



**Wallingford-Swarthmore
School District
Wallingford, Pennsylvania
Delaware County**

Financial Statements
Year Ended June 30, 2016



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WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

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WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Wallingford-Swarthmore School District
Wallingford, Pennsylvania**

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 Wallingford-Swarthmore School District, Wallingford, Pennsylvania as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Wallingford-Swarthmore School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wallingford-Swarthmore School District, Wallingford, Pennsylvania as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited Wallingford-Swarthmore School District's 2015 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 22, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, other post-employment benefits schedule of funding progress, the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 13 and 44 through 47 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 Wallingford-Swarthmore School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants 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 supplemental data is presented for purposes of additional analysis and is not a required part of the financial statements.

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

The supplemental data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016, on our consideration of the Wallingford-Swarthmore School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wallingford-Swarthmore School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
November 23, 2016**

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Management's discussion and analysis ("**MD&A**") of the financial performance of the Wallingford-Swarthmore School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2016. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of three elementary schools, one middle school and one high school consisting of approximately 3,555 students. The District which covers 6.9 square miles is located in Delaware County, west of Philadelphia, in southeastern Pennsylvania and is comprised of the boroughs of Swarthmore, Rutledge and Rose Valley and the Township of Nether Providence. During 2015-2016, there were 493 full and part-time employees in the District consisting of 301 teachers and professional staff, 23 administrators, including general administration, principals and supervisors, and 169 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff and classroom assistants.

DISTRICT MISSION STATEMENT

The District is committed to assuring the academic achievement and personal growth of all students within an environment that promotes: respect for self and others; active engagement in learning; leadership in the global community and the pursuit of excellence.

FINANCIAL HIGHLIGHTS

- Effective 2014-2015 and going forward, the District is required to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The major impact of GASB Statement No. 68 is to present, on the Statement of Financial Position, certain items related to the District's proportionate liability from its participation in the Commonwealth's Public School Employees Retirement System ("**PSERS**"), which was not required to be presented in the past. Consequently, the implementation of GASB Statement No. 68 resulted in a deficit in the District's unrestricted net position as of June 30, 2016. This will be the case with most, if not all, other school districts in the Commonwealth.

Elements of GASB Statement No. 68 included within the Statement of Net Position include actuarially determined liability for PSERS of \$109,241,000, deferred outflows of \$10,349,842 (primarily contributions by the District during 2015-2016 which were made after the measurement date of June 30, 2015 - an effective reduction of the liability) and deferred inflows of \$672,103 (Investment return on pension assets over projected returns, to be recognized as a future reduction in pension expense – an effective increase in the liability until fully recognized).

- On a government-wide basis, including all governmental activities and the business activities, the liabilities and deferred inflows of resources of the District exceeded assets and deferred outflows of resources resulting in a deficit in total net position at the close of the 2015-2016 fiscal year of \$65,895,512. During the 2015-2016 fiscal year, the District had an increase in total net position of \$498,220. The net position of governmental activities increased by \$467,181 and net position of business-type activities increased by \$31,039.
- The General Fund reported a decrease in fund balance of \$856,756, bringing the cumulative balance to \$9,148,186 at the conclusion of the 2015-2016 fiscal year.
- At June 30, 2016, the General Fund fund balance includes \$4,010 which is considered nonspendable, \$3,787,766 committed to capital for student transportation, retirement rate stabilization and to balance the 2016-2017 budget and unassigned amounts of \$5,356,410 or 7.01% of the \$76,439,336 2016-2017 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a district to maintain a maximum General Fund fund balance of 8% of the following year's expenditure budget.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

- Total General Fund revenues and other financing sources were \$1,312,131 or 1.84% more than budgeted amounts and total General Fund expenditures and other financing uses were \$613,576 or 0.83% less than budgeted amounts resulting in a net positive variance of \$1,925,707.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

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

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the two major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses an internal service fund to account for its participation in a consortium with other participating school districts and educational agencies to provide self-insurance programs for health and prescription coverage. Because an internal service fund predominantly benefits governmental rather than business-type functions, it is included within governmental activities in the government-wide financial statements.

The Proprietary Fund financial statements provide separate financial information for the Food Service and Internal Service Funds.

The Proprietary Fund financial statements can be found on Pages 20 through 22 of this report.

Fiduciary Funds

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

The Fiduciary Fund financial statements can be found on Pages 23 and 24 of this report.

Notes to the Financial Statements

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

The notes to the financial statements can be found on Pages 25 through 43 of this report.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and District pension contributions.

The required supplementary information can be found on Pages 44 through 47 of this report

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2015-2016 fiscal year the District's liabilities and deferred inflows exceeded assets and deferred outflows by \$65,895,512. The following table presents condensed information for the *Statement of Net Position* of the District at June 30, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	\$ 19,207,486	\$ 18,684,365	\$616,083	\$299,938	\$ 19,823,569	\$ 18,984,303
Noncurrent assets	<u>105,982,484</u>	<u>109,375,542</u>	<u>40,874</u>	<u>56,516</u>	<u>106,023,358</u>	<u>109,432,058</u>
Total assets	<u>125,189,970</u>	<u>128,059,907</u>	<u>656,957</u>	<u>356,454</u>	<u>125,846,927</u>	<u>128,416,361</u>
DEFERRED OUTFLOWS						
Deferred amounts on debt refunding	1,112,107	-	-	-	1,112,107	-
Deferred charges - pensions	<u>10,349,842</u>	<u>7,540,436</u>	<u>-</u>	<u>-</u>	<u>10,349,842</u>	<u>7,540,436</u>
Total deferred outflows	<u>11,461,949</u>	<u>7,540,436</u>	<u>-</u>	<u>-</u>	<u>11,461,949</u>	<u>7,540,436</u>
LIABILITIES						
Current liabilities	6,222,729	7,598,348	490,222	220,758	6,712,951	7,819,106
Noncurrent liabilities	<u>195,819,334</u>	<u>187,528,423</u>	<u>-</u>	<u>-</u>	<u>195,819,334</u>	<u>187,528,423</u>
Total liabilities	<u>202,042,063</u>	<u>195,126,771</u>	<u>490,222</u>	<u>220,758</u>	<u>202,532,285</u>	<u>195,347,529</u>
DEFERRED INFLOWS						
Deferred credits - pensions	<u>672,103</u>	<u>7,003,000</u>	<u>-</u>	<u>-</u>	<u>672,103</u>	<u>7,003,000</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	21,849,402	22,010,578	40,874	56,516	21,890,276	22,067,094
Restricted	2,943,937	2,082,409	-	-	2,943,937	2,082,409
Unrestricted	<u>(90,855,586)</u>	<u>(90,622,415)</u>	<u>125,861</u>	<u>79,180</u>	<u>(90,729,725)</u>	<u>(90,543,235)</u>
Total net position (deficit)	<u>\$ (66,062,247)</u>	<u>\$ (66,529,428)</u>	<u>\$166,735</u>	<u>\$135,696</u>	<u>\$ (65,895,512)</u>	<u>\$ (66,393,732)</u>

The District's total assets as of June 30, 2016 were \$125,846,927 of which \$14,984,865 or 11.91% consisted of cash and investments and \$106,023,358 or 84.25% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2016 were \$202,532,285 of which \$109,241,000 or 53.94% consisted of the actuarially determined net pension liability and \$82,946,384 or 40.96% consisted of general obligation debt used to acquire and construct capital assets.

The District had a deficit in unrestricted net position of \$90,729,725 at June 30, 2016. The District's unrestricted net position decreased by \$186,490 during 2015-2016 primarily due to the results of current year operations.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

A portion of the District's net position reflects its restricted net position which totaled \$2,943,937 as of June 30, 2016. All of the District's restricted net position related to amounts restricted for capital expenditures.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2016, the District's net investment in capital assets decreased by \$176,818 because the capital assets were being depreciated faster than the debt used to acquire the capital assets was being repaid and capital assets were being acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2016 and 2015:

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues						
Charges for services	\$ 735,862	\$ 785,619	\$ 845,431	\$ 857,429	\$ 1,581,293	\$ 1,643,048
Operating grants and contributions	9,498,339	9,023,732	363,614	365,649	9,861,953	9,389,381
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	55,529,518	53,966,956	-	-	55,529,518	53,966,956
Other taxes levied for General purposes	826,771	814,219	-	-	826,771	814,219
Grants and entitlements not restricted to specific programs	5,095,228	5,003,926	-	-	5,095,228	5,003,926
Gain on sale of capital assets	897,250	-	-	-	897,250	-
Investment earnings	76,478	57,423	511	39	76,989	57,462
Total revenues	<u>72,659,446</u>	<u>69,651,875</u>	<u>1,209,556</u>	<u>1,223,117</u>	<u>73,869,002</u>	<u>70,874,992</u>
EXPENSES						
Instruction	46,221,189	46,923,680	-	-	46,221,189	46,923,680
Instructional student support services	6,300,824	6,215,516	-	-	6,300,824	6,215,516
Administrative and financial support services	7,346,771	6,769,512	-	-	7,346,771	6,769,512
Operation and maintenance of plant services	4,909,518	5,189,369	-	-	4,909,518	5,189,369
Pupil transportation	3,604,967	3,608,627	-	-	3,604,967	3,608,627
Student activities	1,448,068	1,489,906	-	-	1,448,068	1,489,906
Interest and amortization expense related to noncurrent liabilities	2,346,597	2,463,812	-	-	2,346,597	2,463,812
Food service	-	-	1,192,848	1,237,581	1,192,848	1,237,581
Total expenses	<u>72,177,934</u>	<u>72,660,422</u>	<u>1,192,848</u>	<u>1,237,581</u>	<u>73,370,782</u>	<u>73,898,003</u>
Change in net position before transfers	481,512	(3,008,547)	16,708	(14,464)	498,220	(3,023,011)
Transfers	(14,331)	(10,920)	14,331	10,920	-	-
CHANGE IN NET POSITION	<u>\$ 467,181</u>	<u>\$ (3,019,467)</u>	<u>\$ 31,039</u>	<u>\$ (3,544)</u>	<u>\$ 498,220</u>	<u>\$ (3,023,011)</u>

