

Financial Statements

Lower Merion School District
Montgomery County, Pennsylvania

June 30, 2016

Rainer
& Company

A Professional Corporation
Certified Public Accountants

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A Professional Corporation
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INDEPENDENT AUDITORS' REPORT

Board of School Directors
Lower Merion School District
Montgomery County, 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 Lower Merion School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15, budgetary comparison information on page 50, the schedule of post employment benefit obligation funding progress on page 51, the schedule of the District's proportionate share of the net pension liability on page 52, and the schedule of District's pension contributions on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of Lower Merion School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lower Merion School District's internal control over financial reporting and compliance.


Rainer & Company

Newtown Square, PA
December 19, 2016

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

The trends of prior years indicated that during the fiscal year 2015-16, the Lower Merion School District would experience another year of increased staff for special education instruction, student enrollment growth, benefits for our employees and increased costs for instruction. In the budgeting process for the 2015-16 Budget, the Board of School Directors was able to balance the budget with a .8986 mills increase (\$8.986 per \$10,000 of assessed value) to the taxpayers within the District. Through prudent financial management, the actual expenditures did not increase as much as was anticipated when the budget was prepared. This resulted in the savings being added to the beginning fund balance for school year 2016-17. The combination of revenues exceeding the budget and less expenditures than budgeted resulted in the opportunity for the Board to transfer additional funds into the Capital Reserve Fund. The fund balance commitment categories are for future pension obligations, postemployment benefit obligations, future capital projects as well as stabilization of variable rate bonds.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

Government-Wide Financial Statements (Continued)

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

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

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

Fund Level Financial Statements

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

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

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

The District's total net position (deficit) was \$135,960,143 and \$140,630,264 as of June 30, 2016 and 2015, respectively. The following table presents condensed financial information for the net position deficit of the District as of June 30, 2016 and 2015.

Schedule of Net Position (Deficit)
Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets	\$ 102,865,758	\$ 106,790,348	\$ 2,011,647	\$ 1,228,608	\$ 104,877,405	\$ 108,018,956
Capital Assets	414,721,127	414,109,651	31,675	44,294	414,752,802	414,153,945
Deferred Outflows of Resources	52,352,108	34,861,691	385,998	225,395	52,738,106	35,087,086
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	569,938,993	555,761,690	2,429,320	1,498,297	572,368,313	557,259,987
Current Liabilities	46,300,841	42,867,365	1,162,602	439,666	47,463,443	43,307,031
Noncurrent Liabilities	649,990,138	620,929,893	3,798,875	3,355,327	653,789,013	624,285,220
Deferred Inflows of Resources	7,005,463	29,995,975	70,537	302,025	7,076,000	30,298,000
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	703,296,442	693,793,233	5,032,014	4,097,018	708,328,456	697,890,251
Net Position (Deficit):						
Invested in Capital Assets, Net of Related Debt	147,563,425	129,278,736	31,675	44,294	147,595,100	129,323,030
Restricted: Capital Projects	14,768,490	22,810,773	0	0	14,768,490	22,810,773
Unrestricted	(295,689,364)	(290,121,052)	(2,634,369)	(2,643,015)	(298,323,733)	(292,764,067)
TOTAL NET POSITION (DEFICIT)	\$ (133,357,449)	\$ (138,031,543)	\$ (2,602,694)	\$ (2,598,721)	\$ (135,960,143)	\$ (140,630,264)

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The largest revenues are property taxes, local taxes, and the state basic education subsidy.

The following table presents condensed financial information for the Statement of Activities in a different format to show total revenues for the year. Compared to the prior year, the District's total revenues increased by \$11,725,866 or 5.06%. Property taxes, which include current and interim real estate taxes, increased by \$8,054,002 or 4.20%. Investment earnings increased by \$150,650 or 52.93%. Governmental activities expenses increased by \$10,031,821 or 4.45%. Instruction expense increased by \$9,865,813 or 7.55%.

Statement of Activities
For the Years Ended June 30, 2016 and 2015

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
REVENUES:						
Program Services:						
Charges for Services	\$ 632,912	\$ 517,907	\$ 2,514,420	\$ 2,605,505	\$ 3,147,332	\$ 3,123,412
Operating Grants and Contributions	23,852,093	20,796,008	821,434	719,292	24,673,527	21,515,300
General Revenues:						
Property Taxes	199,646,839	191,592,837	0	0	199,646,839	191,592,837
Other Taxes	4,682,505	3,962,054	0	0	4,682,505	3,962,054
Grants, Subsidies and Contributions Not Restricted	10,678,058	10,245,914	0	0	10,678,058	10,245,914
Investment Earnings	435,251	284,601	0	0	435,251	284,601
Miscellaneous Income	86,944	84,984	0	0	86,944	84,984
Sale of Capital Assets	2,890	818,378	0	0	2,890	818,378
Transfers In (Out)	(904)	(8,368)	904	8,368	0	0
TOTAL REVENUES	<u>240,016,588</u>	<u>228,294,315</u>	<u>3,336,758</u>	<u>3,333,165</u>	<u>243,353,346</u>	<u>231,627,480</u>
EXPENSES:						
Instruction	140,572,385	130,706,572	0	0	140,572,385	130,706,572
Instructional Student Support	18,256,350	17,832,847	0	0	18,256,350	17,832,847
Administrative and Financial Support	14,775,375	14,031,703	0	0	14,775,375	14,031,703
Operation and Maintenance of Plant Services	24,216,736	24,370,907	0	0	24,216,736	24,370,907
Pupil Transportation	13,500,631	12,043,247	0	0	13,500,631	12,043,247
Student Activities	4,854,449	4,807,218	0	0	4,854,449	4,807,218
Community Services	198,566	188,039	0	0	198,566	188,039
Interest on Long-Term Debt	8,242,820	11,109,891	0	0	8,242,820	11,109,891
Unallocated Depreciation Expense	10,725,182	10,220,249	0	0	10,725,182	10,220,249
Food Services	0	0	3,340,731	3,384,086	3,340,731	3,384,086
TOTAL EXPENSES	<u>235,342,494</u>	<u>225,310,673</u>	<u>3,340,731</u>	<u>3,384,086</u>	<u>238,683,225</u>	<u>228,694,759</u>
CHANGE IN NET POSITION	<u>\$ 4,674,094</u>	<u>\$ 2,983,642</u>	<u>\$ (3,973)</u>	<u>\$ (50,921)</u>	<u>\$ 4,670,121</u>	<u>\$ 2,932,721</u>

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
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EXPENSES

The following table presents condensed financial information on the expenses of the District by function. The table illustrates both the gross and net costs of services. Unrestricted grants, subsidies, and contributions are deducted to reflect the amount needed to be funded by other revenue sources. The amount needed to be funded by other revenue sources increased by \$6,428,587 or 3.3% more than the prior year.

