

INTERBORO SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2016

INTERBORO SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
INTERBORO SCHOOL DISTRICT
Prospect Park, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of INTERBORO SCHOOL DISTRICT, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise INTERBORO SCHOOL DISTRICT, Pennsylvania'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 the INTERBORO SCHOOL DISTRICT, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for postemployment benefits plan, schedule of the district's proportionate share of the net pension liability, schedule of district contributions, and budgetary comparison information on pages 4 through 12 and pages 48 through 52, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 INTERBORO SCHOOL DISTRICT, Pennsylvania'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.

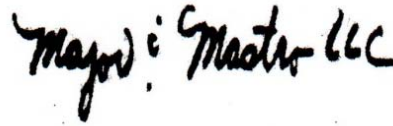
The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the INTERBORO SCHOOL DISTRICT, Pennsylvania'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 INTERBORO SCHOOL DISTRICT, Pennsylvania's internal control over financial reporting and compliance.

January 31, 2017

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

Handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016

INTRODUCTION

Our discussion and analysis of Interboro School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources of the Interboro School District's Governmental Activities exceeded its assets and deferred outflows at the close of the 2016 fiscal year by \$85,929,356 (negative net position). Total current assets exceed current liabilities by \$7,312,80. This compares with negative net position of (\$78,445,678) and current assets exceeding current liabilities by \$11,068,581 at the close of the 2015 fiscal year. The negative net position is the result of recording the district's proportionate share of net pension liability and deferred pension amounts in accordance with GASB Statement No. 68, which was implemented during 2015.
- As of the close of the current fiscal year, total fund balance for the General Fund was \$5,311,088, of which \$1,798,506 is committed for capital expenditures, technology and bus leases for 2016/2017. In addition \$358,579 of the total fund balance is nonspendable for inventory and prepaid expenditures, while \$59,958 is restricted to special education and local contributions. The remaining unassigned fund balance is \$3,094,045. Total fund balance for the General Fund at the end of the 2015 fiscal year was \$7,109,901.
- Governmental Accounting Standards Board (GASB) issued Statement No. 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The District was required to adopt GASB Statement No. 68 for the fiscal year ended June 30, 2015. As a result of this implementation there was a prior period adjustment reflected in the financial statements for the year ended June 30, 2015. The effect of the adjustment was a reduction in net position of \$81,452,289 for the year ended June 30, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Interboro School District's basic financial statements. The Interboro School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The statement of net position presents information on all of the Interboro School District's assets and liabilities, with the difference between the two reported as net position.

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

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

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

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 near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Interboro School District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Bond Fund which are considered to be major funds. Data for the other fund is presented as a non-major fund.

The Interboro School 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 this budget.

Proprietary funds. The Interboro School District maintains one proprietary fund which is Food Service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service function.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Interboro School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Interboro School District had negative net position of (\$85,929,356) at the close of the fiscal year ended June 30, 2016, and negative net position of (\$78,445,678), as adjusted at the close of the fiscal year ended June 30, 2015.

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The following table reflects the current and prior year's information:

INTERBORO SCHOOL DISTRICT'S Net Position

	Governmental		Business-type		Totals	
	Activities		Activities			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 17,732,971	\$ 20,243,695	\$ (79,285)	\$ (108,095)	\$ 17,653,686	\$ 20,135,600
Capital assets	48,672,321	42,755,355	441,426	478,649	49,113,747	43,234,004
Total assets	<u>\$ 66,405,292</u>	<u>\$ 62,999,050</u>	<u>\$ 362,141</u>	<u>\$ 370,554</u>	<u>\$ 66,767,433</u>	<u>\$ 63,369,604</u>
Deferred outflow s of resources	<u>\$ 13,011,536</u>	<u>\$ 9,862,388</u>	<u>\$</u>	<u>\$</u>	<u>\$ 13,011,536</u>	<u>\$ 9,862,388</u>
Long-term liabilities						
outstanding	\$ 154,612,593	\$ 137,399,502	\$ 29,929	\$ 45,000	\$ 154,642,522	\$ 137,444,502
Other liabilities	10,420,091	9,175,114	92,309	36,287	10,512,400	9,211,401
Total liabilities	<u>\$ 165,032,684</u>	<u>\$ 146,574,616</u>	<u>\$ 122,238</u>	<u>\$ 81,287</u>	<u>\$ 165,154,922</u>	<u>\$ 146,655,903</u>
Deferred inflow s of resources	<u>\$ 313,500</u>	<u>\$ 4,732,500</u>	<u>\$</u>	<u>\$</u>	<u>\$ 313,500</u>	<u>\$ 4,732,500</u>
Net Position:						
Invested in capital assets,						
net of related debt	\$ (1,432,742)	\$ (2,460,520)	\$ 396,497	\$ 418,649	\$ (1,036,245)	\$ (2,041,871)
Restricted for capital projects	2,996,241	4,625,328			2,996,241	4,625,328
Restricted for special education	43,096	56,362			43,096	56,362
Restricted for contributions	16,862	10,800			16,862	10,800
Unrestricted	<u>(87,552,813)</u>	<u>(80,677,648)</u>	<u>(156,594)</u>	<u>(129,382)</u>	<u>(87,709,407)</u>	<u>(80,807,030)</u>
Total net position	<u>\$ (85,929,356)</u>	<u>\$ (78,445,678)</u>	<u>\$ 239,903</u>	<u>\$ 289,267</u>	<u>\$ (85,689,453)</u>	<u>\$ (78,156,411)</u>

Governmental activities. Governmental activities decreased the Interboro School District's net position by \$7,483,678 for the year ending June 30, 2016 and decreased net position by \$5,452,720 for the year ending June 30, 2015. Key elements of this increase/decrease are displayed below.

Business-type Activities. Business Type activities, comprised of the District's Food Service Fund, decreased the District's net position by \$49,364 for the year ended June 30, 2016 and decreased the District's net position by \$46,193 for the year ended June 30, 2015. Key elements of this increase/decrease are displayed below.

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTERBORO SCHOOL DISTRICT'S Changes in Net Position

	Governmental		Business-type		Totals	
	Activities		Activities			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 67,316	\$ 92,962	\$ 465,191	\$ 466,456	\$ 532,507	\$ 559,418
Operating grants	10,859,013	10,488,821	811,670	733,204	11,670,683	11,222,025
General Revenues:						
Property taxes	38,486,059	36,949,165			38,486,059	36,949,165
Other taxes	1,676,385	1,122,709			1,676,385	1,122,709
Grants, not restricted to specific programs	8,469,599	8,233,935			8,469,599	8,233,935
Investment income	19,337	19,644			19,337	19,644
Gain (Loss) on disposal of assets		(41,432)			0	(41,432)
Miscellaneous income	1,180,853	537,631			1,180,853	537,631
Total Revenues	<u>60,758,562</u>	<u>57,403,435</u>	<u>1,276,861</u>	<u>1,199,660</u>	<u>62,035,423</u>	<u>58,603,095</u>
Expenses:						
Instruction	43,159,254	38,813,827			43,159,254	38,813,827
Instructional support services	5,840,565	5,351,317			5,840,565	5,351,317
Administrative support services	7,645,673	7,491,665			7,645,673	7,491,665
Operation & maintenance of						
Plant services	6,218,834	5,967,990			6,218,834	5,967,990
Pupil transportation	2,849,253	2,730,706			2,849,253	2,730,706
Student activities	993,134	914,557			993,134	914,557
Community services	100,745	117,926			100,745	117,926
Interest on long-term debt	1,434,782	1,468,167			1,434,782	1,468,167
Food service			1,326,225	1,245,853	1,326,225	1,245,853
Total Expenses	<u>68,242,240</u>	<u>62,856,155</u>	<u>1,326,225</u>	<u>1,245,853</u>	<u>69,568,465</u>	<u>64,102,008</u>
Change in Net Position	(7,483,678)	(5,452,720)	(49,364)	(46,193)	(7,533,042)	(5,498,913)
Prior period adjustment		(81,452,289)			0	(81,452,289)
Beginning Net Position	<u>(78,445,678)</u>	<u>8,459,331</u>	<u>289,267</u>	<u>335,460</u>	<u>(78,156,411)</u>	<u>8,794,791</u>
Ending Net Position	<u>\$ (85,929,356)</u>	<u>\$ (78,445,678)</u>	<u>\$ 239,903</u>	<u>\$ 289,267</u>	<u>\$ (85,689,453)</u>	<u>\$ (78,156,411)</u>

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Interboro School District utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Interboro School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Interboro School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Interboro School District. For the years ended June 30, 2016 and 2015, the fund balance of the Interboro School District's General Fund was \$5,311,088 and \$7,109,901 respectively.