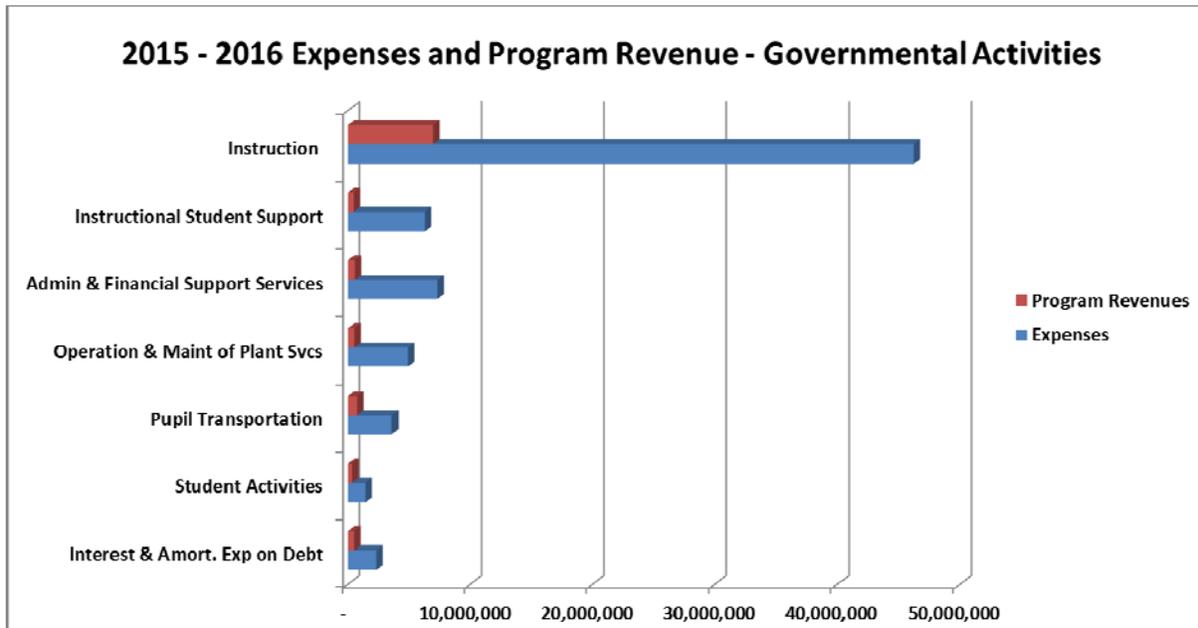
WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

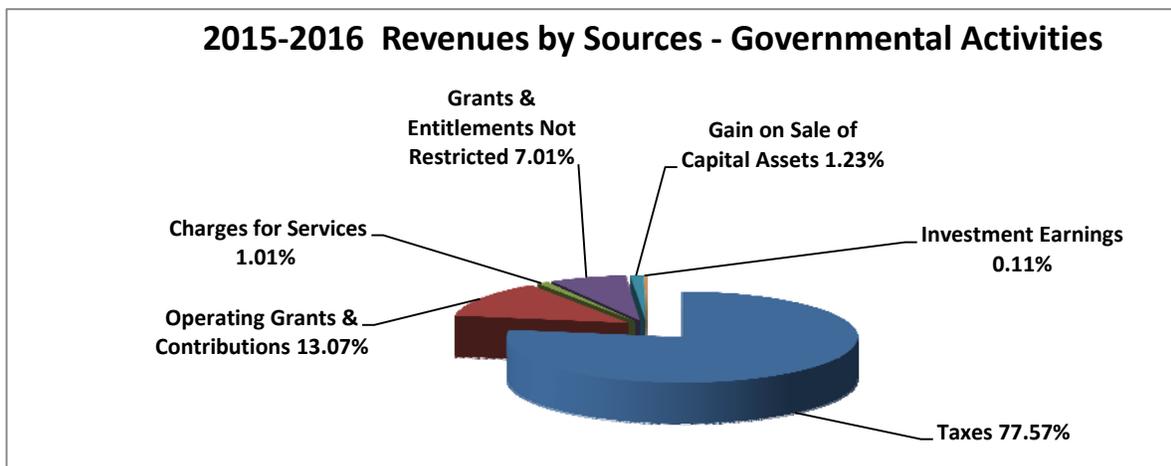
June 30, 2016

The District's decreased financial position was anticipated and is the result of challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A significant portion of the District's property tax base is in the form of residential housing.

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



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



WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENTAL FUNDS

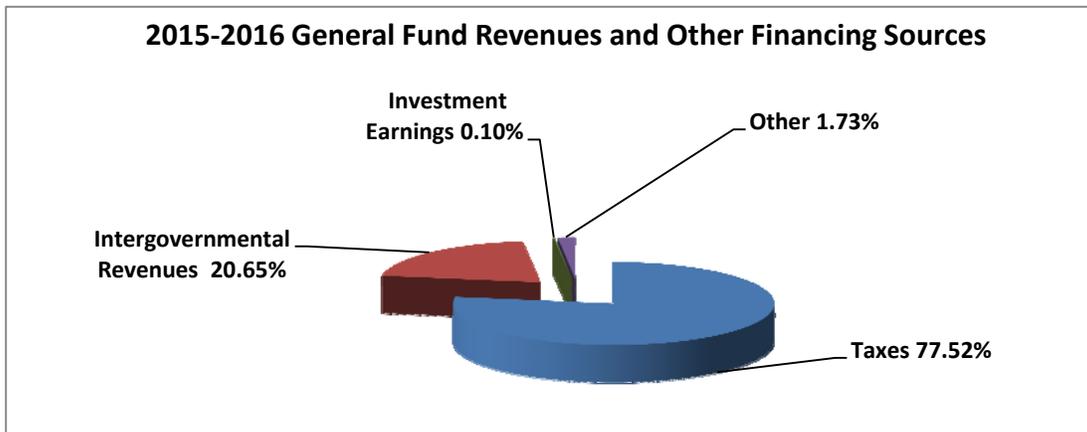
The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by state statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2016, the District's governmental funds reported a combined fund balance of \$12,092,123 which is an increase of \$4,772 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2016 and 2015 and the total 2016 change in governmental fund balances.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund	\$ 9,148,186	\$10,004,942	\$(856,756)
Capital Projects Fund	<u>2,943,937</u>	<u>2,082,409</u>	<u>861,528</u>
	<u>\$12,092,123</u>	<u>\$12,087,351</u>	<u>\$ 4,772</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2015-2016 fiscal year, the General Fund fund balance was \$9,148,186 representing a decrease of \$856,756 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2015-2016 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 77.58% of General Fund revenues are derived from local taxes.



General Fund Revenues and Other Financing Sources

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$56,211,791	\$54,712,526	\$1,499,265	2.74
Intergovernmental revenues	14,972,966	14,399,356	573,610	3.98
Investment earnings	73,721	55,390	18,331	33.09
Other	<u>1,253,713</u>	<u>680,796</u>	<u>572,917</u>	<u>84.15</u>
	<u>\$72,512,191</u>	<u>\$69,848,068</u>	<u>\$2,664,123</u>	<u>3.81</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

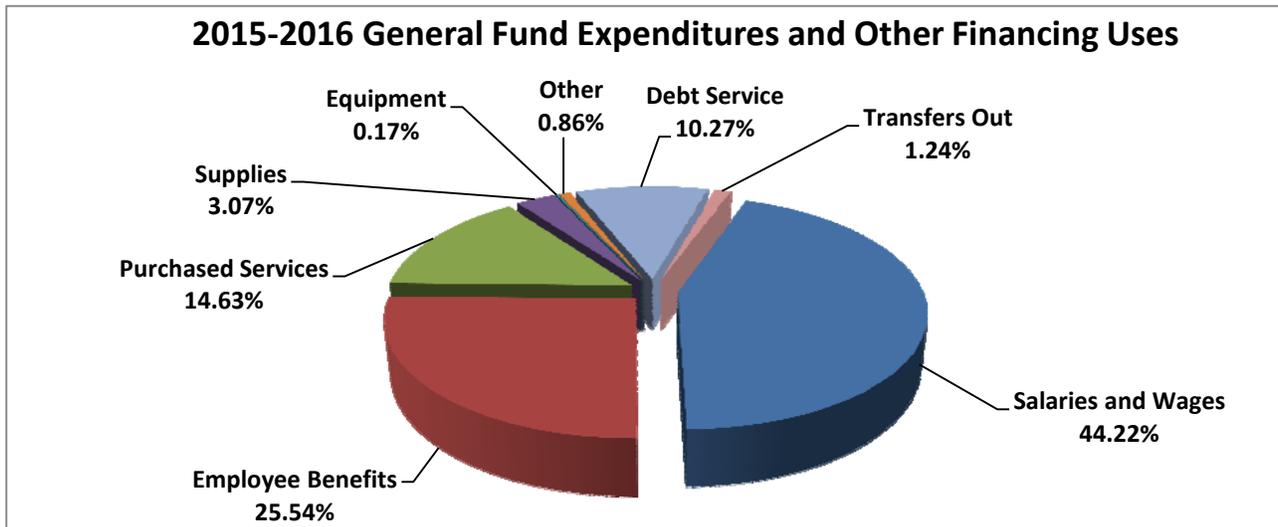
Net tax revenues increased by \$1,499,265 or 2.74% due to several factors. A millage increase of 2.56% in 2015-2016 accounted for most of the change. Aside from the millage, increased tax collections are consistent with improved economic conditions. The following table summarizes changes in the District's tax revenues for 2016 compared to 2015:

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Real estate tax	\$54,269,846	\$52,814,546	\$1,455,300	2.76
Interim real estate tax	120,714	102,367	18,347	17.92
PURTA tax	62,410	65,956	(3,546)	(5.38)
Per capita tax	116,331	110,625	5,706	5.16
Transfer tax	648,031	637,638	10,393	1.63
Delinquent real estate tax	<u>994,459</u>	<u>981,394</u>	<u>13,065</u>	<u>1.33</u>
	<u>\$56,211,791</u>	<u>\$54,712,526</u>	<u>\$1,499,265</u>	<u>2.74</u>

Intergovernmental revenues increased as a direct result of the state retirement subsidy which increased commensurate with the employer annual contributions percentage.

Other income increased as a result of one time proceeds received for the sale of the Summit School property totaling \$897,250.

As the graph below illustrates, the largest portion of General Fund expenditures is for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$32,444,234	\$32,584,685	\$ (140,451)	(0.43)
Employee benefits	18,740,078	16,832,705	1,907,373	11.33
Purchased services	10,732,987	10,579,730	153,257	1.45
Supplies	2,254,966	2,503,597	(248,631)	(9.93)
Equipment	122,394	96,685	25,709	26.59
Other	630,767	428,201	202,566	47.31
Debt service	7,531,940	7,232,291	299,649	4.14
Transfers out	<u>911,581</u>	<u>10,920</u>	<u>900,661</u>	<u>8,247.81</u>
	<u>\$73,368,947</u>	<u>\$70,268,814</u>	<u>\$3,100,133</u>	<u>4.41</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Employee benefits increased primarily due to an increase in the required employer annual retirement contribution to 25.84% from 21.40%, which represents a 20.75% increase over the prior year. Increasing health insurance rates also contributed to the significant increase.

Additional debt service in 2015-2016 is related to the scheduled maturity of principal and interest due and paid during the year.

Transfers out reflect the one time transfer to the Capital Projects Fund related to the sale of the Summit School property.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2015-2016, the Capital Projects Fund reported an increase in fund balance of \$861,528 due to a transfer from the General Fund for the proceeds for the sale of the Summit School property. The fund balance as of June 30, 2016 of \$2,943,937 is restricted for future capital expenditures.

GENERAL FUND BUDGET INFORMATION

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

Actual revenues and other financing sources were \$1,312,131 more than budgeted amounts and actual expenditures and other financing uses were \$613,576 less than budgeted amounts resulting in a net overall positive variance of \$1,925,707. The 2015-2016 General Fund budget included the use of \$2,782,463 of fund balance to balance the budget. Major budgetary highlights for 2015-2016 were as follows:

- Actual state revenues received were \$179,124 more than budgeted amounts primarily due to higher than anticipated funding received for retirement subsidy.
 - Total actual expenditures were \$819,865 or 1.12% less than budgeted amounts. The most notable budget variances within major expenditure functions are as follows:
 - ◆ Special programs expenditures were lower than the budget by \$699,554 due primarily to the actual special education services required of the District being less than what was projected. However, the positive variance should be considered in conjunction with the negative variance in administrative services. Although these costs have been trending markedly higher over the past few years, they are incurred for a relatively small population of students and are subject to high variances.
 - ◆ Administrative services were higher than budget by \$496,518 primarily due to unbudgeted claims and judgments related to special needs services.
 - ◆ Debt service expenditures were lower than the budget by \$400,300 because the District continued to realize savings on refunded debt as well as lower than anticipated interest costs on variable rate debt.
 - The District budgeted a \$700,000 budgetary reserve to fund unexpected expenditures; however, it was not utilized during the 2015-2016 fiscal year.
 - Sale of/compensation for capital assets was \$897,250 and transfers out were \$896,581 more than budgeted amounts due to the receipt of unbudgeted proceeds from the sale of the Summit School property and the subsequent unbudgeted transfer of the proceeds to the Capital Projects Fund.
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WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2015-2016, the net position of business-type activities and Food Service Fund increased by \$31,039. As of June 30, 2016, the business-type activities and Food Service Fund had net position of \$166,735.

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounted to \$106,023,358 net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements and furniture and equipment. The total net decrease in the District's investment in capital assets for the current fiscal year was \$3,408,700 or 3.12%.

Current year capital additions were \$1,327,846 and depreciation expense was \$4,736,546.

Major capital additions for the current fiscal year included the following:

- Capital leases related to technology instructional programs \$1,212,923

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$82,946,384 consisting of \$69,840,000 in bonds payable \$11,066,000 in notes payable, and net deferred credits from bond premiums of \$2,040,384. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$3,825,014 or 4.41% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$82,946,384 is within the current debt limitation of the District which was \$156,252,214 as of June 30, 2016.

The District's general obligation debt rating is a Standard & Poor's AA/Stable underlying rating. Standard and Poor's notes that the AA/Stable rating reflects the District's stable financial performance, limited tax base and manageable debt position.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$109,241,000 as of June 30, 2016. The District's net pension liability increased by \$11,279,000 or 11.51% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for capital leases, compensated absences and its net obligation for post-employment benefits, which totaled \$3,631,950 as of June 30, 2016. These liabilities increased by \$836,925 or 29.94% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District adopted a balanced 2016-2017 budget totaling \$76,439,336 which used \$2,027,766 of General Fund fund balance as of June 30, 2016 and the real estate tax millage rate was increased by 3.41%.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

- The District expects the historical trend for greater local tax effort to fund instructional programs and services to continue as state and federal funding for public education is expected to remain stagnant, as was seen during the 2016-2017 Commonwealth of Pennsylvania budget process. The Commonwealth of Pennsylvania only accounted for approximately 19.40% of total revenue sources to fund costs supporting the District's educational programs during fiscal 2015-2016. Local sources of revenue, primarily property taxes, now support approximately 79.62% of the costs of educational programs and services in the District.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the state level. The intent of this legislation was to provide a mechanism to relieve the burden of funding public education from property owners. This legislation put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to seek approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ◆ In the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (2.40% for Wallingford-Swarthmore School District for 2016-2017), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
 - ◆ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders.
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**Act 120 of 2010**") into law. Act 120 of 2010 includes a series of actuarial and funding changes to the public school employees' retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. Act 120 of 2010 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation the employer contribution rate for 2017-2018 is projected at 32.04%. Currently, the employer contribution rate for 2016-2017 is 30.03%, which is an increase of 16.20% from the 2015-2016 employer contribution rate of 25.84%. It is estimated that the increase in the employer contribution rate for 2016-2017 will increase the District's retirement expense by approximately \$1,360,000, \$680,000 of which is the State's share.
- The Commonwealth state legislature has taken a position that it will issue debt in order to resolve the backlog of PlanCon applications that the Commonwealth currently has on hold. The District is hopeful that it will receive funding of the outstanding general obligation bond payment reimbursements due from the Commonwealth for construction projects at Wallingford Elementary and Nether Providence Elementary Schools.
- The District has embarked on an effort to refinance their general obligation bond debt. If current interest rates on the bond market remain at low levels, future refundings should provide the District with a reduction in interest expenditures in the coming years.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, Wallingford-Swarthmore School District, 200 South Providence Road, Wallingford, Pennsylvania 19086.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016 with summarized comparative totals for 2015