Expense Analysis
For the Years Ended June 30, 2016 and 2015

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Expenses - Governmental Activities:				
Instruction	\$ 140,572,385	\$ 130,706,572	\$ 125,129,341	\$ 117,579,826
Instructional Student Support	18,256,350	17,832,847	16,641,580	16,407,563
Administrative and Financial Support	14,775,375	14,031,703	13,135,595	12,647,201
Operation and Maintenance of Plant Services	24,216,736	24,370,907	22,880,088	23,128,272
Pupil Transportation	13,500,631	12,043,247	9,560,401	8,359,041
Student Activities	4,854,449	4,807,218	4,343,916	4,356,676
Community Services	198,566	188,039	198,566	188,039
Interest on Long-Term Debt	8,242,820	11,109,891	8,242,820	11,109,891
Unallocated Depreciation Expense	10,725,182	10,220,249	10,725,182	10,220,249
 TOTAL EXPENSES	 <u>\$ 235,342,494</u>	 <u>\$ 225,310,673</u>	 210,857,489	 203,996,758
 Less: Grants, Subsidies and Contributions Not Restricted			 <u>(10,678,058)</u>	 <u>(10,245,914)</u>
 AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			 <u>\$ 200,179,431</u>	 <u>\$ 193,750,844</u>

The following table reflects condensed financial activities of the Food Service Program, the only business-type activity of the District.

Business-Type Activities
For the Years Ended June 30, 2016 and 2015

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Expenses - Business-Type Activities:				
Food Services	<u>\$ 3,340,731</u>	<u>\$ 3,384,086</u>	<u>\$ 3,973</u>	<u>\$ 50,921</u>

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

THE DISTRICT FUNDS

GENERAL FUND

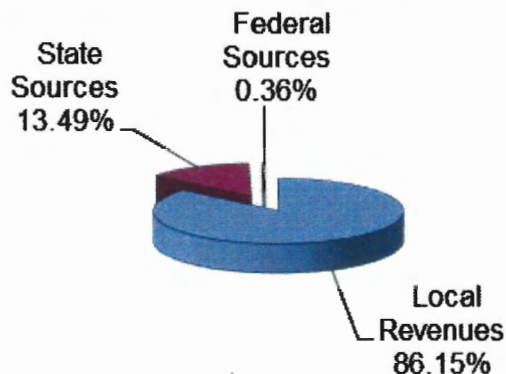
At June 30, 2016, the District reported a total fund balance of \$56,262,891, which consists of \$180,286 as nonspendable fund balance, \$35,800,000 as committed fund balance and \$20,282,605 as unassigned fund balance. This is an increase of \$556 from the prior year. The School Board of the Lower Merion School District consciously maintains a fund balance to respond to unforeseen contingencies. This philosophy conforms to the Board's belief that the tax burden should be aligned with both the current and future funding needs of the District. As the School District has experienced unprecedented enrollment growth and the need to expand facilities, the fund balance is necessary to maintain educational programs while, at the same time, responsibly planning for future needs.

Revenues

Revenues totaled \$239,703,544, an increase of \$12,623,739 as compared to the 2014-15 revenues. The following table reflects a comparison of current year revenues with the revenues recognized in the prior year:

	Revenue 2016	% of Total	Increase (Decrease) From 2015	Percentage Increase	Revenue 2015
Local Revenues	\$ 206,518,963	86.15%	\$ 9,392,835	4.76%	\$ 197,126,128
State Sources	32,328,016	13.49%	3,080,826	10.53%	29,247,190
Federal Sources	856,565	0.36%	150,078	21.24%	706,487
	<u>\$ 239,703,544</u>	<u>100.00%</u>	<u>\$ 12,623,739</u>	<u>5.56%</u>	<u>\$ 227,079,805</u>

Distribution of Funding Sources



LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

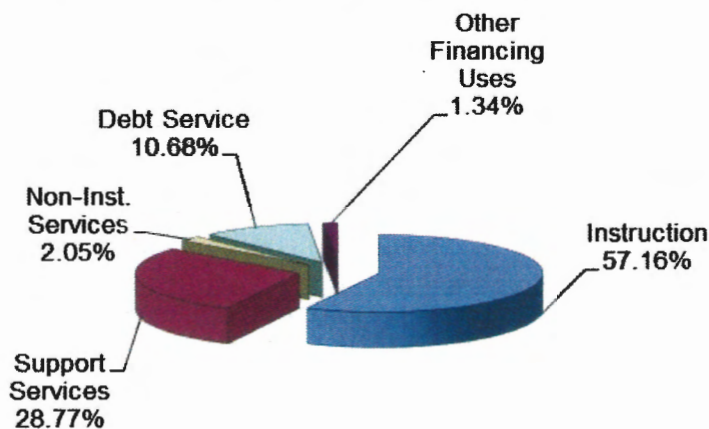
The District balanced the budget by utilizing the fund balance from the previous year and increasing the 2015-16 real estate tax rates from 25.335 to 26.2321 mills. As a result of the increase in millage and increases in real estate assessments, revenues from current, interim, and delinquent real estate taxes increased by \$8,402,360. The collection rate for current real estate taxes was 96.91%. This compares with 96.86% in 2014-15. Real estate transfer taxes collections increased by \$720,529. The District experienced an increase in investment revenue of \$122,436 for the general fund.

Expenditures

Expenditures, totaling \$239,702,988, increased \$12,627,525 over the 2014-15 expenditures. These expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each, as well as comparison to the costs incurred in the prior year and the final 2015-16 budget are as follows:

	Expenditures 2016	% of Total	Increase (Decrease) From 2015	Variance with Final Budget - Positive (Negative)
Instruction	\$ 137,002,931	57.16%	\$ 9,826,337	\$ 2,600,298
Support Services	68,973,012	28.77%	3,551,378	2,834,735
Non-Instructional Services	4,912,857	2.05%	191,503	271,628
Debt Service	25,609,550	10.68%	(32,937)	189,554
Other Financing Uses	3,204,638	1.34%	(908,756)	667,362
TOTAL EXPENDITURES BY FUNCTION	\$ 239,702,988	100.00%	\$ 12,627,525	\$ 6,563,577

Distribution of Expenditures by Function



LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

The increase in expenditures from 2015-16 is due to increases in a various categories. Our pension obligations increased over \$5 million from the prior year, as a result of the employer contribution rate increasing from 21.40% to 25.84%. Special education costs increased over \$2.4 million from last year and continue to grow with minimal additional state funding. In addition, there were increases in salaries due to the collective bargaining agreement and additional staff and educational materials as a result of the student enrollment growth. Also, the Board approved the transfer of \$3.042 million to the Capital Reserve to address future capital needs.

Budget

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

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

CAPITAL PROJECTS FUND

At June 30, 2016, the District reported a fund balance of \$3,536,063, which is a decrease of \$6,891,946 from the prior year. Increases in this fund during 2015-16 include investment earnings of \$13,642. The capital project fund expended \$39,162 in support services and \$6,866,426 for active capital construction projects.

CAPITAL RESERVE FUND

At June 30, 2016, the District reported a fund balance of \$11,232,427, which is a decrease of \$1,150,337 from the prior year. Increases in this fund during 2015-16 include a \$3,042,000 transfer from the general fund, other local revenues of 228,116, and investment earnings of \$19,155. The capital reserve fund expended \$3,115,471 in support services and \$1,324,137 in capital outlay expenditures.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

CAPITAL ASSETS

At June 30, 2016, the District's governmental activities and business-type activities had \$414,752,802 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deletions, and depreciation) of \$598,856 from last year.