General Fund revenues of the Interboro School District came from three basic sources. The largest source was provided by local funding totaling \$39,984,129 (65.9%), and \$38,583,759 (65.7%) for the years ended June 30, 2016 and 2015 respectively, of which \$38,448,494 and \$37,585,762 were tax revenues. State funding amounted to \$19,497,273 (32.1%) and \$18,881,935 (32.2%); federal funding amounted to \$1,181,013 (2.0%) and \$1,218,361 (2.1%) for the years ended June 30, 2016 and 2015 respectively.

State and Federal funding continue to provide a relatively small percentage (34.1%) of total District revenue. This compels the Interboro School District to rely primarily on the local tax levying powers provided by the Pennsylvania Public School Code and the Local Tax Enabling Act (Act 511 of 1965) to fund the revenue shortfall in order to operate the School District.

General Fund expenditures of the District fall into five major categories and are summarized below for the years ended June 30, 2016 and 2015:

	Expenditures 2016		%	Expenditures 2015		%
Instruction	\$ 39,082,714		62.2%	\$ 37,374,489		59.5%
Support Service	19,151,650		30.5%	21,212,045		33.8%
Non-instructional	959,500		1.5%	943,659		1.5%
Capital Outlay	-		0.0%	-		0.0%
Refund Prior Years' Revenue	378		0.0%	31,219		0.1%
Debt Service	3,670,189		5.8%	3,230,958		5.1%
	<u>\$ 62,864,431</u>		<u>100.0%</u>	<u>\$ 62,792,370</u>		<u>100.0%</u>
TOTAL	<u>\$ 62,864,431</u>		<u>100.0%</u>	<u>\$ 62,792,370</u>		<u>100.0%</u>

Capital Projects Funds. The Capital Projects Funds have total fund balances of \$3,200,617 and \$4,829,704 for the years ended June 30, 2016 and 2015.

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Proprietary fund. The Interboro School District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The Proprietary Fund has net position of \$239,903 and \$289,267 for the years ended June 30, 2016 and 2015 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Interboro School District's expenditures and other financing uses for the fiscal year ended June 30, 2016 of \$62,864,431 was higher than the adopted final budget of \$62,643,122 by a total \$221,309. The most significant variances were: energy savings from the district-wide energy conservation project were budgeted to offset the debt service for this project, this resulted in the debt service expenditures being over budget by \$257,880. In the future the energy savings will be reflected in the budgeted revenues. The expenditures for natural gas (heating) were under budget by \$71,327 due to a milder winter than anticipated.

District's revenues and other financing sources of \$61,065,618 for the fiscal year ended June 30, 2016 were greater than the adopted final budget by \$618,876. The most significant variances were: an increase in real estate transfer taxes collected resulting in \$531,531 more than budgeted due to the sale of three large businesses, an increase in other local revenue due mostly to the airport settlement agreement fixed payment resulted in actual revenues being \$684,094 more than budgeted and current real estate tax revenue was \$170,006 over budget due to an increase in current collections in Tincum Township (a large business went from paying delinquent taxes to paying current). In addition there was a decrease in delinquent real estate taxes resulting in being under budget approximately \$348,216 and the budgeted rental and sinking fund payments were not received from the state due to the moratorium on such payments. This resulted in these revenues being under budget by approximately \$446,062.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Interboro School District's investment in capital assets for its governmental activities, net of accumulated depreciation, amounts to \$48,672,321 and \$42,755,355 as of June 30, 2016 and 2015 respectively. The investment in capital assets includes land, buildings, improvements, and machinery and equipment.

INTERBORO SCHOOL DISTRICT'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and improvements	\$ 3,565,456	\$ 3,565,456	\$	\$	\$ 3,565,456	\$ 3,565,456
Buildings and improvements	70,334,551	65,204,921			70,334,551	65,204,921
Construction in progress	5,119,475	2,586,828			5,119,475	2,586,828
Machinery and equipment	20,434,357	20,291,839	827,778	823,486	21,262,135	21,115,325
Accumulated depreciation	(50,781,518)	(48,893,689)	(386,352)	(344,837)	(51,167,870)	(49,238,526)
	\$ 48,672,321	\$ 42,755,355	\$ 441,426	\$ 478,649	\$ 49,113,747	\$ 43,234,004

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

More detailed information about the Interboro School District's capital assets can be found in footnotes to the financial statements section of this report.

Long-term debt. At the end of the current fiscal year, the Interboro School District had total bonded debt outstanding of \$52,145,000. The Interboro School District maintains an -AA rating from Standard and Poor for general obligation debt.

Additional information on the Interboro School District's long-term debt can be found in the footnotes to the financial statements section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District began the year with \$7.1 million in our fund balance for the General Fund. Expenditures for technology equipment leases, bus/van leases and debt service for capital improvements attributed to a majority of a decrease in the fund balance of \$1.8 million at 6/30/2016. The fund balance is projected to be \$3.4 million at 6/30/2017. The fund balance provides the District with: better flexibility to meet unexpected costs, the ability to manage future tax increases and provides opportunities to define, plan and meet future objectives, particularly with regard to capital improvements. Over the past several years the District has spent from its fund balance considerable amounts for its capital improvements/HVAC replacements to our schools and facilities, as well as technology equipment upgrades and replacement. However, with the need for additional improvements continuing to rise combined with the declining availability of funds through state subsidies and federal grants our ability to keep pace without some kind of additional source of funds will be greatly reduced. Slated for the next fiscal year and beyond are these projects which are currently funded 100% from the remaining Fund Balance: various capital improvements to certain offices and classrooms at the administration/Kindergarten Academy, HVAC replacements at the Glenolden School and roof replacement at various district buildings and capital improvements to the South Avenue sports complex. These future projects will further analyzed through a feasibility study being conducted by an outside firm in the fall of 2016. In addition to these projects there is \$609,421 as of 6/30/2016 committed in the fund balance for a new district wide phone/communication system, a new student information system and an upgrade/replacement of the district's data center, including computer replacement for the professional and administrative staff. The committed funds are for lease payments over one to three years for the equipment. In addition, as of 6/30/16 \$500,000 has been committed in the fund balance for capital improvements to the Tinicum School, as part of the airport CEP agreement.

As in recent years the current economic conditions at the local, state and federal levels have further eroded District funding that is already stretched to its limit by various competing demands. The balance between the educational needs of the students and the community's ability to pay has always been a constant battle faced by the District. Now, more than ever, this battle is made more difficult by various reductions in Federal and State funding over the past years.

INTERBORO SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Local sources of revenue have increased, such as real estate transfers and current real estate taxes which would indicate that the economic health of the community might be getting better. During the 2015-2016 fiscal year the transfer tax revenue increased due to the sale of certain larger business properties. There are still ongoing assessment appeals that could negatively impact the District's ability to maintain its current level of real estate tax revenue. In addition, historically low investment interest rates mean that the District is making less and less on invested capital. In addition, the Capacity Enhancement Program of the Philadelphia Airport includes the acquisition by the City of Philadelphia many taxable parcels that may increase the District's real estate per the terms of the CEP agreement.