	Governmental Activities	Business-type Activities	Totals	
			2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 9,018,240	\$ 523,588	\$ 9,541,828	\$ 10,735,035
Investments	5,443,037	-	5,443,037	4,172,520
Taxes receivable	1,438,643	-	1,438,643	1,279,017
Due from other governments	2,439,198	92,495	2,531,693	1,932,415
Other receivables	864,358	-	864,358	514,146
Prepaid expenses	4,010	-	4,010	351,170
Total current assets	<u>19,207,486</u>	<u>616,083</u>	<u>19,823,569</u>	<u>18,984,303</u>
NONCURRENT ASSETS				
Capital assets, net	<u>105,982,484</u>	<u>40,874</u>	<u>106,023,358</u>	<u>109,432,058</u>
Total assets	<u>125,189,970</u>	<u>656,957</u>	<u>125,846,927</u>	<u>128,416,361</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on debt refunding	1,112,107	-	1,112,107	-
Deferred charges on proportionate share of pension	<u>10,349,842</u>	<u>-</u>	<u>10,349,842</u>	<u>7,540,436</u>
Total deferred outflows	<u>11,461,949</u>	<u>-</u>	<u>11,461,949</u>	<u>7,540,436</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	1,036,665	441,684	1,478,349	1,575,088
Accrued salaries, payroll withholdings and benefits	4,675,237	-	4,675,237	5,616,764
Unearned revenue	174,625	48,538	223,163	138,593
Other liabilities	11,357	-	11,357	27,386
Accrued interest payable	<u>324,845</u>	<u>-</u>	<u>324,845</u>	<u>461,275</u>
Total current liabilities	<u>6,222,729</u>	<u>490,222</u>	<u>6,712,951</u>	<u>7,819,106</u>
NONCURRENT LIABILITIES				
Due within one year	5,565,432	-	5,565,432	5,202,761
Due in more than one year	<u>190,253,902</u>	<u>-</u>	<u>190,253,902</u>	<u>182,325,662</u>
Total noncurrent liabilities	<u>195,819,334</u>	<u>-</u>	<u>195,819,334</u>	<u>187,528,423</u>
Total liabilities	<u>202,042,063</u>	<u>490,222</u>	<u>202,532,285</u>	<u>195,347,529</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension	<u>672,103</u>	<u>-</u>	<u>672,103</u>	<u>7,003,000</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	21,849,402	40,874	21,890,276	22,067,094
Restricted	2,943,937	-	2,943,937	2,082,409
Unrestricted	<u>(90,855,586)</u>	<u>125,861</u>	<u>(90,729,725)</u>	<u>(90,543,235)</u>
Total net position (deficit)	<u>\$ (66,062,247)</u>	<u>\$ 166,735</u>	<u>\$ (65,895,512)</u>	<u>\$ (66,393,732)</u>

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with summarized comparative totals for 2015

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
							2016	2015
GOVERNMENTAL ACTIVITIES								
Instruction	\$46,221,189	\$ 482,681	\$6,554,662	\$ -	\$(39,183,846)	\$ -	\$(39,183,846)	\$(40,267,900)
Instructional student support	6,300,824	-	476,422	-	(5,824,402)	-	(5,824,402)	(5,731,254)
Administrative and financial support services	7,346,771	25,545	546,859	-	(6,774,367)	-	(6,774,367)	(6,280,859)
Operation and maintenance of plant services	4,909,518	155,806	370,966	-	(4,382,746)	-	(4,382,746)	(4,667,279)
Pupil transportation	3,604,967	-	759,043	-	(2,845,924)	-	(2,845,924)	(2,874,243)
Student activities	1,448,068	71,830	272,581	-	(1,103,657)	-	(1,103,657)	(1,178,372)
Interest and amortization expense related to noncurrent liabilities	2,346,597	-	517,806	-	(1,828,791)	-	(1,828,791)	(1,851,164)
Total governmental activities	<u>72,177,934</u>	<u>735,862</u>	<u>9,498,339</u>	<u>-</u>	<u>(61,943,733)</u>	<u>-</u>	<u>(61,943,733)</u>	<u>(62,851,071)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	1,192,848	845,431	363,614	-	-	16,197	16,197	(14,503)
Total primary government	<u>\$73,370,782</u>	<u>\$1,581,293</u>	<u>\$9,861,953</u>	<u>\$ -</u>	<u>(61,943,733)</u>	<u>16,197</u>	<u>(61,927,536)</u>	<u>(62,865,574)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					55,529,518	-	55,529,518	53,966,956
Other taxes levied for general purposes					826,771	-	826,771	814,219
Grants and entitlements not restricted to specific programs					5,095,228	-	5,095,228	5,003,926
Investment earnings					76,478	511	76,989	57,462
Gain on sale of capital assets					897,250	-	897,250	-
TRANSFERS					(14,331)	14,331	-	-
Total general revenues and transfers					<u>62,410,914</u>	<u>14,842</u>	<u>62,425,756</u>	<u>59,842,563</u>
CHANGE IN NET POSITION					467,181	31,039	498,220	(3,023,011)
NET POSITION (DEFICIT)								
Beginning of year					(66,529,428)	135,696	(66,393,732)	(63,370,721)
End of year					<u>\$(66,062,247)</u>	<u>\$166,735</u>	<u>\$(65,895,512)</u>	<u>\$(66,393,732)</u>

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016 with summarized comparative totals for 2015

	General Fund	Capital Projects Fund	Totals	
			2016	2015
ASSETS				
Cash	\$ 6,065,789	\$ 2,952,451	\$ 9,018,240	\$ 10,487,490
Investments	5,443,037	-	5,443,037	4,172,520
Taxes receivable	1,438,643	-	1,438,643	1,279,017
Due from other governments	2,439,198	-	2,439,198	1,880,754
Other receivables	862,187	2,171	864,358	513,414
Prepaid items	4,010	-	4,010	351,170
Total assets	\$ 16,252,864	\$ 2,954,622	\$ 19,207,486	\$ 18,684,365
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,025,980	\$ 10,685	\$ 1,036,665	\$ 1,403,393
Accrued salaries, payroll withholdings and benefits	4,612,960	-	4,612,960	3,941,447
Unearned revenue	174,625	-	174,625	89,530
Other liabilities	11,357	-	11,357	27,386
Total liabilities	5,824,922	10,685	5,835,607	5,461,756
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property taxes	1,279,756	-	1,279,756	1,135,258
FUND BALANCES				
Nonspendable				
Prepaid items	4,010	-	4,010	351,170
Restricted for				
Capital projects	-	2,943,937	2,943,937	2,082,409
Committed to				
Employer retirement rate stabilization	1,410,000	-	1,410,000	1,410,000
Capital for student transportation	350,000	-	350,000	350,000
Balance 2015-2016 budget	-	-	-	2,782,463
Balance 2016-2017 budget	2,027,766	-	2,027,766	-
Unassigned	5,356,410	-	5,356,410	5,111,309
Total fund balances	9,148,186	2,943,937	12,092,123	12,087,351
Total liabilities, deferred inflows of resources and fund balances	\$ 16,252,864	\$ 2,954,622	\$ 19,207,486	\$ 18,684,365

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 12,092,123
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 governmental funds balance sheet.	105,982,484
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	1,279,756
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(195,819,334)
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position.	1,112,107
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	9,677,739
Accrued interest payable on long-term liabilities is included in the statement of net position, but is excluded from the governmental funds balance sheet until due and payable.	(324,845)
The Internal Service Fund is used by management to charge the cost of health and prescription insurance premiums and claims to the General Fund. The assets and liabilities of the Internal Service Fund are included in the governmental activities on the government-wide statement of net position.	<u>(62,277)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (66,062,247)</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	General Fund	Capital Projects Fund	Totals	
			2016	2015
REVENUES				
Local sources	\$ 57,021,374	\$ 2,757	\$ 57,024,131	\$ 55,822,444
State sources	13,889,948	-	13,889,948	13,139,695
Federal sources	703,619	-	703,619	887,962
Total revenues	<u>71,614,941</u>	<u>2,757</u>	<u>71,617,698</u>	<u>69,850,101</u>
EXPENDITURES				
Current				
Instruction	43,229,882	1,212,923	44,442,805	42,626,694
Support services	20,349,003	111,792	20,460,795	19,332,220
Operation of noninstructional services	1,336,833	-	1,336,833	1,337,611
Facilities acquisition, construction and improvement services	-	38,479	38,479	3,261,555
Debt service	7,531,940	-	7,531,940	7,232,291
Total expenditures	<u>72,447,658</u>	<u>1,363,194</u>	<u>73,810,852</u>	<u>73,790,371</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(832,717)</u>	<u>(1,360,437)</u>	<u>(2,193,154)</u>	<u>(3,940,270)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(9,708)	-	(9,708)	(11,465)
Sale of/compensation for capital assets	897,250	-	897,250	-
Issuance of debt - refunding	-	9,975,000	9,975,000	-
Payment of debt - refunding	-	(9,863,208)	(9,863,208)	-
Proceeds from extended term financing	-	1,212,923	1,212,923	334,767
Transfers in	-	897,250	897,250	-
Transfers out	(911,581)	-	(911,581)	(10,920)
Total other financing sources (uses)	<u>(24,039)</u>	<u>2,221,965</u>	<u>2,197,926</u>	<u>312,382</u>
NET CHANGE IN FUND BALANCES	<u>(856,756)</u>	<u>861,528</u>	<u>4,772</u>	<u>(3,627,888)</u>
FUND BALANCES				
Beginning of year	<u>10,004,942</u>	<u>2,082,409</u>	<u>12,087,351</u>	<u>15,715,239</u>
End of year	<u>\$ 9,148,186</u>	<u>\$ 2,943,937</u>	<u>\$ 12,092,123</u>	<u>\$ 12,087,351</u>

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 4,772

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 and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 1,327,846	
Depreciation expense	<u>(4,720,904)</u>	(3,393,058)

Because some tax will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount this year.

Deferred inflows of resources June 30, 2015	(1,135,258)	
Deferred inflows of resources June 30, 2016	<u>1,279,756</u>	144,498

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

Repayment of bonds and notes payable	13,547,000	
Proceeds from notes payable	(9,975,000)	
Proceeds from extended term financing	(1,212,923)	
Repayment of extended term financing	619,791	
Payment of deferred amounts on refunding	1,213,208	
Amortization of discounts, premiums and deferred amounts on refunding	<u>151,913</u>	4,343,989

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in governmental funds.