The following schedule depicts the change in capital assets for the period July 1, 2015 through June 30, 2016. During this period, the District had the following significant additions in capital assets:

Schedule of Capital Assets

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>			
Capital Assets:			
Land	\$ 19,643,123	\$ 0	\$ 19,643,123
Land Improvements	2,198,127	376,794	2,574,921
Buildings	452,041,113	18,010,992	470,052,105
Construction in Process	11,192,313	(9,656,817)	1,535,496
Furniture and Equipment	7,205,012	957,692	8,162,704
Transportation	13,510,437	403,131	13,913,568
TOTAL CAPITAL ASSETS	<u>505,790,125</u>	<u>10,091,792</u>	<u>515,881,917</u>
 Accumulated Depreciation for:			
Land Improvements	2,110,307	31,975	2,142,282
Buildings	78,240,096	9,154,426	87,394,522
Furniture and Equipment	5,934,962	259,345	6,194,307
Transportation	5,395,109	34,570	5,429,679
TOTAL ACCUMULATED DEPRECIATION	<u>91,680,474</u>	<u>9,480,316</u>	<u>101,160,790</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$ 414,109,651</u></u>	<u><u>\$ 611,476</u></u>	<u><u>\$ 414,721,127</u></u>
 <u>Business-Type Activities:</u>			
Capital Assets:			
Machinery and Equipment	\$ 122,263	\$ 0	\$ 122,263
 Accumulated Depreciation for:			
Machinery and Equipment	<u>77,968</u>	<u>12,620</u>	<u>90,588</u>
 BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$ 44,295</u></u>	<u><u>\$ (12,620)</u></u>	<u><u>\$ 31,675</u></u>

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

DEBT ADMINISTRATION

As of July 1, 2015, the District had total outstanding bond principal of \$280,185,000. In March 2016, the District issued \$55,665,000 in bonds for the purpose of the refunding of General Obligation Bonds, Series of 2006 and General Obligations Bonds, Series of 2007. During the year, the District paid principal in the amount of \$16,035,000 resulting in ending outstanding debt as of June 30, 2016 of \$260,535,000.

Debt Service Schedule
June 30, 2016

	Principal Outstanding July 1, 2014	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2015
General Obligation Note, Series of 1989	\$ 19,800,000	\$ 1,900,000	\$ 0	\$ 17,900,000
General Obligation Bonds, Series A of 2006	32,405,000	0	(32,405,000)	0
General Obligation Bonds, Series of 2007	28,575,000	1,700,000	(26,875,000)	0
General Obligation Bonds, Series A & B of 2009	76,320,000	4,925,000	0	71,395,000
General Obligation Bonds, Series of 2012	15,495,000	4,980,000	0	10,515,000
General Obligation Bonds, Series A of 2012	46,230,000	2,520,000	0	43,710,000
General Obligation Bonds, Series of 2013	9,800,000	5,000	0	9,795,000
General Obligation Bonds, Series of 2014	9,980,000	5,000	0	9,975,000
General Obligation Bonds, Series A of 2015	9,700,000	0	0	9,700,000
General Obligation Bonds, Series B of 2015	31,880,000	0	0	31,880,000
General Obligation Bonds, Series of 2016	0	0	55,665,000	55,665,000
	<u>\$ 280,185,000</u>	<u>\$ 16,035,000</u>	<u>\$ (3,615,000)</u>	<u>\$ 260,535,000</u>

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

THE DISTRICT'S FUTURE

The total District enrollment has increased over the last ten school years resulting from out of state move-ins, fewer students enrolling in private schools, and housing turnover resulting in more families with school age children. From 1998 - 2012, the District renovated and expanded all six elementary schools, both middle schools, and built two new high schools, Harriton and Lower Merion. The District has an extensive network infrastructure and a district-wide area network. All schools are connected to the network.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

THE DISTRICT'S FUTURE (Continued)

A district-wide facilities and enrollment projection study was completed in 2012. A new enrollment projection study was completed in April 2015 and updated in November 2015. These studies indicate that enrollment will continue to increase in the next decade.

Additions at Gladwyne and Penn Valley Elementary Schools were completed in the 2014/15 school year, and additions and alterations at the two middle schools were completed for the 2015/16 school year. Also, the school board approved renovations to the District Administration Building for classroom space which is scheduled to be completed in the fall of 2016.

The School District has engaged two demographers to conduct additional enrollment studies in the fall of 2016 in order to assess future needs.

STRATEGIC PLAN

Lower Merion School District launched an ambitious, year-long comprehensive planning process in the fall of 2013 to provide a new direction for public education in our community. In recent years, strategic planning in the District had been driven largely by the Pennsylvania Department of Education's strategic planning requirements, and plans were developed to address specific issues and perceived weaknesses. The 2014 Lower Merion School District planning process was designed to be more expansive in scope and significantly more inclusive of our diverse, dynamic community. Thousands of stakeholders contributed to this process, sharing their thoughts, ideas, and dreams for our schools through community surveys, community forums, focus groups, public meetings, and a steering committee of 70 community volunteers.

The result of these collective efforts is our new plan, *All Forward: Strategic Pathways for Lower Merion School District*. *All Forward* differs greatly from previous District strategic plans, both in content and structure. Rather than a tactical guide with step-by-step instructions, the plan serves as a strategic compass for the next five years and beyond. We designed it to be actionable, inspirational, and accessible to all members of our school community. Five "bold statements of strategic intent" provide the framework of our plan. These statements, crafted by our steering committee, represent where we want to be as a school community and indicate a shift from where we are today in how we define student success, develop curriculum, support professional learning, engage students, and partner with our community. It is important to note that the intent of the plan is not to solve a problem or fix a failure. Rather, it serves as a necessary next step forward in our evolution as one of the finest public school systems in the United States.

Collaboration, innovation, and celebration are consistent themes throughout the plan and characterize the community's work in developing this document. Our plan embraces a collective, intentional, positive approach to change. It is driven by our belief in continuous improvement and an unyielding passion for high-quality public education. It represents our commitment to the children of Lower Merion and Narberth now and forever.

MISSION STATEMENT

Committed to excellence and continuous improvement, the Lower Merion School District strives to ensure that all students achieve their highest level of critical thinking and creativity, that they value themselves and the diversity of others, and that they are knowledgeable, contributing citizens capable of excelling in a rapidly changing world.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

This is accomplished by individuals engaging in innovative, active experiences tailored to myriad ways of learning and in partnership with our community.

VISION STATEMENT

Students are our reason for being. We create an environment designed to fulfill the individual learning needs and aspirations of each student. The District develops active partnerships at all levels of our learning community and values the individual contribution of each member.

We view learning as dynamic, innovative, and collaborative. Individuals learn best when their hearts, minds, and spirits are intimately engaged in the learning process.