Revenue funds received from the Keystone to Opportunities Grant for the year 2015/2016 were \$586,523. This was year four of five for the Keystone to Opportunities Grant, which means that after the 2016/2017 fiscal year the grant will be eliminated. The District decreased their Title I and Title II federal revenue by \$44,440. In addition, certain state funding such as block grants have been or could be eliminated or decreased dramatically. On the expenditure side of the financial statement the State's inability to address the underfunded Pennsylvania State Education Retirement System (PSERS) places additional burden on the District. The portion that the District must pay is projected to increase from 25.84% (2015/2016) to 33.51% over the next five years with a potential maximum of 34.20%. These increases will add hundreds of thousands of dollars to the District's budget each year. In addition, the District must plan for future contractual increases in salary and wages.

As in previous years the State continues to push more and more of its funding responsibility onto the District and its Community. The District's experience was far less extreme than many of the Districts in the surrounding area in part, due to fiscal policies of the Board and Administration. In July 2006, Act 1 - The Tax Payer Relief Act, was passed by the Pennsylvania State Legislature. Act 1 prevents tax increases, unless approved by the community, above an index calculated by the State. However, certain allowances to this provision may be granted by the State. In addition it provides for tax relief to the community which is to be funded by gambling revenues. The 2015/2016 fiscal year will be the eighth year in a row that tax increases have been held at or below 2.5%. The District increased real estate taxes for 2015/2016 by 1.5%. The adjusted index for 2016/2017 was 3.2% and the district used an index of 2.9% when preparing the budget for 2016-2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Interboro School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Interboro School District, Director of Finance, 900 Washington Avenue, Prospect Park, PA 19076.

INTERBORO SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 13,687,007	\$ 21,052	\$ 13,708,059
Restricted cash	43,096		43,096
Taxes receivable	1,473,633		1,473,633
Due from other governments	1,451,834	117,811	1,569,645
Internal balances	224,277	(224,277)	-
Inventory	5,091	6,129	11,220
Prepaid assets	353,488		353,488
Other receivables	47,975		47,975
Other assets	446,570		446,570
Capital assets not being depreciated			
Land	1,674,131		1,674,131
Construction in progress	5,119,475		5,119,475
Capital assets, net of accumulated depreciation:			
Land Improvements	716,497		716,497
Buildings	38,147,829		38,147,829
Machinery, equipment and vehicles	3,014,389	441,426	3,455,815
Total Assets	<u>66,405,292</u>	<u>362,141</u>	<u>66,767,433</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	165,347		165,347
Deferred amounts related to pensions	12,846,189		12,846,189
Total Deferred Outflows of Resources	<u>13,011,536</u>	<u>-</u>	<u>13,011,536</u>
LIABILITIES			
Accounts payable and other accrued liabilities	7,394,587	56,913	7,451,500
Accrued interest payable	552,309		552,309
Unearned revenues	106,116	20,396	126,512
Noncurrent liabilities:			
Due within one year	2,367,079	15,000	2,382,079
Due in more than one year	53,040,565	29,929	53,070,494
Other post employment benefits	344,028		344,028
Net Pension Liability	101,228,000		101,228,000
Total Liabilities	<u>165,032,684</u>	<u>122,238</u>	<u>165,154,922</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	313,500		313,500
Total Deferred Inflows of Resources	<u>313,500</u>	<u>-</u>	<u>313,500</u>
NET POSITION			
Net invested in capital assets, net of related debt	(1,432,742)	396,497	(1,036,245)
Restricted for:			
Capital projects	2,996,241		2,996,241
Special education	43,096		43,096
Instructional contributions	16,862		16,862
Unrestricted	(87,552,813)	(156,594)	(87,709,407)
Total net position	<u>\$ (85,929,356)</u>	<u>\$ 239,903</u>	<u>\$ (85,689,453)</u>

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 43,159,254	\$ 26,689	\$ 8,384,273	\$ (34,748,292)	\$	\$ (34,748,292)
Instructional Support Services	5,840,565		655,098	(5,185,467)		(5,185,467)
Administrative Support Services	7,645,673		609,967	(7,035,706)		(7,035,706)
Operation and Maintenance of Plant Services	6,218,834		327,998	(5,890,836)		(5,890,836)
Pupil Transportation	2,849,253		785,600	(2,063,653)		(2,063,653)
Student Activities	993,134	40,627	91,327	(861,180)		(861,180)
Community Services	100,745		4,750	(95,995)		(95,995)
Interest on long-term debt	1,434,782		-	(1,434,782)		(1,434,782)
TOTAL GOVERNMENTAL ACTIVITIES	68,242,240	67,316	10,859,013	(57,315,911)		(57,315,911)
BUSINESS-TYPE ACTIVITIES						
Food service	1,326,225	465,191	811,670		(49,364)	(49,364)
	<u>\$ 69,568,465</u>	<u>\$ 532,507</u>	<u>\$ 11,670,683</u>			<u>(57,365,275)</u>
GENERAL REVENUES						
				38,486,059		38,486,059
				1,676,385		1,676,385
				8,469,599		8,469,599
				19,337		19,337
				1,180,853		1,180,853
TOTAL GENERAL REVENUES				49,832,233	-	49,832,233
CHANGE IN NET POSITION				(7,483,678)	(49,364)	(7,533,042)
NET POSITION AT BEGINNING OF YEAR				(78,445,678)	289,267	(78,156,411)
NET POSITION AT END OF YEAR				\$ (85,929,356)	\$ 239,903	\$ (85,689,453)

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Nonmajor Fund Capital Project Fund</u>	<u>Totals</u>
ASSETS				
Cash and cash equivalents	\$ 9,833,830	\$ 3,648,801	\$ 204,376	\$ 13,687,007
Restricted cash	43,096			43,096
Taxes receivable	1,473,633			1,473,633
Due from other governments	1,451,834			1,451,834
Due from other funds	224,277			224,277
Inventory	5,091			5,091
Prepaid items	353,488			353,488
Other receivables	38,035	9,940		47,975
TOTAL ASSETS	<u>\$ 13,423,284</u>	<u>\$ 3,658,741</u>	<u>\$ 204,376</u>	<u>\$ 17,286,401</u>
LIABILITIES				
Accounts payable	\$ 620,430	\$ 662,500		\$ 1,282,930
Accrued salaries and benefits	3,296,849			3,296,849
Due to retirement system	2,806,223			2,806,223
Unearned revenue - other	106,116			106,116
Other current liabilities	8,585			8,585
TOTAL LIABILITIES	<u>6,838,203</u>	<u>662,500</u>	<u>-</u>	<u>7,500,703</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - real estate taxes	1,273,993			1,273,993
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,273,993</u>	<u>-</u>	<u>-</u>	<u>1,273,993</u>
FUND BALANCES				
Nonspendable:				
Inventory	5,091			5,091
Prepaid items	353,488			353,488
Restricted:				
Local contributions	16,862			16,862
Special education	43,096			43,096
Capital Projects		2,996,241		2,996,241
Committed:				
Bus leases	395,500			395,500
Debt Service	293,585			293,585
Technology upgrades	609,421			609,421
Capital improvements and capital purchases	500,000			500,000
Assigned:				
Capital Projects			204,376	204,376
Unassigned	3,094,045			3,094,045
TOTAL FUND BALANCES	<u>5,311,088</u>	<u>2,996,241</u>	<u>204,376</u>	<u>8,511,705</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 13,423,284</u>	<u>\$ 3,658,741</u>	<u>\$ 204,376</u>	<u>\$ 17,286,401</u>

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 8,511,705
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	48,672,321
Other post employment benefits are not recorded in the funds.	(344,028)
Some of the District's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are unearned.	1,273,993
Long-term receivables are not recorded in the funds.	446,570
Deferred charge on refunding is not recorded in the funds.	165,347
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	12,846,189
Deferred inflows of resources related to pensions	(313,500)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Bonds payable	(52,145,000)
Capital Lease payable	(1,175,003)
Unamortized bond premium	(573,855)
Unamortized bond discount	139,994
Accrued interest	(552,309)
Accumulated compensated absences/early retirement incentive	(1,653,780)
Net Pension Liability	<u>(101,228,000)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (85,929,356)</u>