Change in net pension liability and related deferred inflows and outflows	(2,138,697)	
Current year change in accrued interest payable	136,430	
Current year change in compensated absences	(68,641)	
Current year change in net post-employment benefit (OPEB) obligation	<u>(175,152)</u>	(2,246,060)

The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported within the governmental activities.

1,613,040

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 467,181**

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
ASSETS				
CURRENT ASSETS				
Cash	\$523,588	\$ -	\$523,588	\$ 247,545
Due from other governments	92,495	-	92,495	51,661
Other receivables	-	-	-	732
Total current assets	<u>616,083</u>	<u>-</u>	<u>616,083</u>	<u>299,938</u>
NONCURRENT ASSETS				
Capital assets, net	<u>40,874</u>	<u>-</u>	<u>40,874</u>	<u>56,516</u>
Total assets	<u>656,957</u>	<u>-</u>	<u>656,957</u>	<u>356,454</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	441,684	-	441,684	171,695
Insurance claims payable	-	62,277	62,277	1,675,317
Unearned revenue	<u>48,538</u>	<u>-</u>	<u>48,538</u>	<u>49,063</u>
Total liabilities	<u>490,222</u>	<u>62,277</u>	<u>552,499</u>	<u>1,896,075</u>
NET POSITION				
Net investment in capital assets	40,874	-	40,874	56,516
Unrestricted	<u>125,861</u>	<u>(62,277)</u>	<u>63,584</u>	<u>(1,596,137)</u>
Total net position	<u>\$166,735</u>	<u>\$(62,277)</u>	<u>\$104,458</u>	<u>\$(1,539,621)</u>

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2016</u>	<u>2015</u>
	<u>Fund</u>	<u>Fund</u>		
OPERATING REVENUES				
Charges for services	\$ 845,431	\$ 6,659,533	\$ 7,504,964	\$ 6,887,155
OPERATING EXPENSES				
Employee benefits	-	4,599,483	4,599,483	6,359,636
Purchased professional and technical services	-	451,192	451,192	548,018
Purchased property services	14,331	-	14,331	10,920
Other purchased services	703,152	-	703,152	740,169
Supplies	459,723	-	459,723	459,956
Depreciation	15,642	-	15,642	26,536
Total operating expenses	<u>1,192,848</u>	<u>5,050,675</u>	<u>6,243,523</u>	<u>8,145,235</u>
Operating income (loss)	<u>(347,417)</u>	<u>1,608,858</u>	<u>1,261,441</u>	<u>(1,258,080)</u>
NONOPERATING REVENUES				
Earnings on investments	511	4,182	4,693	1,745
State sources	22,499	-	22,499	24,279
Federal sources	341,115	-	341,115	341,370
Total nonoperating revenues	<u>364,125</u>	<u>4,182</u>	<u>368,307</u>	<u>367,394</u>
Net income (loss) before transfers	16,708	1,613,040	1,629,748	(890,686)
Transfers	<u>14,331</u>	<u>-</u>	<u>14,331</u>	<u>10,920</u>
CHANGE IN NET POSITION	31,039	1,613,040	1,644,079	(879,766)
NET POSITION				
Beginning of year	<u>135,696</u>	<u>(1,675,317)</u>	<u>(1,539,621)</u>	<u>(659,855)</u>
End of year	<u>\$ 166,735</u>	<u>\$ (62,277)</u>	<u>\$ 104,458</u>	<u>\$ (1,539,621)</u>

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	Major Fund	Internal	Totals	
	Food Service Fund	Service Fund	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 845,638	\$ -	\$ 845,638	\$ 864,958
Cash received for assessments made to other fund	-	6,659,533	6,659,533	6,029,726
Cash payments to suppliers for goods and services	(855,474)	-	(855,474)	(1,122,991)
Cash payments for insurance claims	-	(6,212,523)	(6,212,523)	(5,483,414)
Cash payments for other operating expenses	-	(451,192)	(451,192)	(548,018)
Net cash used for operating activities	<u>(9,836)</u>	<u>(4,182)</u>	<u>(14,018)</u>	<u>(259,739)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	19,568	-	19,568	24,774
Federal sources	251,469	-	251,469	298,094
Transfers in	14,331	-	14,331	10,920
Net cash provided by noncapital financing activities	<u>285,368</u>	<u>-</u>	<u>285,368</u>	<u>333,788</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	511	4,182	4,693	1,745
Net increase in cash	<u>276,043</u>	<u>-</u>	<u>276,043</u>	<u>75,794</u>
CASH				
Beginning of year	<u>247,545</u>	<u>-</u>	<u>247,545</u>	<u>171,751</u>
Ending of year	<u>\$ 523,588</u>	<u>\$ -</u>	<u>\$ 523,588</u>	<u>\$ 247,545</u>
Reconciliation of operating income (loss) to net cash used for operating activities:				
Operating income (loss)	\$(347,417)	\$ 1,608,858	\$ 1,261,441	\$(1,258,080)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation	15,642	-	15,642	26,536
Donated commodities used	51,743	-	51,743	47,149
(Increase) decrease in Other receivables	732	-	732	-
Increase (decrease) in Accounts payable	269,989	-	269,989	40,905
Insurance claims payable	-	(1,613,040)	(1,613,040)	876,222
Unearned revenue	(525)	-	(525)	7,529
Net cash used for operating activities	<u>\$ (9,836)</u>	<u>\$ (4,182)</u>	<u>\$ (14,018)</u>	<u>\$ (259,739)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	<u>\$ 51,743</u>	<u>\$ -</u>	<u>\$ 51,743</u>	<u>\$ 47,149</u>

See accompanying notes

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2016

	Private- Purpose Trust	Agency
ASSETS		
Cash	<u>\$ 95,949</u>	<u>\$ 137,824</u>
Total assets	<u>95,949</u>	<u>137,824</u>
LIABILITIES		
Other payables	632	-
Due to student groups	<u>-</u>	<u>137,824</u>
Total liabilities	<u>632</u>	<u>\$ 137,824</u>
NET POSITION		
Net position held in trust for scholarships	<u>\$ 95,317</u>	

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2016 with summarized comparative totals for 2015

	Private-Purpose Trust Fund	
	<u>2016</u>	<u>2015</u>
ADDITIONS		
Local contributions	\$ 12,579	\$ 9,413
DEDUCTIONS		
Scholarships awarded and fees paid	<u>9,117</u>	<u>13,459</u>
CHANGE IN NET POSITION	3,462	(4,046)
NET POSITION		
Beginning of year	<u>91,855</u>	<u>95,901</u>
End of year	<u>\$95,317</u>	<u>\$91,855</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Wallingford-Swarthmore School District (the "**District**") operates three elementary schools, a middle school and a high school to provide education and related services to the residents in the Boroughs of Swarthmore, Rutledge and Rose Valley and the Township of Nether Providence. 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 third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

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. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has 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 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

Government-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 activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. 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 as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified 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. The net position of the District is reported as restricted when constraints placed on net position use is 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. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The government-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 function. Expenses are those that are specifically associated with a service or 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 function 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.

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 proprietary 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 accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

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 District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. 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 receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. 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 reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Internal Service Fund is used to account for the District's participation in a consortium with other participating school districts and educational agencies to provide self-insurance programs for health and prescription coverage.

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 funds' principal ongoing operations. The principal operating revenues of the District's Proprietary Fund are charges for services. Operating expenses for the District's Proprietary Fund include payroll, employee benefits, 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 Fund and Agency Fund. The Private-Purpose Trust Fund accounts for activities in various scholarship accounts, the sole purpose of which is to provide annual scholarships to particular students as described by donor stipulations. The Agency Fund accounts for funds held on behalf of the students in the district. The measurement focus and basis of accounting for the Private-Purpose Trust Fund 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 stated at fair value based upon quoted market prices.

Interfund Receivables and Payables

Funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due 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 government-wide financial statements as "internal balances."

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

The County Board of Assessments determines assessed valuations of property, and the District bills and collects its own property taxes. The tax on real estate for public school purposes for fiscal 2015-2016 was 41.564 mills (\$41.56 for \$1,000 of assessed valuation) for Rose Valley Borough and Nether Providence Township and 41.976 mills (\$41.98 for \$1,000 of assessed valuation) for the Boroughs of Swarthmore and Rutledge (includes additional levy for the sponsorship of the Delaware County Community College). 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.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	August 31
Installment Two	-	September 30
Installment Three	-	October 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Prepaid Items and Inventories

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

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

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the 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.

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

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 10-40 years, and furniture and equipment – 5-20 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized for the year ended June 30, 2016.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a non-current liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and 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 and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Nonspendable

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Business Administrator or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as nonspendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a General Fund maximum unassigned fund balance of 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

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. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. 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.

Use of Estimates

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.

Implementation of New Accounting Pronouncements

Effective July 1, 2015, the District adopted the provisions of GASB Statement No. 72, "Fair Value Measurement and Application".

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 had no impact on the financial statements of the District for the year ended June 30, 2016.

New Accounting Pronouncements

GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*" will be effective for the District for the year ended June 30, 2017. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77, "*Tax Abatement Disclosures*" will be effective for the District for the year ended June 30, 2017. GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements.

GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*" will be effective for the District for the year ended June 30, 2017. GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria.

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*" will be effective for the District for the year ended June 30, 2017. The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a 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 the Capital Projects fund.

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 when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. 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.

(3) DEPOSITS AND INVESTMENTS

State 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.