Enter to learn. Go forth to serve

BELIEFS

Our deepest convictions and values;

We believe that:

- All people have equal intrinsic worth.
- People learn in different ways and at different rates.
- Each person bears responsibility for the well-being of society and the quality of the environment.
- Learning occurs everywhere and is a life long pursuit of knowledge, truth, and wisdom.
- High quality public education directly benefits the entire community and is essential for a democratic society.
- The responsibility for learning rests primarily with the individual; however, education is the shared responsibility of the student, home, family, school, and entire community.
- Individuals learn best when actively engaged in the learning process.
- Excellence demands sustained effort.
- All individuals can be successful learners.
- High expectations yield high results.
- Society benefits when individual rights are balanced with social responsibility.
- Ethical conduct is essential to the quality of life.

STRATEGIC PATHWAYS

Pathway 1: Redefining Success - Transform how we define, measure, and report student achievement with a focus on each student's individualized growth, and mastery in areas that extend beyond traditional academic indicators.

Pathway 2: Transformative Curriculum - Shifts from content areas silos to a connected curriculum that prepares students to transfer knowledge and thinking strategies across disciplines.

Pathway 3: A Commitment to Professional Learning - Transforms professional learning from a top-down model to one that honors and harnesses our educators' collective wisdom.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2016

STRATEGIC GOALS (Continued)

Pathway 4: Student-Driven Schools - Adjust our system from one characterized by heavily prescribed requirements to one that affords more self-directed goal setting and positive risk taking – where students navigate their own learning in close partnership with professionals.

Pathway 5: A Spirit of Community - Transform our approach to community outreach from one that is less coordinated to one that strategically leverages and maximizes community resources to strengthen our schools.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Victor J. Orlando, Business Manager, Lower Merion School District, 301 East Montgomery Avenue, Ardmore, PA 19003.

LOWER MERION SCHOOL DISTRICT
Statement of Net Position (Deficit)
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current:			
Cash and Cash Equivalents	\$ 15,369,361	\$ 0	\$ 15,369,361
Investments	70,754,192	1,468,523	72,222,715
Due from Other Governments	7,805,265	90,087	7,895,352
Other Receivables	228,444	64,278	292,722
Property Taxes Receivable, Net	3,560,094	0	3,560,094
Internal Balances	4,968,116	288,173	5,256,289
Inventories	0	100,586	100,586
Prepaid Expenses	180,286	0	180,286
TOTAL CURRENT ASSETS	102,865,758	2,011,647	104,877,405
Capital Assets, Net of Accumulated Depreciation	414,721,127	31,675	414,752,802
TOTAL ASSETS	517,586,885	2,043,322	519,630,207
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows of Resources - Accumulated			
Decrease in Fair Value of Hedging Derivatives	14,016,176	0	14,016,176
Deferred Outflows of Resources - Pension Plan	38,335,932	385,998	38,721,930
TOTAL DEFERRED OUTFLOWS OF RESOURCES	52,352,108	385,998	52,738,106
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 569,938,993	\$ 2,429,320	\$ 572,368,313
<u>LIABILITIES</u>			
Current:			
Accounts Payable and Other Current Liabilities	\$ 28,762,736	\$ 59,705	\$ 28,822,441
Internal Balances	0	905,971	905,971
Bonds Payable Due Within One Year	15,270,000	0	15,270,000
Unearned Revenues	246,059	196,926	442,985
Accrued Interest	2,022,046	0	2,022,046
TOTAL CURRENT LIABILITIES	46,300,841	1,162,602	47,463,443
Long-Term:			
Bonds Payable Due After One Year	251,887,702	0	251,887,702
Deferred Instrument - Interest Rate Swap	14,016,176	0	14,016,176
Net Pension Liability	377,290,125	3,798,875	381,089,000
Accrued Post Employment Benefits and Compensated Absences	6,796,135	0	6,796,135
TOTAL LONG-TERM LIABILITIES	649,990,138	3,798,875	653,789,013
TOTAL LIABILITIES	696,290,979	4,961,477	701,252,456
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows of Resources - Pension Plan	7,005,463	70,537	7,076,000
<u>NET POSITION (DEFICIT)</u>			
Invested in Capital Assets, Net of Related Debt	147,563,425	31,675	147,595,100
Restricted for: Capital Projects	14,768,490	0	14,768,490
Unrestricted	(295,689,364)	(2,634,369)	(298,323,733)
TOTAL NET POSITION (DEFICIT)	(133,357,449)	(2,602,694)	(135,960,143)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	\$ 569,938,993	\$ 2,429,320	\$ 572,368,313

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 140,572,385	\$ (498,403)	\$ (14,944,641)	\$ 0	\$ (125,129,341)	\$ 0	\$ (125,129,341)
Instructional Student Support	18,256,350	0	(1,614,770)	0	(16,641,580)	0	(16,641,580)
Administrative and Financial Support Services	14,775,375	0	(1,639,780)	0	(13,135,595)	0	(13,135,595)
Operation and Maintenance of Plant Services	24,216,736	(108,156)	(1,228,492)	0	(22,880,088)	0	(22,880,088)
Pupil Transportation	13,500,631	0	(3,940,230)	0	(9,560,401)	0	(9,560,401)
Student Activities	4,854,449	(26,353)	(484,180)	0	(4,343,916)	0	(4,343,916)
Community Services	198,566	0	0	0	(198,566)	0	(198,566)
Interest on Long-Term Debt	8,242,820	0	0	0	(8,242,820)	0	(8,242,820)
Unallocated Depreciation Expense	10,725,182	0	0	0	(10,725,182)	0	(10,725,182)
TOTAL GOVERNMENTAL ACTIVITIES	235,342,494	(632,912)	(23,852,093)	0	(210,857,489)	0	(210,857,489)
Business-Type Activities:							
Food Services	3,340,731	(2,514,420)	(821,434)	0	0	(4,877)	(4,877)
TOTAL PRIMARY GOVERNMENT	\$ 238,683,225	\$ (3,147,332)	\$ (24,673,527)	\$ 0	(210,857,489)	(4,877)	(210,862,366)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					199,646,839	0	199,646,839
Public Utility Realty, Earned Income and Realty					4,682,505	0	4,682,505
Transfer Taxes, Levied for General Purposes, Net					10,678,058	0	10,678,058
Grants, Subsidies and Contributions Not Restricted					435,251	0	435,251
Investment Earnings					(904)	904	0
Transfers					2,890	0	2,890
Sale of Capital Assets					86,944	0	86,944
Miscellaneous Income					215,531,583	904	215,532,487
TOTAL GENERAL REVENUES							
CHANGE IN NET POSITION (DEFICIT)					4,674,094	(3,973)	4,670,121
Net Position (Deficit) - July 1, 2015					(138,031,543)	(2,598,721)	(140,630,264)
NET POSITION (DEFICIT) - JUNE 30, 2016					\$ (133,357,449)	\$ (2,602,694)	\$ (135,960,143)