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 39,984,129	\$ 579	\$	\$ 39,984,708
State sources	19,497,273			19,497,273
Federal sources	1,181,013			1,181,013
TOTAL REVENUES	<u>60,662,415</u>	<u>579</u>	<u>-</u>	<u>60,662,994</u>
Other Financing Sources:				
Proceeds from bond issuance		6,105,000		6,105,000
Bond premium		40,195		40,195
Refund of prior year expenditures	403,203			403,203
TOTAL OTHER FINANCING SOURCES	<u>403,203</u>	<u>6,145,195</u>	<u>-</u>	<u>6,548,398</u>
 TOTAL REVENUE AND OTHER FINANCING SOURCES	 <u>61,065,618</u>	 <u>6,145,774</u>	 <u>-</u>	 <u>67,211,392</u>
 EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction	39,082,714			39,082,714
Support services	19,133,715	93,307		19,227,022
Operation of non-instructional services	959,500			959,500
Capital outlay	17,935	7,662,278		7,680,213
Debt service				
Interest	1,352,136	19,276		1,371,412
Principal	2,318,053			2,318,053
TOTAL EXPENDITURES	<u>62,864,053</u>	<u>7,774,861</u>	<u>-</u>	<u>70,638,914</u>
Other Financing Uses:				
Refund of prior years revenues	378			378
TOTAL OTHER FINANCING USES	<u>378</u>	<u>-</u>	<u>-</u>	<u>378</u>
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u>62,864,431</u>	 <u>7,774,861</u>	 <u>-</u>	 <u>70,639,292</u>
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 (1,798,813)	 (1,629,087)	 -	 (3,427,900)
 FUND BALANCE AT BEGINNING OF YEAR	 <u>7,109,901</u>	 <u>4,625,328</u>	 <u>204,376</u>	 <u>11,939,605</u>
 FUND BALANCE AT END OF YEAR	 <u>\$ 5,311,088</u>	 <u>\$ 2,996,241</u>	 <u>\$ 204,376</u>	 <u>\$ 8,511,705</u>

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(3,427,900)
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:</p>		
Capital outlay		7,804,795
Depreciation expense		(1,887,829)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in Governmental Funds.		(307,257)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.		1,885,000
Repayment of capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.		342,140
Other post employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.		(226,985)
<p>The issuance of long term debt (e.g. bonds) provides current financial resources to governmental funds. This transaction has no impact on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These represent the related activity of the current period.</p>		
Amortization of bond premium/discount		43,799
Bonds issued		(6,145,195)
Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.		(73,979)
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension related benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions		7,541,738
Cost of pension benefits earned, net of employee contributions		(12,924,836)
Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt in the statement of activities.		(107,169)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	(7,483,678)

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

JUNE 30, 2016

	Enterprise Fund
	Food
	Service Fund
ASSETS	
Cash and cash equivalents	\$ 21,052
Due from other governments	117,811
Inventory	6,129
Capital assets, net of accumulated depreciation:	
Machinery and equipment	441,426
Total Assets	586,418
LIABILITIES	
Due to other funds	224,277
Accounts payable	56,913
Unearned revenue	20,396
Equipment loan payable	
Due within one year	15,000
Due in more than one year	29,929
Total liabilities	346,515
NET POSITION	
Net invested in capital assets	396,497
Unrestricted	(156,594)
Total net position	\$ 239,903

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise Fund</u> <u>Food</u> <u>Service Fund</u>
OPERATING REVENUES	\$ 465,191
OPERATING EXPENSES	
Wages and benefits	10,208
Purchased professional and technical services	1,132,295
Purchased property services	64,650
Supplies	77,557
Depreciation	41,515
TOTAL OPERATING EXPENSES	<u>1,326,225</u>
OPERATING LOSS	<u>(861,034)</u>
NONOPERATING REVENUES	
State sources	38,467
Federal sources	773,203
TOTAL NONOPERATING REVENUES	<u>811,670</u>
CHANGE IN NET POSITION	(49,364)
NET POSITION AT BEGINNING OF YEAR	<u>289,267</u>
NET POSITION AT END OF YEAR	<u>\$ 239,903</u>

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
(FOOD SERVICE FUND)

FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 470,876
Payments to employees	(10,208)
Payments to suppliers	<u>(1,144,643)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(683,975)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	33,351
Federal sources	<u>679,233</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>712,584</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(4,292)
Equipment Loan	<u>(15,070)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(19,362)</u>
NET INCREASE IN CASH	9,247
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,805</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 21,052</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (861,034)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	41,515
(Increase) decrease in assets:	
Other receivables	6,541
Inventory	561
Increase (decrease) in liabilities:	
Interfund payable	72,421
Accounts payable	56,877
Deferred revenue	<u>(856)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (683,975)</u></u>
 Schedule of noncash capital financing activities	
Donated commodities received	\$ 76,996
Donated commodities used	\$ 77,557

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2016

	Scholarship Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 54,438	\$ 101,917
Total assets	\$ 54,438	\$ 101,917
LIABILITIES		
Accounts payable	\$	\$ 26,089
Due to student organizations		75,828
Total current liabilities	-	101,917
NET POSITION		
Reserved for scholarships	54,438	
TOTAL LIABILITIES AND NET POSITION	\$ 54,438	\$ 101,917

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND**

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Scholarship Trust Fund</u>
ADDITIONS	
Local contributions	\$ 40,664
DEDUCTIONS	
Fees paid and scholarships awarded	<u>42,610</u>
CHANGE IN NET POSITION	(1,946)
NET POSITION AT BEGINNING OF YEAR	<u>56,384</u>
NET POSITION AT END OF YEAR	<u><u>\$ 54,438</u></u>

See accompanying notes to the basic financial statements

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interboro School District (the District) operates one kindergarten academy, four community schools and one senior high school to provide education and related services to the residents of the Boroughs of Glenolden, Norwood and Prospect Park and the Township of Tinicum. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member Board form of government.

The financial statements of the District are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to generally accepted accounting principles as applicable to governmental units.

The most significant of the District's accounting policies are described below:

Financial Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14, as amended by GASB No. 61, the District is financially accountable if it appoints a voting majority of the organization governing board (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, there have been no component units defined within our reporting entity.

Joint Ventures

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

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Jointly Governed Organization

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 education 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.

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues, expenses, gains, losses, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from nonexchange transactions should be recognized in accordance with requirements of GASB 63.

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

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Government-Wide Financial Statements, continued

identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

Fund Financial Statements

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's proprietary fund are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Financial Statements, continued

services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds are reported using the economic resources measurement focus.

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

Governmental Funds

Governmental Funds are those through which most governmental functions of the District are financed. The District has presented the following major governmental funds:

General Fund

The General Fund is for the general operations of the District and all financial transactions not required to be accounted for in another fund.

Bond Fund

The Bond Fund accounts for the proceeds of General Obligation Bonds for capital improvements.

Proprietary Funds

Enterprise (Food Service) Fund

The Enterprise Fund accounts for the District's Food Service operations, which is maintained to account for operations that are financed and operated in a manner similar to a private business enterprise. The fund accounts for all revenues, food purchases, costs, and expenses for the food service program on the accrual method of accounting. This method recognizes expenses when incurred and revenues when earned. All proprietary activities are accounted for using GASB pronouncements as established by GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*.

Fiduciary Fund Types

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.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Trust Fund

The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations.

Agency Fund

The agency funds account for funds held on behalf of the students of the District. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Estimates

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

Cash and Cash Equivalents

For the purposes of reporting cash flows for proprietary fund financial statements, cash and cash equivalents include cash on hand, amounts due from banks and highly-liquid investments with original maturities of less than 90 days.

Investments

Investments are stated at fair value, the amount at which a financial instrument could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. This method of valuation is in compliance with GASB Statement #31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

Intergovernmental Receivables/Payables

During the course of operations, numerous transactions occur between governmental units for payment of services and subsidy payments. These receivables and payables are classified as intergovernmental receivables and payables on the balance sheet.