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. At June 30, 2016, the carrying amount of the District's deposits was \$9,775,601 and the bank balance was \$8,581,653. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$6,511 was covered by federal depository insurance, and the remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**") and the Pennsylvania Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net assets value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2016, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

Investments

At June 30, 2016, the District had the following investments:

Certificates of deposit due within one year –	
Collateral held by pledging bank's agent in the District's name	<u>\$5,443,037</u>

Custodial Credit Risk

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 the investments or collateral security that are in the possession of an outside party. The District had no investment subject to custodial credit risk as of June 30, 2016.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(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	\$ 128,010	\$ -	\$ -	\$ 128,010
Capital assets being depreciated				
Buildings and improvements	136,302,393	-	733,883	135,568,510
Furniture and equipment	<u>12,427,442</u>	<u>1,327,846</u>	<u>-</u>	<u>13,755,288</u>
Total capital assets being depreciated	<u>148,729,835</u>	<u>1,327,846</u>	<u>733,883</u>	<u>149,323,798</u>
Less accumulated depreciation for				
Buildings and improvements	(29,607,111)	(3,467,805)	(733,883)	(32,341,033)
Furniture and equipment	<u>(9,875,192)</u>	<u>(1,253,099)</u>	<u>-</u>	<u>(11,128,291)</u>
Total accumulated depreciation	<u>(39,482,303)</u>	<u>(4,720,904)</u>	<u>(733,883)</u>	<u>(43,469,324)</u>
Total capital assets being depreciated, net	<u>109,247,532</u>	<u>(3,393,058)</u>	<u>-</u>	<u>105,854,474</u>
Governmental activities, net	<u>\$109,375,542</u>	<u>\$(3,393,058)</u>	<u>\$ -</u>	<u>\$105,982,484</u>
Business-type activities				
Machinery and equipment	\$ 490,191	\$ -	\$ -	\$ 490,191
Less accumulated depreciation	<u>(433,675)</u>	<u>(15,642)</u>	<u>-</u>	<u>(449,317)</u>
Business-type activities, net	<u>\$ 56,516</u>	<u>\$ (15,642)</u>	<u>\$ -</u>	<u>\$ 40,874</u>

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

Governmental activities	
Instruction	\$3,169,176
Instructional student support	414,752
Administrative and financial support services	478,669
Operation and maintenance of plant services	325,691
Pupil transportation	237,297
Student activities	<u>95,319</u>
Total depreciation expense – governmental activities	<u>\$4,720,904</u>
Business-type activities	
Food service	<u>\$ 15,642</u>

(5) INTERNAL TRANSFERS

A summary of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Food Service Fund	\$ 14,331	General Fund	\$ 14,331
Capital Projects Fund	<u>897,250</u>	General Fund	<u>897,250</u>
	<u>\$911,581</u>		<u>\$911,581</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Transfers from General Fund to Capital Projects Fund represents transfers to subsidize costs associated with the acquisition of capital assets, while transfers from General Fund to Food Service Fund represent transfers to subsidize food service operations.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 83,140,000	\$ -	\$13,300,000	\$ 69,840,000	\$4,675,000
Notes payable	1,338,000	9,975,000	247,000	11,066,000	262,000
Bond premiums	2,814,847	-	307,714	2,507,133	219,552
Bond discounts	(521,449)	-	(54,700)	(466,749)	(41,428)
Total general obligation debt	<u>86,771,398</u>	<u>9,975,000</u>	<u>13,800,014</u>	<u>82,946,384</u>	<u>5,115,124</u>
Other noncurrent liabilities					
Capital leases payable	593,566	1,212,923	619,791	1,186,698	450,308
Compensated absences	810,152	68,641	-	878,793	-
OPEB obligation	1,391,307	322,327	147,175	1,566,459	-
Net pension liability (See Note 7)	<u>97,962,000</u>	<u>11,279,000</u>	<u>-</u>	<u>109,241,000</u>	<u>-</u>
Total other noncurrent liabilities	<u>100,757,025</u>	<u>12,882,891</u>	<u>766,966</u>	<u>112,872,950</u>	<u>450,308</u>
Total noncurrent liabilities	<u>\$187,528,423</u>	<u>\$22,857,891</u>	<u>\$14,566,980</u>	<u>\$195,819,334</u>	<u>\$5,565,432</u>

Noncurrent liabilities are generally liquidated by the General Fund.

General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2016 consisted of the following:

<u>Description</u>	<u>Interest</u> <u>Rate(s)</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u>
General obligation bonds				
GOB Series of 2011A	1.00% - 5.25%	\$26,605,000	05/01/2028	\$17,825,000
GOB Series of 2011B	2.00% - 5.00%	\$10,490,000	05/01/2031	8,500,000
GOB Series of 2012A	2.30% - 2.65%	\$10,000,000	05/15/2027	10,000,000
GOB Series of 2012C	0.50% - 3.00%	\$8,960,000	05/15/2022	7,220,000
GOB Series of 2013	0.50% - 4.00%	\$9,995,000	05/01/2034	9,135,000
GOB Series of 2014	Variable	\$17,650,000	05/01/2029	<u>17,160,000</u>
Total general obligation bonds				<u>69,840,000</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

General obligation notes

GON Series of 2004	Variable	\$3,500,000	10/25/2019	1,091,000
GON Series of 2016	Variable	\$9,975,000	05/01/2028	<u>9,975,000</u>

Total general obligation notes 11,066,000

Total general obligation debt \$80,906,000

General obligation notes bear interest at a variable rate that is adjusted weekly based upon the Securities Industry and Financial Markets.

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2017	\$ 4,937,000	\$ 2,305,261	\$ 7,242,261
2018	5,052,000	2,206,038	7,258,038
2019	5,208,000	2,077,716	7,285,716
2020	5,384,000	1,929,863	7,313,863
2021	5,695,000	1,771,766	7,466,766
2022-2026	32,115,000	5,963,924	38,078,924
2027-2031	20,625,000	1,820,279	22,445,279
2032-2034	<u>1,890,000</u>	<u>153,200</u>	<u>2,043,200</u>
	<u>\$80,906,000</u>	<u>\$18,228,047</u>	<u>\$99,134,047</u>

Series of 2016 General Obligation Notes

On May 3, 2016, the District issued \$9,975,000 of general obligation notes, Series of 2016, the proceeds from which were used to currently refund a portion of the outstanding general obligation bonds, Series A of 2011, and to pay for the costs of issuance. The District currently refunded the general obligation bonds to reduce future debt service payments by \$917,460.

Interest Rate Management Plan

The General Obligation Note of the District has been issued to the Delaware Valley Regional Finance Authority ("**DVRFA**"). The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to participants, DVRFA has entered into interest rate swap agreements with financial institutions. In the event that the swap agreements between DVRFA and the financial institutions are terminated and the value of the swaps to DVRFA at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. The value of the swap agreements relative to the General Obligation Notes at June 30, 2016 was an asset of \$225,233. The value of the swap agreements relative to the District's General Obligation Note is not reflected on the District's statement of net position.

Capital Leases

The District has entered into long-term lease agreements for computer equipment. 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 dates. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2016 are as follows:

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

<u>Year ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 452,308	\$(11,669)	\$ 440,639
2018	375,964	(7,096)	368,868
2019	<u>358,426</u>	<u>(3,293)</u>	<u>355,133</u>
	<u>\$1,186,698</u>	<u>\$(22,058)</u>	<u>\$1,164,640</u>

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to certain eligible retirees and their spouses. The School Board has the authority to establish and amend benefit provisions. 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.

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

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. 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 District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016, 2015 and 2014 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$322,327	45.66%	\$1,566,459
2015	\$325,437	41.68%	\$1,391,307
2014	\$289,454	46.10%	\$1,201,497

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual required contribution	\$ 345,132
Interest on net OPEB obligation	62,609
Adjustment to annual required contribution	<u>(85,414)</u>
Annual OPEB cost (expense)	322,327
Contributions made	<u>(147,175)</u>
Increase in net OPEB obligation	175,152
Net OPEB obligation – beginning of year	<u>1,391,307</u>
Net OPEB obligation – end of year	<u>\$1,566,459</u>

Funded Status and Funding Progress

As of February 1, 2014, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$2,734,523, all of which was unfunded. The covered payroll (annual payroll of active employees receiving benefits) was \$30,063,003 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 9.10%.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Actuarial valuations 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 benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on substantive benefits (the benefits as understood by the District and employees) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and retirees 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 calculations.

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.50% in 2014, decreasing 0.50% per year to an ultimate rate of 5.50% in 2016. The UAAL is being amortized based on the level dollar, 30-year open period.

(7) PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees Retirement System ("**PSERS**") and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Plan Description

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

Benefits Provided

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

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

Contributions

Member Contributions

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

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

Members who joined the system after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with 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 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.3% (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 of 2010 that in future fiscal years could cause Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$7,969,108 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$109,241,000 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 0.2522 percent, which was an increase of 0.0047 percent from its proportion measured as of June 30, 2014.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$2,138,697. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$451,000
Net difference between projected and actual investment earnings	-	221,103
Changes in proportions	2,195,650	-
Difference between employer contributions and proportionate share of total contributions	185,084	-
Contributions subsequent to the measurement date	<u>7,969,108</u>	<u>-</u>
	<u>\$10,349,842</u>	<u>\$672,103</u>

\$7,969,108 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 26,414
2018	26,414
2019	26,414
2020	<u>1,629,389</u>
	<u>\$1,708,631</u>

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50% includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects and allowance for inflation of 3.00%, real growth wage of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

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

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

<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)	<u>(14.0)%</u>	1.1%
	<u>100.0 %</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.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the 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 represents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension liability	\$134,650,000	\$109,241,000	\$87,885,000

Pension Plan Fiduciary Net Position

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

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(8) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Delaware County Vocational Technical School and Delaware Vocational Technical School Authority

The District and the other fourteen Delaware County school districts participate in the Delaware County Vocational Technical School (the "**DCVTS**"). The DCVTS provides vocational-technical training and education to students of the participating school districts. The DCVTS is controlled by a joint Board comprised of representative School Board members of the participating school districts. District oversight of the DCVTS operations is the responsibility of the joint Board. The District's share of operating costs for the DCVTS fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2015-2016 was \$344,813.