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 15,369,361	\$ 0	\$ 0	\$ 0	\$ 15,369,361
Investments	58,173,231	4,813,780	7,675,732	91,449	70,754,192
Taxes Receivable, Net	3,560,094	0	0	0	3,560,094
Due from Other Funds	5,163,973	0	3,702,738	0	8,866,711
Due from Other Governments	7,652,065	0	153,200	0	7,805,265
Other Receivables	221,211	0	7,233	0	228,444
Prepaid Expenses	180,286	0	0	0	180,286
TOTAL ASSETS	\$ 90,320,221	\$ 4,813,780	\$ 11,538,903	\$ 91,449	\$ 106,764,353
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 4,649,902	\$ 1,277,717	\$ 306,476	\$ 0	\$ 6,234,095
Due to Other Funds	3,898,595	0	0	0	3,898,595
Payroll Accruals and Withholdings	22,528,641	0	0	0	22,528,641
Unearned Revenues	246,059	0	0	0	246,059
TOTAL LIABILITIES	31,323,197	1,277,717	306,476	0	32,907,390
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	2,734,133	0	0	0	2,734,133
Fund Balances:					
Nonspendable	180,286	0	0	0	180,286
Committed	35,800,000	0	0	0	35,800,000
Assigned	0	3,536,063	11,232,427	91,449	14,859,939
Unassigned	20,282,605	0	0	0	20,282,605
TOTAL FUND BALANCES	56,262,891	3,536,063	11,232,427	91,449	71,122,830
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 90,320,221	\$ 4,813,780	\$ 11,538,903	\$ 91,449	\$ 106,764,353

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position (Deficit)
June 30, 2016

Total Fund Balances - Governmental Funds	\$ 71,122,830
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$505,881,917, and the accumulated depreciation is \$101,160,790.	414,721,127
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred.	2,734,133
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$(267,157,702)	
Accrued Interest on the Bonds	(2,022,046)	
Net Pension Liability	(377,290,125)	
Accrued Compensated Absences	(1,792,413)	
Accrued Other Post-Employment Benefits	(5,003,722)	(653,266,008)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund statements.

Deferred Outflows of Resources - Pension Plan	38,335,932	
Deferred Inflows of Resources - Pension Plan	(7,005,463)	31,330,469

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ (133,357,449)
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LOWER MERION SCHOOL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Total Governmental Funds
Revenues:					
Local Sources:					
Real Estate Taxes	\$ 199,596,693	\$ 0	\$ 0	\$ 0	\$ 199,596,693
Realty Transfer Tax	4,247,063	0	0	0	4,247,063
Earned Income Taxes	217,082	0	0	0	217,082
Earnings from Investments	402,455	13,642	19,155	0	435,252
Other Local Revenues	2,055,670	0	228,116	0	2,283,786
State Sources	32,328,016	0	0	0	32,328,016
Federal Sources	856,565	0	0	0	856,565
TOTAL REVENUES	239,703,544	13,642	247,271	0	239,964,457
Expenditures:					
Instruction	137,002,931	0	0	0	137,002,931
Support Services	68,973,012	39,162	3,115,471	384,724	72,512,369
Non-Instructional Services	4,912,857	0	0	0	4,912,857
Capital Outlay	0	6,866,426	1,324,137	0	8,190,563
Debt Service (Principal and Interest)	25,609,550	0	0	102,561	25,712,111
TOTAL EXPENDITURES	236,498,350	6,905,588	4,439,608	487,285	248,330,831
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,205,194	(6,891,946)	(4,192,337)	(487,285)	(8,366,374)
Other Financing Sources (Uses):					
Bond Proceeds	0	0	0	55,665,000	55,665,000
Bond Premium	0	0	0	6,389,827	6,389,827
Payment to Refunding Bonds Escrow Agent	0	0	0	(61,578,654)	(61,578,654)
Refunds of Prior Years Revenues	(155,738)	0	0	0	(155,738)
Interfund Transfers In	0	0	3,042,000	0	3,042,000
Interfund Transfers Out	(3,051,790)	0	0	0	(3,051,790)
Sale of Fixed Assets	2,890	0	0	0	2,890
TOTAL OTHER FINANCING SOURCES (USES)	(3,204,638)	0	3,042,000	476,173	313,535
NET CHANGE IN FUND BALANCES	556	(6,891,946)	(1,150,337)	(11,112)	(8,052,839)
Fund Balances - July 1, 2015	56,262,335	10,428,009	12,382,764	102,561	79,175,669
FUND BALANCES - JUNE 30, 2016	\$ 56,262,891	\$ 3,536,063	\$ 11,232,427	\$ 91,449	\$ 71,122,830

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds \$ (8,052,839)

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

Capital outlays are reported in governmental funds as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation expense.
 This is the amount by which capital outlays exceed depreciation
 expense for the period

Capital Outlay	\$ 11,336,658	
Depreciation Expense	<u>(10,725,182)</u>	611,476

Repayment of bond principal is an expenditure in the governmental
 funds, but the repayment reduces long-term liabilities in the statement
 of net position.

Bond Proceeds	\$ 3,615,000	
Principal Payments on Long-Term Liabilities	<u>16,035,000</u>	19,650,000

Bond discounts and premiums are reported as revenues or expenditures
 in the governmental funds when debt is first issued. In the statement
 of activities, these costs are deferred and amortized. This is the
 amount bond discounts and premiums issued exceeds amortization. (1,976,787)

Because some property taxes will not be collected for several months
 after the District's fiscal year ends, they are not considered "available"
 revenues and are deferred in the governmental funds. Deferred tax
 revenues increased by this amount this year. 50,146

Governmental funds report District pension contributions as expenditures.
 However in the Statement of Activities, the cost of pension benefits
 earned net of employee contributions is reported as pension expense.

District Pension Contributions	28,460,366	
Cost of Benefits Earned Net of Employee Contributions	<u>(33,570,733)</u>	(5,110,367)

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

Accrued Post-Employment Benefits and Compensated Absences	\$ (202,164)	
Accrued Interest on the Bonds	<u>(295,371)</u>	(497,535)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 4,674,094</u>
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The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Net Position (Deficit)
Proprietary Funds
June 30, 2016

<u>ASSETS</u>	<u>Food Services</u>
Current:	
Investments	\$1,468,523
Other Receivables	64,278
Due from Other Funds	288,173
Due from Other Governments	90,087
Inventories	100,586
TOTAL CURRENT ASSETS	<u>2,011,647</u>
Non-Current:	
Furniture and Equipment	122,263
Less: Accumulated Depreciation	(90,588)
TOTAL NON-CURRENT ASSETS	<u>31,675</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources - Pension Plan	<u>385,998</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$2,429,320</u></u>
 <u>LIABILITIES</u>	
Current:	
Accounts Payable and Accrued Liabilities	\$ 59,705
Due to Other Funds	905,971
Unearned Revenues	196,926
TOTAL CURRENT LIABILITIES	<u>1,162,602</u>
Long-Term:	
Net Pension Liability	<u>3,798,875</u>
 TOTAL LIABILITIES	 4,961,477
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources - Pension Plan	<u>70,537</u>
 <u>NET POSITION (DEFICIT)</u>	
Invested in Capital Assets	31,675
Unrestricted (Deficit)	(2,634,369)
TOTAL NET POSITION (DEFICIT)	<u>(2,602,694)</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	 <u><u>\$2,429,320</u></u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Revenues, Expenses and
Changes in Net Position (Deficit)
Proprietary Funds
For the Year Ended June 30, 2016