Inventories

Food service inventory is presented at the lower of cost or market. Cost is determined on a first in first out basis and is expensed when used.

Compensated Absences

The School District's policies regarding vacation and sick time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

Capital assets, which include land, land improvements, buildings, and machinery, equipment and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

The District defines capital assets as assets with an initial, individual cost equal to or greater than \$3,000 or composite assets with a cost of more than \$10,000 and an estimated useful life in excess of one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Land improvements	20
Machinery, equipment, and vehicles	5-20
Library books	5-7

Unavailable and Unearned Revenues

General Fund unavailable revenues represent primarily delinquent taxes not collected within 60 days subsequent to the District's year-end and unearned revenues represent grant revenue received, but not yet earned. It is expected that these receivables will be collected and included in revenues of future fiscal years. The unearned revenues on the government-wide financial statements, consist of grant revenue received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities columns of the statement of net position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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

Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance

The District implemented GASB Statement No. 54 for the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also as clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (board motion) of the school board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects amounts constrained by the school’s “intent” to be used for specific purposes, but are neither restricted nor committed. The school board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Use of fund balance. The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Under Act No. 72 enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured by the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$12,109,974 of the District’s bank balance of \$14,759,131 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank’s trust department not in the District’s name	\$ 12,109,974
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3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 33.9362 mills (\$33.9362 per \$1,000 of assessed valuation) for fiscal year 2016. Assessed valuation of property is established by the Board of Assessments, and the elected or appointed tax collectors are responsible for collection. Real property in the district for the July 1, 2015 levy was assessed at \$1,151,489,765. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 – August 31	2% discount period
September 1 – October 31	Face value period
November 1 – December 31	10% penalty period
February 28	Lien date

For government-wide financial statements, the school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable. The amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2016:

	Interfund Receivables	Interfund Payables
General Fund	\$ 224,277	\$
Proprietary Fund		224,277
	\$ 224,277	\$ 224,277

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital Asset Activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 1,674,131	\$	\$	\$ 1,674,131
Construction in Progress	<u>2,586,828</u>	<u>5,119,475</u>	<u>2,586,828</u>	<u>5,119,475</u>
Total capital assets not being depreciated	<u>4,260,959</u>	<u>5,119,475</u>	<u>2,586,828</u>	<u>6,793,606</u>
Capital assets being depreciated				
Land improvements	1,891,325			1,891,325
Buildings and improvements	65,204,921	5,129,630		70,334,551
Property and equipment	<u>20,291,839</u>	<u>142,518</u>		<u>20,434,357</u>
Total capital assets being depreciated at historical cost	<u>87,388,085</u>	<u>5,272,148</u>	<u>-</u>	<u>92,660,233</u>
Less accumulated depreciation for				
Land improvements	(1,101,496)	(73,332)		(1,174,828)
Buildings and improvements	(30,832,217)	(1,354,505)		(32,186,722)
Property and equipment	<u>(16,959,976)</u>	<u>(459,992)</u>		<u>(17,419,968)</u>
Total accumulated depreciation	<u>(48,893,689)</u>	<u>(1,887,829)</u>	<u>-</u>	<u>(50,781,518)</u>
Total capital assets being depreciated, net	<u>38,494,396</u>	<u>3,384,319</u>	<u>-</u>	<u>41,878,715</u>
Governmental Activities capital assets, net	<u>\$ 42,755,355</u>	<u>\$ 8,503,794</u>	<u>\$ 2,586,828</u>	<u>\$ 48,672,321</u>
<u>Business-type Activities:</u>				
Capital assets being depreciated				
Machinery and equipment	\$ 823,486	\$ 4,292	\$	\$ 827,778
Less accumulated depreciation	<u>(344,837)</u>	<u>(41,515)</u>		<u>(386,352)</u>
Business-type activities capital assets, net	<u>\$ 478,649</u>	<u>\$ (37,223)</u>	<u>\$ -</u>	<u>\$ 441,426</u>

Depreciation expense for Governmental Activities was charged as direct expense to programs of the primary government as follows:

Instruction	\$ 98,390
Instructional Student Support	18,107
Administrative Support Services	253,367
Operation and Maintenance of Plant Services	1,413,237
Pupil Transportation	41,571
Student Activities	<u>63,157</u>
Total Governmental Activities depreciation expense	<u>\$ 1,887,829</u>

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the district for the year ending June 30, 2016:

Type	Principal Outstanding July 1, 2015	Additions	Repayments	Principal Outstanding June 30, 2016	Due within One Year
General Obligation Bond - 2013A	\$ 9,360,000	\$	\$ 350,000	\$ 9,010,000	\$ 345,000
General Obligation Bond - 2013B	1,995,000		1,110,000	885,000	885,000
General Obligation Bond - 2014	11,815,000		5,000	11,810,000	5,000
General Obligation Bond - 2015	9,085,000		90,000	8,995,000	380,000
General Obligation Bond - 2015A	7,260,000		125,000	7,135,000	55,000
General Obligation Bond - 2015AA	6,170,000			6,170,000	80,000
General Obligation Bond - 2015AAA	2,240,000		205,000	2,035,000	265,000
General Obligation Bond - 2016	-	6,105,000		6,105,000	-
	47,925,000	6,105,000	1,885,000	52,145,000	2,015,000
Net Discount/Premium	449,219	40,195	55,553	433,861	-
	48,374,219	6,145,195	1,940,553	52,578,861	2,015,000
Capital Leases	1,517,143		342,140	1,175,003	352,079
Compensated Absences	1,579,801	147,922	73,943	1,653,780	-
Total	\$ 51,471,163	\$ 6,293,117	\$ 2,356,636	\$ 55,407,644	\$ 2,367,079

The general fund has liquidated long term liabilities in prior years.

Interest expense for the year ended June 30, 2016 was \$1,336,694 for bonds and \$34,718 for capital leases.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Principal and interest payments for bonds payable for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 2,015,000	\$ 1,538,532	\$ 3,553,532
2018	2,140,000	1,543,548	3,683,548
2019	2,200,000	1,485,348	3,685,348
2020	2,270,000	1,416,223	3,686,223
2021	2,350,000	1,337,148	3,687,148
2022-2026	12,715,000	5,806,246	18,521,246
2027-2031	11,850,000	4,293,840	16,143,840
2032-2036	14,190,000	1,947,928	16,137,928
2037	2,415,000	42,263	2,457,263
	<u>\$ 52,145,000</u>	<u>\$ 19,411,076</u>	<u>\$ 71,556,076</u>

Bonds payable at June 30, 2016, consisted of:

General Obligation Bond Series 2013A. Original principal amount of \$9,445,000, maturing through August 15, 2028, bearing interest from 2.0% to 3.8%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to currently refund the General Obligation Bond Series 2008A and advance refund a portion of the General Obligation Bond Series 2010AAA. The Principal outstanding is reported net of a \$50,817 discount. \$ 8,959,183

General Obligation Bond Series 2013B. Original principal amount of \$4,200,000, maturing through August 15, 2016, bearing interest from 2.0% to 3.8%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to currently refund the General Obligation Bond Series 2008B. The principal outstanding is reported net of a \$49,954 premium. 934,954

General Obligation Bond Series 2014. Original principal amount of \$11,820,000, maturing through February 15, 2034, bearing interest from 2.0% to 3.8%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to provide funds for an energy conservation project and certain capital projects. The principal outstanding is reported net of a \$55,437 discount. 11,754,563