The District and the other fourteen Delaware County school districts also participate in a joint venture for the operation of the Delaware County Vocational-Technical School Authority (the "**DCVTSA**"). The DCVTSA oversees acquiring holding, constructing, improving and maintaining the DCVTSA school buildings. The DCVTSA is controlled by a joint Board comprised of representative School Board members of the participating school districts in the DCVTS. During 2015-2016, the District did not have any financial transactions with the DCVTSA.

Both the DCVTS and the DCVTSA prepare financial statements that are available to the public from their administrative offices located at 200 Yale Avenue Morton, Pennsylvania 19070.

Delaware County Community College

The District and twelve other Delaware County schools sponsor the Delaware County Community College (the "**DCCC**"). Only residents of the Boroughs of Swarthmore and Rutledge participate in this joint venture within the District. The DCCC provides higher education programs to the residents of southeastern Pennsylvania. Sponsoring school districts pay a share of the DCCC's operating and debt service costs which fluctuate based on each District's certified market values and in return residents of each of the sponsoring school districts pay a reduced cost to participate in DCCC higher education programs. The sponsoring school districts have entered into a long-term lease agreement with the DCCC to provide rental payments sufficient to retire the DCCC's outstanding debt obligations. The lease agreement expires in 2034-2035 unless the debt is retired earlier. The District's share of operating costs and rent expense for 2015-2016 was \$167,109.

The DCCC prepares financial statements that are available to the public from their administrative offices located at 901 South Media Line Road, Media, Pennsylvania 19063.

The District's future annual lease payments to the DCCC are as follows:

Year ending June 30,

2017	\$ 36,619
2018	36,559
2019	36,543
2020	36,494
2021	36,437
2022-2026	163,015
2027-2031	156,555
2032-2035	<u>78,580</u>
	<u>\$580,802</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Delaware County Intermediate Unit

The District and the other Delaware County school districts are participating members of the Delaware County Intermediate Unit (the "**DCIU**"). The DCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the DCIU but the participating districts have no ongoing fiduciary interest or responsibility to the DCIU. The DCIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services; and state and federal liaison services.

(9) OPERATING LEASES

The District leases office and computer equipment and school buses under non-cancelable operating leases expiring at various dates through June 2017. Rent expenses for the office and computer equipment and school buses including additional operating costs, was \$432,023 for 2015-2016.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2017

\$123,456

(10) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

(11) 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 including workers compensation. 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.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The District participates in a consortium with other participating school districts and educational agencies from Delaware County to provide self-insurance programs for health and prescription insurance coverage and related expenses for eligible employees, spouses and dependents. Accordingly benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. Since the District has not transferred its risk to the other participants in the consortium, GASB requires that it recognize and measure its claims, liabilities and related expenses. The District accounts for its participation in the consortium in the Internal Service Fund in the accompanying financial statements.

The following table presents the components of the self-insurance claims surplus (liability) and the related changes claims surplus (liability) for the year ended June 30, 2016:

Insurance claims surplus (liability) – beginning of year	\$(1,675,317)
Current year insurance claims, fees and changes in estimates	(5,050,675)
Insurance claims and fees paid	<u>6,663,715</u>
Insurance claims surplus (liability) – end of year	<u>\$ (62,277)</u>

The insurance claims liability was settled after June 30, 2016.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 23, 2016, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 56,734,269	\$ 56,734,269	\$ 57,021,374	\$ 287,105
State sources	13,710,824	13,710,824	13,889,948	179,124
Federal sources	732,789	754,967	703,619	(51,348)
Total revenues	<u>71,177,882</u>	<u>71,200,060</u>	<u>71,614,941</u>	<u>414,881</u>
EXPENDITURES				
Instruction				
Regular programs	30,697,272	30,699,485	30,754,875	(55,390)
Special programs	12,481,100	12,479,630	11,780,076	699,554
Vocational programs	360,532	360,532	344,813	15,719
Other instructional programs	212,669	235,290	174,799	60,491
Nonpublic school programs	8,152	8,210	8,210	-
Adult education programs	167,109	167,109	167,109	-
Total instruction	<u>43,926,834</u>	<u>43,950,256</u>	<u>43,229,882</u>	<u>720,374</u>
Support services				
Pupil support services	2,515,659	2,511,709	2,640,955	(129,246)
Instructional staff services	2,544,276	2,547,038	2,348,681	198,357
Administrative services	3,763,206	3,778,838	4,275,356	(496,518)
Pupil health	955,702	955,554	826,626	128,928
Business services	926,911	926,911	881,102	45,809
Operation and maintenance of plant services	4,379,851	4,379,901	4,528,835	(148,934)
Student transportation services	3,506,462	3,506,462	3,327,727	178,735
Support services - central	1,402,926	1,387,236	1,470,285	(83,049)
Other support services	49,479	49,479	49,436	43
Total support services	<u>20,044,472</u>	<u>20,043,128</u>	<u>20,349,003</u>	<u>(305,875)</u>
Operation of non-instructional services				
Student activities	1,341,449	1,341,449	1,336,705	4,744
Community services	350	450	128	322
Total operation of non-instructional services	<u>1,341,799</u>	<u>1,341,899</u>	<u>1,336,833</u>	<u>5,066</u>
Facilities acquisition, construction and improvement services				
	-	-	-	-
Debt service				
	7,932,240	7,932,240	7,531,940	400,300
Total expenditures	<u>73,245,345</u>	<u>73,267,523</u>	<u>72,447,658</u>	<u>819,865</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,067,463)</u>	<u>(2,067,463)</u>	<u>(832,717)</u>	<u>1,234,746</u>
OTHER FINANCING SOURCES (USES)				
Sale of/compensation for capital assets	-	-	897,250	897,250
Refund of prior year receipts	-	-	(9,708)	(9,708)
Transfers out	(15,000)	(15,000)	(911,581)	(896,581)
Budgetary reserve	(700,000)	(700,000)	-	700,000
Total other financing sources (uses)	<u>(715,000)</u>	<u>(715,000)</u>	<u>(24,039)</u>	<u>690,961</u>
NET CHANGE IN FUND BALANCE	<u>\$ (2,782,463)</u>	<u>\$ (2,782,463)</u>	<u>(856,756)</u>	<u>\$ 1,925,707</u>
FUND BALANCE				
Beginning of year			10,004,942	
End of year			<u>\$ 9,148,186</u>	

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
02/01/2014	\$ -	\$2,734,523	\$2,734,523	0.00%	\$30,063,003	9.10%
02/01/2012	\$ -	\$2,428,589	\$2,428,589	0.00%	\$30,840,192	7.87%
02/01/2010	\$ -	\$2,520,547	\$2,520,547	0.00%	\$28,898,612	8.72%
02/01/2008	\$ -	\$2,701,580	\$2,701,580	0.00%	\$26,566,272	10.17%

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year ended June 30

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.2522%	0.2475%
District's proportionate share of the net pension liability (asset)	\$109,241,000	\$97,962,000
District's covered-employee payroll	\$32,444,136	\$31,581,726
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 6,512,000	\$ 4,930,000
Contributions in relation to the contractually required contribution	<u>6,649,224</u>	<u>5,053,119</u>
Contribution deficiency (excess)	(137,224)	(123,119)
District's covered-employee payroll	\$32,444,136	\$31,581,726
Contributions as a percentage of covered-employee payroll	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grand Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>U.S. Department of Education</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
Title I - Improving Basic Programs	I	84.010	013-150458	07/01/14 - 09/30/15	\$ 112,490	\$ 7,155	\$ 4,554	\$ 2,601	\$ 2,601	\$ -
Title I - Improving Basic Programs	I	84.010	013-160458	07/01/15 - 09/30/16	103,115	82,889	-	103,116	103,116	20,227
Total CFDA #84.010						90,044	4,554	105,717	105,717	20,227
Title II - Improving Teacher Quality	I	84.367	020-150458	07/01/14 - 09/30/15	63,476	9,026	(28,810)	37,836	37,836	-
Title II - Improving Teacher Quality	I	84.367	020-160458	07/01/15 - 09/30/16	62,861	41,988	-	24,154	24,154	(17,834)
Total CFDA #84.367						51,014	(28,810)	61,990	61,990	(17,834)
<u>Passed Through the Delaware County I.U.</u>										
I.D.E.A. - Part B, Section 611	I	84.027	062-150013	07/01/15 - 06/30/16	535,006	535,006	-	535,006	535,006	-
I.D.E.A. - Part B, Section 619	I	84.173	131-150013	07/01/15 - 06/30/16	906	906	-	906	906	-
Total U.S. Department of Education						676,970	(24,256)	703,619	703,619	2,393
<u>U.S. Department of Agriculture</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
Breakfast Program	I	10.553	N/A	07/01/14 - 06/30/15	N/A	4,589	4,589	-	-	-
Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	16,925	-	24,329	24,329	7,404
Total CFDA #10.553						21,514	4,589	24,329	24,329	7,404
Special Milk Program	I	10.556	N/A	07/01/14 - 06/30/15	N/A	1,183	1,183	-	-	-
Special Milk Program	I	10.556	N/A	07/01/15 - 06/30/16	N/A	2,490	-	3,898	3,898	1,408
Total CFDA #10.556						3,673	1,183	3,898	3,898	1,408
State Matching Share	S	N/A	N/A	07/01/14 - 06/30/15	N/A	3,865	3,865	-	-	-
State Matching Share	S	N/A	N/A	07/01/15 - 06/30/16	N/A	15,703	-	22,499	22,499	6,796