Operating Revenues:		
Food Service Revenue		\$ 2,514,420
Cost of Sales:		
Inventories - July 1, 2015	\$ 72,374	
Purchases of Food, Milk and Donated Commodities	1,384,245	
COST OF GOODS AVAILABLE FOR SALE	<u>1,456,619</u>	
Less: Inventories - June 30, 2016	<u>100,586</u>	
TOTAL COST OF SALES		<u>1,356,033</u>
GROSS PROFIT		1,158,387
Operating Expenses:		
Payroll	1,164,117	
Employee Benefits	782,189	
Depreciation	12,620	
Other Operating Expenses	<u>25,772</u>	
TOTAL OPERATING EXPENSES		<u>1,984,698</u>
OPERATING LOSS		(826,311)
Non-Operating Revenues:		
Earnings on Investments	1,728	
Federal Subsidies	580,891	
State Subsidies	<u>238,815</u>	
TOTAL NON-OPERATING REVENUES		<u>821,434</u>
LOSS BEFORE OPERATING TRANSFERS IN		(4,877)
Other Financing Sources:		
Operating Transfers In		<u>904</u>
INCREASE IN NET POSITION (DEFICIT)		(3,973)
Net Position - July 1, 2015		<u>(2,598,721)</u>
NET POSITION (DEFICIT) - JUNE 30, 2016		<u><u>\$(2,602,694)</u></u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	<u>Food Services</u>
Cash Flows From Operating Activities:	
Cash Received from Users	\$ 2,526,850
Cash Payments to Employees for Services	(1,273,915)
Cash Payments to Suppliers for Goods and Services	(1,403,740)
NET CASH USED BY OPERATING ACTIVITIES	<u>(150,805)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	237,719
Federal Sources	566,148
Operating Transfers In	904
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>804,771</u>
Cash Flows From Investing Activities:	
Purchase of Investments/Deposits to Investment Pools	<u>(653,966)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	0
Cash and Cash Equivalents - July 1, 2015	<u>0</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2016	<u>\$ 0</u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ (826,311)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities:	
Depreciation	12,620
Changes in Assets and Liabilities:	
Receivables	(2,907)
Inventories	(28,212)
Deferred Outflows of Resources	(160,603)
Accounts Payable and Accrued Liabilities	627,211
Deferred Inflows of Resources	(231,488)
Net Pension Liability	443,548
Unearned Revenues	15,337
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (150,805)</u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2016

<u>ASSETS</u>	Employee Trust	Private- Purpose Trusts	Agency Funds
Cash and Cash Equivalents	\$ 0	\$ 0	\$ 459,175
Investments	543,962	133,656	7,930,724
Due from Other Funds	0	0	165
TOTAL ASSETS	\$ 543,962	\$ 133,656	\$ 8,390,064
 <u>LIABILITIES</u>			
Payroll Withholdings	\$ 0	\$ 0	\$ 3,579,414
Due to Other Funds	0	0	4,350,483
Due to Student Groups	0	0	460,167
TOTAL LIABILITIES	\$ 0	\$ 0	\$ 8,390,064
 <u>NET POSITION</u>			
Reserved for Scholarships	\$ 0	\$ 133,656	
Reserved for Employee Benefits	543,962	0	
TOTAL LIABILITIES AND NET POSITION	\$ 543,962	\$ 133,656	

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

	Employee Trust	Private- Purpose Trusts
Additions:		
Contributions:		
Gifts and Contributions	\$ 70,664	\$ 0
Investment Income:		
Earnings from Investments	787	405
TOTAL ADDITIONS	71,451	405
Deductions:		
Benefits Paid	30,295	3,000
Investment Management Fees	1,469	0
TOTAL DEDUCTIONS	31,764	3,000
CHANGE IN NET POSITION	39,687	(2,595)
Net Position - July 1, 2015	504,275	136,251
NET POSITION - JUNE 30, 2016	\$ 543,962	\$ 133,656

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies

Lower Merion School District's (the District's) financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. Reporting Entity

The District is governed by an elected Board of Directors. Accounting principles generally accepted in the United States of America require that the financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are required to be combined with data of the primary District. Each discretely presented component unit, on the other hand, is required to be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the District. Based on the application of these principles, there are no component units presented in the District's financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported 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 current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only a portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major government funds:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets other than those financed by enterprise operations.

Capital Reserve Fund - The Capital Reserve Fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for future capital projects.

The District reports the following major proprietary funds:

Food Service Fund - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the District's school cafeterias that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost of providing goods or services to the school population on a continuing basis will be recovered or financed primarily through user charges.

Additionally, the District reports the following fund types:

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include private-purpose trust funds and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended in accordance with a trust agreement, and are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial and thus do not involve measurement of the results of operations.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. School districts also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

For purposes of the statements of cash flows of proprietary funds, cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

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.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds consistent with sound business practices in the following types of investments:

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

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of any allowance for uncollectibles. There is no property tax receivable allowance at June 30, 2016.

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and payable in the following periods:

- Discount Period - July 1 to August 31 - 2% of Gross Levy
- Flat Period - September 1 to October 31
- Penalty Period - October 31 to Collection - 10% of Gross Levy

Inventories

Inventories in the Food Service Fund consist of government donated commodities which were valued at estimated fair market value at donation, and purchased commodities and supplies, both valued at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

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

Land Improvements	20 Years
Buildings	25-50 Years
Furniture and Equipment	5-20 Years
Transportation	10-25 Years

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in the government-wide and proprietary funds statement of net position. The District reports deferred outflow of resources related to the deferred amount related to the accumulated decrease in the fair value of hedging derivatives. The District also reports deferred outflows of resources for contributions made to the District's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the District's fiscal year. No deferred outflows of resources affect the governmental funds financial statements in the current fiscal year.

Deferred Inflows of Resources

The District's statements of net position and its governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the District's various statements of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected not later than 60 days after the end of District's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

Compensated Absences

The District's vacation policy provides that administrative employees may carry over vacation time with the approval of the Superintendent. Employees accrue vacation at rates which vary with length of service or job classification. Vacation must be taken in the year subsequent to when it was earned. If separation of service occurs in the year subsequent to earning, then the unused balance of what was earned in the prior year is paid at separation. The liability at June 30 represents vacation earned at that date that will be taken in the subsequent year.

Accrued Severance Pay

Employees that have completed at least ten years of credited School District service that retire under the normal PSERS guidelines shall be eligible for a severance benefit. The benefit the personnel can receive ranges from \$50 up to \$150 for each day of unused sick leave and is available to pay for medical, dental, vision, life insurance, prescriptions, and long-term care insurance. Severance pay is generally liquidated by the General Fund.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred in both the government-wide and fund financial statements.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows, of Resources and Net Position or Equity (Continued)

Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Bond issuance costs are expensed in the year they are incurred in both the government-wide and fund financial statements.

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position are divided into three components:

Invested in Capital Assets, Net of Related Debt - Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted for: Capital Projects - Consists of the capital projects fund fund-balance that is restricted by the District for capital outlays.

Unrestricted - Consists of all other net position reported in this category.