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

<p>General Obligation Bond Series 2015. Original principal amount of \$9,085,000, maturing through February 15, 2023, bearing interest from 2.0% to 4.0%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to currently refund the General Obligation Bond Series 2010B. The principal outstanding is reported net of a \$405,868 premium.</p>	9,400,868
<p>General Obligation Bond Series 2015A. Original principal amount of \$7,260,000 maturing through February 15, 2035, bearing interest from 2.0% to 3.750%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to provide funds for certain outside capital projects and building improvements. The principal outstanding is reported net of a \$30,492 premium.</p>	7,165,492
<p>General Obligation Bond Series 2015AA. Original principal amount of \$6,170,000, maturing through February 15, 2026, bearing interest from 2.0% to 4.0%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to currently refund the General Obligation Bond Series 2010AA. The principal outstanding is reported net of a \$33,740 discount.</p>	6,136,260
<p>General Obligation Bond Series 2015AAA. Original principal amount of \$2,240,000, maturing through February 15, 2023, bearing interest from 2.0% to 3.0%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to currently refund the General Obligation Bond Series 2010AAA. The principal outstanding is reported net of a \$47,522 premium.</p>	2,082,522
<p>General Obligation Bond Series 2016. Original principal amount of \$6,105,000 maturing through February 15, 2037, bearing interest from 2.0% to 3.50%. Interest is paid semi-annually on February 15 and August 15. The bonds were issued to provide funds for the replacement of the HVAC system at the Kindergarten Academy and the Admin Building. The principal outstanding is reported net of a \$45,019 premium.</p>	6,145,019
	\$ 52,578,861

The District issued a new bond to provide funds for the replacement and upgrade of the HVAC system in the Kindergarten Academy and the Administration Building.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

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/deduction from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description

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

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending 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.

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

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

7. PENSION PLAN, continued

Benefits provided, continued

retirement age may apply for the 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 Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts' 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 \$7,541,738 for the year ended June 30, 2016.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

7. PENSION PLAN, continued

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

At June 30, 2016, the District reported a liability of \$101,228,000 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 related to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .2337 percent, which was an increase of .0107 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$13,358,330. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportions	\$ 4,858,800	\$
Net difference between projected and actual investment earnings	258,800	
Net difference between actual and expected experience		313,500
Difference between employer contributions and proportionate share of total contributions	186,851	
Contributions subsequent to the measurement date	7,541,738	
	\$ 12,846,189	\$ 313,500

\$7,541,738 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as 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	\$ 1,389,819
2018	1,389,819
2019	2,198,820
2020	12,493

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

7. PENSION PLAN, continued

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant 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 ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

7. PENSION PLAN, continued

<u>Asset Class</u>	<u>Target allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the 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.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

7. PENSION PLAN, continued

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

The following presents the net pension liability, calculated using the discount rate of 7.50%, 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:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 124,773,000	\$ 101,228,000	\$ 81,438,000

Pension plan fiduciary net position

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

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

The District implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for postemployment health care benefits provided by the District. The requirements of this Statement are being implemented prospectively, with the actuarially accrued liability for benefits at June 30, 2009, date of transition amortized over 20 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Plan Description: All employees who retire from the District may continue to participate in the district's group health plan until the retired employee reaches Medicare age. Spouses are eligible until the retiree reaches age 62, then the spouse can continue coverage under COBRA for 3 years. Employees are eligible at age 60 with 30 years of PSERS service, at age 62 with at least 1 year of service, or with at least 35 years of service with the District. For employees who retired before July 1, 2007, the district provides 100% of the cost of coverage for the retiree and spouse. For employees who retire on or after July 1, 2007, the District provides Health Reimbursement Account contributions depending on the years of service, which can be used to pay for health insurance coverage under the plan, with the retiree responsible for the balance of the premium. The district subsidizes the premium rates paid by retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

on average than those of active employees. The plan is a single-employer defined benefit plan. Separate financial statements are not issued for the plan. The Health Reimbursement Account was eliminated as of July 1, 2013 and was not made available to any Bargaining Unit Member with an effective retirement date after June 30, 2013. However, the Health Reimbursement Account was made available to any Bargaining Unit Member who retired from July 1, 2014 through June 30, 2016.

Funding Policy: The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2015-16 fiscal year, 38 retirees and eligible spouses received postemployment health care benefits. The District's pay-as-you-go cost, including implicit rate subsidy of \$1,285,504 has been applied toward the annual OPEB cost.

Funded Status and Funding Progress: As of June 30, 2016, the actuarial accrued liability for benefits was \$10,915,134, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$10,915,134. The covered payroll (annual payroll of active participating employees) was \$29,832,128, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37 percent.

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

Annual OPEB Cost and Net OPEB Obligation: The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 2,058,670	92%	\$ (101,941)
6/30/2015	\$ 1,531,659	86%	\$ 117,043
6/30/2016	\$ 1,512,489	85%	\$ 344,028

The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

<u>Description</u>	
Normal cost (service cost for one year)	\$ 608,586
Interest on Normal Cost	-
Amortization of Unfunded Actuarial Accrued Liability	907,502
Annual Required Contribution (ARC)	1,516,088
Interest on net OPEB Obligation	4,682
Adjustment to Annual Required Contribution	(8,281)
Annual OPEB Cost (expense)	1,512,489
Contributions toward the OPEB Cost	(1,285,504)
Increase in Net OPEB Obligation	226,985
Net OPEB Obligation, Beginning of Year	117,043
Net OPEB Obligation, End of Year	<u>\$ 344,028</u>

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The District's fourth OPEB actuarial valuation as of July 1, 2016, used the entry age normal actuarial cost method to estimate both the unfunded liability as of June 30, 2016 and to estimate the District's 2015-2016 fiscal year annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost.

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

The actuarial assumptions includes an annual health care cost trend rate of 9% for the 2015-16 fiscal year, reduced by 1% per year to an ultimate rate of 5% in 2019. The unfunded actuarial liability is being amortized as a level dollar over a weighted average of the average future service of active employees for similar plans on an open basis over 20 years. The remaining amortization period at June 30, 2016 is 13 years.

9. CAPITAL LEASES

On November 19, 2014, the District entered into an 8 year capital lease agreement for school buses. Payments are made annually. The implicit interest rate is 2.54%. The principal amount of the lease is \$264,000. This amount has been added to capital assets and long-term liabilities in the government-wide financial statements. Amortization expense for the equipment is included in depreciation expense.

On July 1, 2014, the District entered into a 5 year capital lease agreement for technology equipment. Payments are made annually. The implicit interest rate is 2.89%. The principal amount of the lease is \$1,594,779. This amount has been added to capital assets and long-term liabilities in the government-wide financial statements. Amortization expense for the equipment is included in depreciation expense.

Principal and interest payments for the succeeding years are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 352,079	\$ 24,780	\$ 376,859
2018	362,307	14,552	376,859
2019	372,832	4,027	376,859
2020	36,718	2,282	39,000
2021	37,672	1,328	39,000
2022	13,395	349	13,744
	<u>\$ 1,175,003</u>	<u>\$ 47,318</u>	<u>\$ 1,222,321</u>

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

10. OPERATING LEASES

The District currently is obligated under operating lease agreements for various office equipment leases and a school bus lease. The minimum rental cost for the year ending June 30, 2016 was \$672,198. The rental expense for the year ending June 30, 2016 was \$758,467. Future minimum lease payments under these leases are as follows:

<u>June 30,</u>	<u>Amount</u>
2017	\$ 726,490
2018	467,268
2019	318,768
	<u>\$ 1,512,526</u>

11. SELF INSURANCE

The School District self-insures worker's compensation through the Pennsylvania Insurance Consortium for Schools. The Pennsylvania Insurance Consortium for Schools is an association consisting of school districts, intermediate units, and vocational-technical schools of the Commonwealth of Pennsylvania. The School District obtained a self-insurance exemption from the Commonwealth of Pennsylvania, Department of Labor and Industry, Bureau of Workers' Compensation, which allows the School District to self-insure workers' compensation.

Each year the School District is required to deposit funds into the central fund. The School District is then billed monthly for actual claims paid during the previous month up to the level of retention. After the level of retention is reached, claim payments are made from the central fund. At the end of each fiscal year, reserves are established or adjusted on all outstanding claims. Funds in the central fund at the end of the fiscal year are not refunded.