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grand Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>Passed-Through the Pennsylvania Department of Education (cont'd)</u>										
Child and Adult Care Food Program	I	10.558	N/A	07/01/14 - 06/30/15	N/A	9,072	9,072	-	-	-
Child and Adult Care Food Program	I	10.558	N/A	07/01/15 - 06/30/16	N/A	41,119	-	57,445	57,445	16,326
Total CFDA #10.558						50,191	9,072	57,445	57,445	16,326
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	N/A	32,952	32,952	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	143,139	-	203,700	203,700	60,561
<u>Passed-Through the Pennsylvania Department of Agriculture</u>										
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	51,743	-	51,743	51,743	-
Total CFDA #10.555						227,834	32,952	255,443	255,443	60,561
Total U.S. Department of Agriculture						322,780	51,661	363,614	363,614	92,495
Total Federal Awards and Certain State Grants						\$999,750	\$27,405	\$1,067,233	\$1,067,233	\$94,888
Total Federal Awards						\$980,182	\$23,540	\$1,044,734	\$1,044,734	\$88,092
Total State Awards						19,568	3,865	22,499	22,499	6,796
Total Federal Awards and Certain State Grants						\$999,750	\$27,405	\$1,067,233	\$1,067,233	\$94,888
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						\$535,912	\$ -	\$ 535,912	\$ 535,912	\$ -
Child Nutrition Cluster (CFDA's #10.553, #10.555 and #10.556)						\$253,021	\$38,724	\$ 283,670	\$ 283,670	\$69,373

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Share

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2016

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) 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 and Certain State Grants under CFDA #10.555 National School Lunch Program and passed through the Pennsylvania Department of Agriculture represent federal surplus food consumed by the District during the 2015-2016 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which 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 \$0.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2016.

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2016

There were no audit findings for the year ended June 30, 2015.



**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**

**Board of School Directors
Wallingford-Swarthmore School District
Wallingford, 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 Wallingford-Swarthmore School District, Wallingford, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Wallingford-Swarthmore School District's basic financial statements, and have issued our report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
November 23, 2016**



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

**Board of School Directors
Wallingford-Swarthmore School District
Wallingford, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Wallingford-Swarthmore School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Wallingford-Swarthmore School District's major federal programs for the year ended June 30, 2016. Wallingford-Swarthmore School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Wallingford-Swarthmore School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Wallingford-Swarthmore School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 Wallingford-Swarthmore School District's internal control over compliance.

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

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

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.

BBD, LLP

**Philadelphia, Pennsylvania
November 23, 2016**

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Wallingford-Swarthmore School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of the Wallingford-Swarthmore School District are reported in the 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.
3. No instances of noncompliance material to the financial statements of the Wallingford-Swarthmore School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Wallingford-Swarthmore School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The programs tested as major programs were:
 - Special Education Cluster:
 - I.D.E.A. – Part B, Section 611 – CFDA Number 84.027
 - I.D.E.A. – Part B, Section 619 – CFDA Number 84.173
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Wallingford-Swarthmore School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUPPLEMENTAL DATA

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

REAL ESTATE TAX LEVIES AND COLLECTIONS – UNAUDITED

Last ten fiscal years ending June 30

<u>School Year</u>	<u>Assessed Value</u>	<u>Base Millage</u>	<u>Gross Tax Levy</u>	<u>Act 1 Property Tax Reduction Allocation</u>	<u>Gross Adjusted Tax Levy</u>	<u>Current Collections Amount</u>	<u>Current Year Collections As a Percentage of Adjusted Tax Levy</u>	<u>Delinquent Tax Collections</u>	<u>Total Collections Amount (1)</u>	<u>Total Collections As a Percent</u>
2006-2007	\$1,341,612,163	31.710	\$42,828,583	\$ -	\$42,711,514	\$41,252,805	96.58%	\$ 948,702	\$42,201,507	98.81%
2007-2008	\$1,347,346,155	33.610	\$45,479,429	\$ -	\$45,479,429	\$43,649,587	95.98%	\$1,060,570	\$44,710,157	98.31%
2008-2009	\$1,370,636,809	35.570	\$49,009,202	\$1,838,276	\$47,170,926	\$46,147,615	97.83%	\$ 960,539	\$47,108,154	99.87%
2009-2010	\$1,377,166,116	36.566	\$50,697,054	\$1,837,983	\$48,859,071	\$47,023,107	96.24%	\$1,378,028	\$48,401,135	99.06%
2010-2011	\$1,382,206,666	37.626	\$52,366,933	\$1,838,078	\$50,528,855	\$48,644,416	96.27%	\$1,359,277	\$50,003,693	98.96%
2011-2012	\$1,387,750,702	38.153	\$52,992,852	\$1,838,078	\$51,154,774	\$49,265,110	96.31%	\$1,023,543	\$50,288,653	98.31%
2012-2013	\$1,383,176,787	38.915	\$53,996,083	\$1,837,890	\$52,158,193	\$50,212,023	96.27%	\$1,193,882	\$51,405,905	98.56%
2013-2014	\$1,386,055,199	39.693	\$55,186,485	\$1,838,174	\$53,348,311	\$51,483,294	96.50%	\$1,365,138	\$52,848,432	99.06%
2014-2015	\$1,388,564,237	40.527	\$56,437,046	\$1,838,192	\$54,598,854	\$53,674,404	98.31%	\$ 981,394	\$54,655,798	100.10%
2015-2016	\$1,391,635,862	41.564	\$57,841,953	\$1,838,055	\$56,003,898	\$55,168,454	98.51%	\$ 994,459	\$56,162,913	100.03%

(1) Includes delinquent real estate collection

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

TAX RATES – UNAUDITED

Last ten fiscal years ending June 30

<u>School Year</u>	<u>Base Millage</u>	<u>Real Estate Transfer</u>	<u>Wage & Income Tax</u>	<u>Local Services Tax</u>
2006-2007	31.710	0.5%	-	-
2007-2008	33.610	0.5%	-	-
2008-2009	35.570	0.5%	-	-
2009-2010	36.566	0.5%	-	-
2010-2011	37.626	0.5%	-	-
2011-2012	38.153	0.5%	-	-
2012-2013	38.915	0.5%	-	-
2013-2014	39.693	0.5%	-	-
2014-2015	40.527	0.5%	-	-
2015-2016	41.564	0.5%	-	-

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

PRINCIPAL TAXPAYERS – UNAUDITED

Year ending June 30, 2016

<u>Taxpayer</u>	<u>Assessed Valuation</u>
Senior Living N P LLC	\$15,000,000
Cedar Grove Associates	5,144,600
HCRA Properties, LLC	5,000,000
Springhaven Country Club	2,644,200
Swarthmore College	3,021,000
Individual	1,986,970
Dartmouth Associates	1,810,000
Greylock Apts Associates	1,800,000
Henderson Columbia Corp.	1,755,000
Swarthmore College	<u>1,463,750</u>
	<u>\$39,625,520</u>

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

PROPERTY ASSESSMENT DATA – UNAUDITED

Last ten fiscal years ending June 30

<u>Calendar Year</u>	<u>Assessed Value</u>	<u>Market Value</u>	<u>Ratio</u>
2006-2007	\$1,341,612,163	\$2,301,221,549	58.30%
2007-2008	\$1,347,346,155	\$2,197,954,576	61.30%
2008-2009	\$1,370,636,809	\$2,134,948,301	64.20%
2009-2010	\$1,377,166,116	\$2,040,246,098	67.50%
2010-2011	\$1,382,206,666	\$1,919,731,481	72.00%
2011-2012	\$1,387,750,702	\$1,875,338,786	74.00%
2012-2013	\$1,383,176,787	\$2,041,226,904	67.80%
2013-2014	\$1,386,055,199	\$2,044,329,202	67.80%
2014-2015	\$1,388,564,237	\$2,048,029,848	67.80%
2015-2016	\$1,391,635,862	\$2,143,119,227	64.94%

WALLINGFORD-SWARTHMORE SCHOOL DISTRICT

ENROLLMENT DATA – UNAUDITED

Last ten fiscal years ending June 30

<u>School Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2006-2007	2,002	1,572	3,574
2007-2008	1,960	1,579	3,539
2008-2009	1,437	2,088	3,525
2009-2010	1,695	1,792	3,487
2010-2011	1,707	1,728	3,435
2011-2012	1,692	1,757	3,449
2012-2013	1,510	2,034	3,544
2013-2014	1,791	1,725	3,516
2014-2015	1,811	1,679	3,490
2015-2016	1,548	2,007	3,555