Governmental Fund Balances

The District has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of July 1, 2010. The intention of the statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The statement establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be used only for specific purposes because of state or federal laws, or externally imposed by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors resolution. This includes the budget reserve account. In addition, committed amounts cannot be uncommitted except by removing the constraints through the same type of action.

Assigned - Amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Governmental Fund Balances (Continued)

The Board of Directors establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. The District's policy is to first apply expenditure toward restricted fund balances followed by committed fund balances and then to assigned fund balances before using unassigned fund balances.

NOTE 2 - Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

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

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. Budgeted amounts are as originally adopted, or as amended by the School Board.

NOTE 3 - Deposits and Investments

Deposits - At year end, the total carrying amount of the District's checking, savings, and certificates of deposit (including trust and agency funds) was \$15,828,536, and the corresponding bank balance was \$15,860,407.

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 policy for custodial credit risk. Of the bank balance, \$750,000 was covered by federal depository insurance. The remaining balances were uninsured and covered by collateral held by the institution's trust department on a pooled basis not in the name of the District.

Investments - Statutes authorize the District to invest in U.S. Government Agency Bonds, time or share accounts, or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools, or mutual funds.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 3 - Deposits and Investments (Continued)

All funds in the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and Pennsylvania Treasurer's Investment Program are invested in accordance with Section 440.1 of the School Code. These funds operate and are authorized under the Intergovernmental Cooperation Act of 1972. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. Certificates of deposit or other fixed-term investments purchased by the District through the Fund's administrator are purchased in the name of the District.

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

Interest Rate Risk - The District has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District has no investment policy that would limit its investment choices to certain credit ratings. The Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and the Pennsylvania Treasurer's Investment Program have AAA Standard & Poor's credit ratings.

Concentration of Credit Risk - The District investment policy states that unless covered by federal deposit insurance, the aggregate amount of deposits in any financial institution shall not exceed the lesser of two-tenths of 1% of the assets of that institution or \$40,000,000 unless fully collateralized by the assets of the institution pledges in the name of the District at market value.

	<u>Credit Rating</u>	<u>Fair Value</u>
<u>Pooled Investments:</u>		
Pennsylvania School District Liquid Asset Fund:		
General Fund Accounts	AAA	\$ 14,074,860
Capital Reserve Fund Account	AAA	128,743
Food Service Fund Account	AAA	522,952
Trust and Agency Account	AAA	8,064,381
TOTAL		<u>22,790,936</u>
Pennsylvania Local Government Investment Trust:		
General Fund Accounts	AAA	39,098,095
Capital Projects Fund Account	AAA	4,813,780
Capital Reserve Fund Account	AAA	6,907,944
Debt Service Fund Account	AAA	91,449
Food Service Fund Account	AAA	945,571
Trust and Agency Account	AAA	543,961
TOTAL		<u>52,400,800</u>
Pennsylvania Treasurer's Investment Program:		
General Fund Accounts	AAA	276
Capital Reserve Fund Account	AAA	639,045
TOTAL		<u>639,321</u>
TOTAL POOLED INVESTMENTS (CARRIED FORWARD)		<u>\$ 75,831,057</u>

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 3 - Deposits and Investments (Continued)

TOTAL POOLED INVESTMENTS (BROUGHT FORWARD)		\$ 75,831,057
Certificates of Deposit:		
General Fund Accounts	Not Applicable	5,000,000
TOTAL INVESTMENTS		<u>\$ 80,831,057</u>

NOTE 4 - Hedging Derivative Instruments

As of June 30, 2016 the District was party to a contract for a derivative instrument. The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2016, classified by type, and the change in fair value of the derivative instrument for the year then ended as reported in the 2016 financial statements is as follows (amounts in thousands):

<u>Changes in Fair Value</u>			<u>Fair Value at June 30, 2016</u>		<u>Notional</u>
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>		
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ (1,540)	Debt	\$ (14,016)	\$ 71,395

Fair value - The swap had a negative fair value of \$14,016,176 at June 30, 2016. The fair value of the interest rate swap is derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

Objectives and terms - As a means of minimizing interest rate fluctuations, the District entered into an interest rate swap in connection with its \$102 million Series of 2009 adjustable rate general obligation bonds. The intention of the swap was to effectively change the District's variable interest rate on the notes to a synthetic fixed rate of 4.041%.

Terms - The swap agreement terminates on April 1, 2027, but will be subject to earlier termination by the School District. The swap's notional amount of \$71,395,000 represents the notes' total balance outstanding as of the effective date of the swap on February 1, 2009 and is structured to match the principal schedule of the notes. Under the swap, the District pays interest at a fixed rate of 4.041% in exchange for the counterparty's agreement to pay interest at a floating rate equal to the Securities Industry and Financial Markets Association (SIFMA) Swap Index Rate which is designed to match the variable market rate on the bonds. The bond's variable-rate (Market Rate) is determined by the remarketing agent in accordance with defined interest rate adjustment dates, interest rate determination or reset dates, and interest rate periods.

Credit risk - As of June 30, 2016, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Aa3 by Moody's as of June 30, 2016.

Basis risk - The District is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2016, the SIFMA swap index was .41 percent and the Market Rate on the bonds was .41 percent.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 5 - Taxes Receivable

Taxes receivable as of year end for the District's individual major funds and nonmajor fiduciary funds in the aggregate are as follows:

	<u>General</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Real Estate Taxes	\$ 3,094,484	\$ 0	\$ 3,094,484
Local Services Taxes	39,945	0	39,945
Transfer Taxes	425,665	0	425,665
 NET TAXES RECEIVABLE	 <u>\$ 3,560,094</u>	 <u>\$ 0</u>	 <u>\$ 3,560,094</u>

At the end of the current fiscal year, the District reported deferred inflows of resources, related to unavailable real estate and earned income tax revenue, in the amount of \$2,734,133 in the governmental funds.

NOTE 6 - Interfund Receivables, Payables and Transfers

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 5,163,973	\$ 3,898,595
Capital Reserve Fund	3,702,738	0
Agency Fund	165	4,350,483
Food Service Fund	288,173	905,971
	<u>\$ 9,155,049</u>	<u>\$ 9,155,049</u>
	<u>Transfer to Other Funds</u>	<u>Transfer From Other Funds</u>
General Fund	\$ 3,051,790	\$ 0
Capital Reserve	0	3,042,000
Food Service Fund	0	904
Student Activities Fund (Agency Fund)	0	8,886
	<u>\$ 3,051,790</u>	<u>\$ 3,051,790</u>