The School District does not carry dental or prescription insurance, because of its prohibitive cost, the district covers all claim settlements out of its General Fund resources. The School District currently reports all its risk management activities in the fund financial statements in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Charges</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2015-2016	\$ 70,464	\$ 1,791,061	\$ 1,724,534	\$ 136,992

INTERBORO SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

12. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

13. COMMITMENTS

The District has a commitment to replace the HVAC units at the Kindergarten Academy and the Administration Building under long-term construction contracts totaling approximately \$2,589,250 as of June 30, 2016.

14. RISK MANAGEMENT

The District is exposed to various risks of losses 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. There were no significant reductions in insurance coverage for the fiscal year ending June 30, 2016.

15. SPLIT-DOLLAR LIFE INSURANCE

The District entered into Split-Dollar Life Insurance collateral assignment agreements with nine retirees. Pursuant to each collateral assignment agreement, a portion of the death benefit payable upon the death of the insured is “collaterally assigned” to the District in an amount equal to the aggregate sum of the life insurance premiums paid by the District during the life of the insured. The balance of the death benefit is retained by the insured’s designated beneficiary. The cumulative premium amount paid and receivable by the District is \$446,570 as of June 30, 2016.

REQUIRED

SUPPLEMENTARY INFORMATION

INTERBORO SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS FOR THE
POSTEMPLOYMENT BENEFITS PLAN**

JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2016	\$ 0	\$ 10,915,134	\$ 10,915,134	0%	\$ 29,832,128	36.59%
7/1/2014	\$ 0	\$ 12,826,540	\$ 12,826,540	0%	\$ 27,737,686	46.24%
7/1/2012	\$ 0	\$ 16,706,175	\$ 16,706,175	0%	\$ 26,229,194	63.69%

INTERBORO SCHOOL DISTRICT

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

Last 10 Fiscal Years*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.2337%	0.2230%	0.2105%
District's proportionate share of the net pension liability	\$ 101,228,000	\$ 88,265,000	\$ 86,171,000
District's covered-employee payroll	\$ 30,067,986	\$ 28,452,280	\$ 27,018,153
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.66%	310.22%	318.94%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

Amounts were determined as of the cost-sharing plan's June 30, 2014 fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10-year trend is complete, available information is presented.

INTERBORO SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
PENSION PLAN

Last 10 Fiscal Years*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	\$ 7,541,738	\$ 6,055,982	\$ 4,455,528
Contributions in relation to the contractually required contribution	<u>\$ (7,541,738)</u>	<u>\$ (6,055,982)</u>	<u>\$ (4,455,528)</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 30,166,952	\$ 29,541,375	\$ 28,452,280
Contributions as a percentage of covered-employee payroll	25.00%	20.50%	15.66%

Amounts are based on actual contributions during the fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

INTERBORO SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 38,840,619	\$ 38,840,619	\$ 39,984,129	\$ 1,143,510
State sources	19,877,552	19,877,552	19,497,273	(380,279)
Federal sources	1,233,024	1,233,024	1,181,013	(52,011)
Other Financing Sources:				
Refund of prior year expenditures	495,547	495,547	403,203	(92,344)
Total Revenues	60,446,742	60,446,742	61,065,618	618,876
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	27,610,402	27,636,070	27,799,805	(163,735)
Special programs	9,550,540	9,582,308	9,546,744	35,564
Vocational programs	1,009,661	1,009,661	991,536	18,125
Other instructional programs	308,057	289,619	416,636	(127,017)
Community college education programs	326,859	327,993	327,993	-
Total Instruction	38,805,519	38,845,651	39,082,714	(237,063)
Support Services				
Pupil personnel services	3,123,426	3,087,346	2,953,841	133,505
Instructional staff services	2,070,347	2,014,232	1,700,412	313,820
Administration services	4,413,639	4,457,629	4,595,542	(137,913)
Pupil health	736,892	743,447	708,405	35,042
Business services	689,493	688,950	686,875	2,075
Operation and maintenance of plant services	4,605,903	4,621,509	4,504,240	117,269
Student transportation	2,465,172	2,461,004	2,569,926	(108,922)
Central services	1,354,648	1,355,375	1,106,441	248,934
Other support services	302,262	302,514	308,033	(5,519)
Total Support Services	19,761,782	19,732,006	19,133,715	598,291
Operation of Non-instructional Services				
Student activities	841,217	843,752	858,755	(15,003)
Community services	100,155	100,155	100,745	(590)
Total Operation of Non-instructional Services	941,372	943,907	959,500	(15,593)
Other Financing Uses				
Capital outlay	99,000	85,734	17,935	67,799
Refund of prior years' revenue	-	375	378	(3)
Debt service	3,035,449	3,035,449	3,670,189	(634,740)
Total Other Financing Uses	3,134,449	3,121,558	3,688,502	(566,944)
TOTAL EXPENDITURES AND OTHER FINANCING USES	62,643,122	62,643,122	62,864,431	(221,309)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,196,380)	(2,196,380)	(1,798,813)	397,567
FUND BALANCE AT BEGINNING OF YEAR	5,612,694	5,612,694	7,109,901	1,497,207
FUND BALANCE AT END OF YEAR	\$ 3,416,314	\$ 3,416,314	\$ 5,311,088	\$ 1,894,774

INTERBORO SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –

JUNE 30, 2016

1. Budgetary Data

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

- a. Prior to January 31, the School Board adopts a proposed operating budget for the fiscal year commencing the following July 1 or adopts a resolution indicating that it will not raise the rate of any tax by more than its index. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
- b. Twenty days prior to the final budget adoption deadline the proposed final budget is made available for public inspection.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the School Board.
- e. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
- f. Budgets for the General Fund are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The District's expenditures exceeded appropriations for the year by \$214,550 in total.

A budget is not required for the Capital Projects or Capital Reserve funds.

2. Pension Data

The amounts reported in the schedule of the district's proportionate share of the net pension liability are determined as of June 30, 2015 by The Commonwealth of Pennsylvania Public School Employees' Retirement System (the cost-sharing plan). There were no changes in benefit terms and no changes in assumptions.

