653	-
Subgrant from U.S. Department of Education											
Passed through Delaware County Intermediate Unit	I	84.027	N/A	07/01/15-06/30/16	730,590	730,590	-	730,590	730,590	-	-
Total CFDA #84.027						730,590	-	730,590	730,590	-	-
I.D.E.A. - Preschool Grants											
I.D.E.A. - Preschool Grants	I	84.173	N/A	07/01/14-06/30/15	6,893	6,893	6,893	-	-	-	-
I.D.E.A. - Preschool Grants	I	84.173	N/A	07/01/15-06/30/16	4,528	-	-	4,528	4,528	4,528	-
Total CFDA #84.173						6,893	6,893	4,528	4,528	4,528	-
Total I.D.E.A. Program Cluster						737,483	6,893	735,118	735,118	4,528	-
Total I.D.E.A. Program Cluster						3,286,627	532,886	3,178,629	3,178,629	424,888	-
TOTAL U.S. DEPARTMENT OF EDUCATION											
U.S. Department of Health and Human Services											
Passed through PA Department of Education	I	93.778	N/A	07/01/14-06/30/15	N/A	6,643	6,643	-	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/15-06/30/16	N/A	3,437	-	12,738	12,738	9,301	-
Medical Assistance Program						10,060	6,643	12,738	12,738	9,301	-
Total U.S. Department of Health and Human Services						10,060	6,643	12,738	12,738	9,301	-

Continued on next page.

**SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (UNEARNED) REVENUE 07/01/2015	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 06/30/2016	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
(cont'd)											
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	95,566	-	95,566	95,566	-	-
Passed through Pennsylvania Department of Education											
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	61,995	61,995	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	1,229,737	-	1,448,023	1,448,023	218,286	-
Total CFDA #10.555						1,387,298	61,995	1,543,589	1,543,589	218,286	-
Breakfast Program	I	10.553	N/A	07/01/14-06/30/15	N/A	13,618	13,618	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	247,656	-	294,682	294,682	47,026	-
Total CFDA #10.553						261,274	13,618	294,682	294,682	47,026	-
Total Child Nutrition Cluster						1,648,572	75,613	1,838,271	1,838,271	265,312	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,648,572	75,613	1,838,271	1,838,271	265,312	-
TOTAL FEDERAL AWARDS						\$4,945,279	\$ 615,142	\$ 5,029,638	\$ 5,029,638	\$ 699,501	\$ -

Source Code:

I = Indirect Funding

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE B BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note C. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555, National School Lunch Program - Commodities, represent surplus food consumed by the District during the 2015-2016 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2016 was \$219,508.

NOTE E BUILD AMERICA BONDS

The District was eligible to participate in the School Construction Bonds Program through the American Recovery and Reinvestment Act. As such, the District is eligible for reimbursement of certain amounts relating to the future debt service due on the bonds. These reimbursements are not considered federal financial assistance. The amount recognized for the year ended June 30, 2016 was \$1,535,690.

NOTE F INDIRECT COST RATE

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