SUPPLEMENTARY INFORMATION

INTERBORO SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2016

FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Program or Award Amount	Accrued or (Deferred) at July 1, 2015	Total Received For the Year	Expenditures	Accrued or (Deferred) at June 30, 2016	Revenue Recognized
FEDERAL AWARDS									
U.S. DEPT. OF EDUCATION									
Passed Through the PA Dept. of Education									
Title I-Low Income	84.010	013-15-0197	8/6/14-9/30/15	\$ 448,773	\$ 60,689	\$ 61,737	\$ 1,048	\$ -	\$ 1,048
Title I-Low Income	84.010	013-16-0197	7/1/15-9/30/16	427,789	-	343,364	418,749	75,385	418,749
Total CFDA 84.010				876,562	60,689	405,101	419,797	75,385	419,797
Keystone to Opportunities Title I	84.371c	143-14-0197	10/1/14-9/30/15	604,843	(42,381)	-	42,381	-	42,381
Keystone to Opportunities Title I	84.371c	143-15-0197	10/1/15-9/30/16	631,086	-	631,086	544,141	(86,945)	544,141
Total CFDA 84.371c				1,235,929	(42,381)	631,086	586,522	(86,945)	586,522
Title II - Improving Teacher Quality	84.367	020-15-0197	8/6/14-9/30/15	114,024	19,416	24,383	4,967	-	4,967
Title II - Improving Teacher Quality	84.367	020-16-0197	7/1/15-9/30/16	113,521	-	98,307	110,212	11,905	110,212
Total CFDA 84.367				227,545	19,416	122,690	115,179	11,905	115,179
Title III-Language Instructional, LEP	84.365	010-140197	7/1/13-9/30/15	6,485	-	6,485	6,759	274	6,759
Total CFDA 84.365				6,485	-	6,485	6,759	274	6,759
Passed Through the Delaware County Intermediate Unit #25									
IDEA - B	84.027		7/1/15-6/30/16	661,302	-	661,302	661,302	-	661,302
IDEA - Section 619 2014-2015	84.173		7/1/15-6/30/16	5,207	-	5,207	5,207	-	5,207
Total IDEA Cluster				666,509	-	666,509	666,509	-	666,509
TOTAL U.S. DEPT. OF EDUCATION				3,013,030	37,724	1,831,871	1,794,766	619	1,794,766
U.S. DEPT. OF THE INTERIOR									
FWS National Wildlife Refuge Fund	15.659		7/1/13-6/30/14	4,860	-	4,860	4,860	-	4,860
Total CFDA 15.659				4,860	-	4,860	4,860	-	4,860
TOTAL U.S. OF THE INTERIOR				4,860	-	4,860	4,860	-	4,860
U.S. DEPT. OF HEALTH AND HUMAN SERVICES									
Passed Through the PA Dept. of Public Welfare									
Medical Assistance - Access Admin	93.778		7/1/15-6/30/16	-	-	44,024	53,029	9,005	53,029
Total CFDA 93.778				-	-	44,024	53,029	9,005	53,029
TOTAL U.S. DEPT. OF HEALTH AND HUMAN SERVICES				-	-	44,024	53,029	9,005	53,029
<i>CHILD NUTRITION CLUSTER</i>									
U.S. DEPT. OF AGRICULTURE									
Passed through the PA Dept. of Education									
National School Lunch Program	10.555	362	7/01/14-6/30/15	N/A	15,378	15,378	-	-	-
National School Breakfast Program	10.553	365	7/01/14-6/30/15	N/A	2,334	2,334	-	-	-
National School Lunch Program	10.555	362	7/1/15-6/30/16	N/A	-	515,345	612,904	97,559	612,904
National School Breakfast Program	10.553	365	7/1/15-6/30/16	N/A	-	68,620	82,743	14,123	82,743
Passed through the PA Dept. of Agriculture									
Value of USDA Commodities	10.555		7/01/14-6/30/15	-	(6,690)	-	6,690	-	6,690
Value of USDA Commodities	10.555		7/1/15-6/30/16	-	-	76,996	70,867	(6,129)	70,867
TOTAL U.S. DEPT OF AGRICULTURE					11,022	678,673	773,204	105,553	773,204
TOTAL FEDERAL AWARDS				3,013,030	48,746	2,559,428	2,625,859	115,177	2,625,859
CERTAIN STATE GRANTS									
<u>STATE GRANTOR/PROGRAM TITLE</u>									
Food Nutrition Service	N/A	510	7/01/14-9/30/15	N/A	876	876	-	-	-
Food Nutrition Service	N/A	511	7/01/14-9/30/15	N/A	138	138	-	-	-
Food Nutrition Service	N/A	510	7/1/15-6/30/16	N/A	-	28,373	33,689	5,316	33,689
Food Nutrition Service	N/A	511	7/1/15-6/30/16	N/A	-	3,964	4,778	814	4,778
TOTAL CERTAIN STATE GRANTS					1,014	33,351	38,467	6,130	38,467
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS				\$ 3,013,030	\$ 49,760	\$ 2,592,779	\$ 2,664,326	\$ 121,307	\$ 2,664,326

INTERBORO SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and certain state grants (the Schedule) includes the federal award activity of INTERBORO SCHOOL DISTRICT under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of INTERBORO SCHOOL DISTRICT, it is not intended to and does not present the financial position, changes in net assets, or cash flows of INTERBORO SCHOOL DISTRICT.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*) wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

INTERBORO SCHOOL DISTRICT has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

INTERBORO SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

2015-001 General Fund Budget

Condition: The actual general fund expenditures exceeded appropriations for the year ending June 30, 2015 by approximately four million dollars. Also, the budget did not include proceeds from capital leases.

Recommendation: We recommend that the District review its budget policy to ensure the budget accurately reflects the projected expenditures and provides for compliance with Section 609 of the Public School Code by requiring ongoing review of the budget to actual expenditures.

Current Status: The recommendation was adopted. No similar findings were noted in the June 30, 2016 audit.

2015-002 Capital Lease Recording

Condition: The issuance of new capital leases were not recorded, and the payments for capital leases were not properly recorded as debt payments.

Recommendation: Management should review all lease agreements to ensure all capital leases are properly recorded.

Current Status: The recommendation was adopted. No similar findings were noted in the June 30, 2016 audit.



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

To the Board of School Directors
INTERBORO SCHOOL DISTRICT
Prospect Park, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of INTERBORO SCHOOL DISTRICT as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise INTERBORO SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated January 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered INTERBORO 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 INTERBORO SCHOOL DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of the INTERBORO 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 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

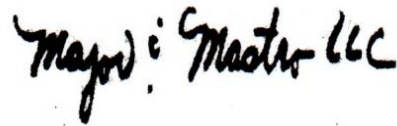
As part of obtaining reasonable assurance about whether INTERBORO SCHOOL DISTRICT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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.

January 31, 2017

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.



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

To the Board of School Directors
INTERBORO SCHOOL DISTRICT
Prospect Park, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited INTERBORO 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 INTERBORO SCHOOL DISTRICT's major federal programs for the year ended June 30, 2016. INTERBORO 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of INTERBORO 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 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 INTERBORO 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 INTERBORO SCHOOL DISTRICT's compliance.

Opinion on Each Major Federal Programs

In our opinion, INTERBORO 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 INTERBORO 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 INTERBORO 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 INTERBORO 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 that we considered to be significant deficiencies.

INTERBORO SCHOOL DISTRICT's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of finds and questioned costs. INTERBORO SCHOOL DISTRICT's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

January 31, 2017

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.

INTERBORO SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor’s report expresses an unmodified opinion on the financial statements of INTERBORO SCHOOL DISTRICT.
2. No significant deficiencies relating to the audit of the financial statements 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 INTERBORO SCHOOL DISTRICT, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs is reported in the Independent Auditor’s Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance. No material weaknesses are reported.
5. Independent Auditor’s Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance expresses an unmodified opinion on all major federal programs.
6. One audit finding was disclosed relating to major programs that are required to be reported under 2 CFR section 200.516(a).
7. The programs tested as major programs include:

	<u>CFDA #</u>
Title I	84.010
Child Nutrition Cluster:	
National School Breakfast	10.553
National School Lunch	10.555
8. The threshold for distinguishing Types A and B programs was \$750,000.

INTERBORO SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2016

9. INTERBORO SCHOOL DISTRICT did not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

Significant Deficiency

DEPARTMENT OF AGRICULTURE

2016-001 Child Nutrition Cluster-CFDA No. 10.555-Year ended June 30, 2016

Condition: The district has a policy allowing children to buy lunch on account. The food service fund has been carrying student debt for unpaid lunches for multiple years.

Criteria: Section 2 CFR 200.426 states that bad debt is not an allowable expense. For the food service fund, if student debt for unpaid lunches is not paid by the end of the fiscal year, the funds must be transferred from another fund to make the food service fund whole.

Cause: The person overseeing the food service operations overlooked the new rule that came into effect with the new uniform guidance, consequently the transfer was not performed.

Effect: The food service fund would not have the cash to pay the food service expenses.

Recommendation: We recommend that the district monitor the food service charge accounts and transfer funds from their general fund at the end of the year to cover the unpaid student lunch charges.



Interboro School District

Director of Finance

900 Washington Avenue
Prospect Park, PA 19076

Phone: (610) 461-6700

Fax: (610) 237-9624

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2016

January 31, 2017

The Interboro School District respectfully submits the following corrective action plan for the year ended June 30, 2016.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT.

Significant Deficiency

2016-001 Child Nutrition Cluster

Recommendation: We recommend that the district monitor the food service charge accounts and transfer funds from their general fund at the end of the year to cover the unpaid student lunch charges.

Action taken: The District has and will continue to monitor the food service charge accounts. Funds were subsequently transferred from the General Fund to the Food Service Fund totaling the outstanding charge accounts as of 6/30/16. Going forward the District will transfer any outstanding food service charge accounts to the General Fund on or before June 30th of the respective fiscal year.

Sincerely,

Martin Heiskell
Finance Director
Interboro School District