The general fund makes interfund transfers to the food service fund to subsidize food service operations, to the capital reserve fund to provide funds for future capital outlay, and to the student activities fund to provide funds for student extra-curricular activities.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 7 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets:				
Land	\$ 19,643,123	\$ 0	\$ 0	\$ 19,643,123
Land Improvements	2,198,127	376,794	0	2,574,921
Buildings	452,041,113	18,010,992	0	470,052,105
Construction in Progress	11,192,313	7,001,322	(16,658,139)	1,535,496
Furniture and Equipment	7,205,012	1,180,866	(223,174)	8,162,704
Transportation	13,510,437	1,593,933	(1,190,802)	13,913,568
TOTAL CAPITAL ASSETS	505,790,125	28,163,907	(18,072,115)	515,881,917
Accumulated Depreciation for:				
Land Improvements	2,110,307	31,975	0	2,142,282
Buildings	78,240,096	9,154,426	0	87,394,522
Furniture and Equipment	5,934,962	482,519	(223,174)	6,194,307
Transportation	5,395,109	1,056,262	(1,021,692)	5,429,679
TOTAL ACCUMULATED DEPRECIATION	91,680,474	10,725,182	(1,244,866)	101,160,790
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$414,109,651</u>	<u>\$17,438,725</u>	<u>\$(16,827,249)</u>	<u>\$ 414,721,127</u>
<u>Business-Type Activities:</u>				
Capital Assets:				
Machinery and Equipment	\$ 122,263	\$ 0	\$ 0	\$ 122,263
Accumulated Depreciation for:				
Machinery and Equipment	77,968	12,620	0	90,588
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 44,295</u>	<u>\$ (12,620)</u>	<u>\$ 0</u>	<u>\$ 31,675</u>

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

Governmental Activities - Unallocated	\$ 10,725,182
Business-Type Activities	12,620
TOTAL	<u><u>\$ 10,737,802</u></u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 8 - Bonds Payable

	Principal Outstanding July 1, 2015	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2016
General Obligation Note Series of 1989	\$ 19,800,000	\$ 1,900,000	\$ 0	\$ 17,900,000
General Obligation Bonds Series A of 2006	32,405,000	0	(32,405,000)	0
General Obligation Bonds Series of 2007	28,575,000	1,700,000	(26,875,000)	0
General Obligation Bonds Series A & B of 2009	76,320,000	4,925,000	0	71,395,000
General Obligation Bonds Series of 2012	15,495,000	4,980,000	0	10,515,000
General Obligation Bonds Series A of 2012	46,230,000	2,520,000	0	43,710,000
General Obligation Bonds Series of 2013	9,800,000	5,000	0	9,795,000
General Obligation Bonds Series of 2014	9,980,000	5,000	0	9,975,000
General Obligation Bonds Series A of 2015	9,700,000	0	0	9,700,000
General Obligation Bonds Series B of 2015	31,880,000	0	0	31,880,000
General Obligation Bonds Series of 2016	0	0	55,665,000	55,665,000
TOTAL	280,185,000	16,035,000	(3,615,000)	260,535,000
Less: Deferred Amounts:				
Issuance Premium (Discounts)	9,470,360	(2,598,629)	6,389,827	13,261,558
Refunding Deferred Charge	(4,824,445)	484,243	(2,298,654)	(6,638,856)
LONG-TERM DEBT	\$284,830,915	\$13,920,614	\$ 476,173	\$267,157,702

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 8 - Bonds Payable (Continued)

	<u>Current Outstanding Principal</u>
General Obligation Note, Series of 1989. Original principal amount of \$30,000,000, maturing August 1, 2023. The note was advanced by Emmaus General Authority under the Bond Pool Program. Interest is charged at a variable rate equal to the Weekly Rate of the underlying bonds plus .35%. The rate at June 30, 2016 was 1.16%.	\$ 17,900,000
General Obligation Bonds, Series A & B of 2009. Original principal amount of \$102,350,000, maturing April 1, 2027, bearing interest at a variable rate equal to the Weekly Rate of the underlying bonds. The rate at June 30, 2016 was 0.40%.	71,395,000
General Obligation Bonds, Series 2012. Original principal amount of \$30,835,000, maturing May 15, 2018, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on May 15 and November 15.	10,515,000
General Obligation Bonds, Series A 2012. Original principal amount of \$47,015,000, maturing November 12, 2028, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on May 15 and November 15.	43,710,000
General Obligation Bonds, Series 2013. Original principal amount of \$9,810,000, maturing November 15, 2024, bearing interest from 1.00% to 2.00%. Interest is paid semi-annually on May 15 and November 15.	9,795,000
General Obligation Bonds, Series 2014. Original principal amount of \$9,980,000, maturing November 15, 2025, bearing interest from 2.00% to 2.35%. Interest is paid semi-annually on May 15 and November 15.	9,975,000
General Obligation Bonds, Series A of 2015. Original principal amount of \$9,700,000, maturing September 1, 2034, bearing interest from 3.00% to 3.125% Interest is paid semi-annually on March 1 and September 1.	9,700,000
General Obligation Bonds, Series B of 2015. Original principal amount of \$31,880,000, maturing September 1, 2028, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on March 1 and September 1.	31,880,000
General Obligation Bonds, Series 2016. Original principal amount of \$55,665,000, maturing September 15, 2032, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on March 15 and September 15.	<u>55,665,000</u>
TOTAL	<u>\$260,535,000</u>

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 8 - Bonds Payable (Continued)

The annual requirements to amortize all debts outstanding as of June 30, 2016, are as follows:

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2017	\$ 7,228,078	\$ 15,270,000	\$ 22,498,078
2018	6,810,644	16,525,000	23,335,644
2019	6,173,194	17,415,000	23,588,194
2020	5,607,058	18,920,000	24,527,058
2021	4,973,877	21,155,000	26,128,877
2022-2026	14,911,061	114,115,000	129,026,061
2027-2031	4,412,438	44,900,000	49,312,438
2032-2035	453,178	12,235,000	12,688,178
TOTAL MATURITIES	\$ 50,569,527	\$260,535,000	\$311,104,527

Swap Payments and Associated Debt

Hedging derivative instrument payments and hedged debt - As of June 30, 2016, aggregate debt service requirements of the District's debt and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 4 for information on derivative instruments.

	<u>Bonds with Associated Derivatives</u>		<u>Interest Rate</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	<u>Totals</u>
2017	\$ 5,135,000	\$ 885,028	\$ 2,602,879	\$ 8,622,907
2018	5,355,000	820,914	2,416,878	8,592,792
2019	5,590,000	754,042	2,222,920	8,566,962
2020	5,840,000	684,226	2,020,460	8,544,686
2021	6,110,000	611,270	1,808,963	8,530,233
2022-2026	35,230,000	1,836,130	5,508,736	42,574,866
2027	8,135,000	110,874	295,382	8,541,256
	\$ 71,395,000	\$ 5,702,484	\$ 16,876,218	\$ 93,973,702

NOTE 9 - Defeased Bonds

As a result of certain bond refundings which require that funds be placed in escrow, the District has defeased bonds. Escrow accounts were established to provide for future debt service on the defeased bonds. Defeased bonds are no longer outstanding under the Pennsylvania Local Government Unit Debt Act. The escrow accounts assets and the liabilities for the defeased debt below are not included in the District's financial statements.

	<u>Call</u>	<u>Interest</u>	<u>Outstanding</u>
	<u>Date(s)</u>	<u>Rates</u>	<u>Principal at</u>
			<u>June 30, 2016</u>
General Obligation Bonds			
Series A of 2006	9/1/17	4.00 - 4.375%	\$ 32,405,000
General Obligation Bonds			
Series of 2007	9/1/16 & 9/1/17	3.90 - 5.00%	\$ 58,115,000

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 10 - Accrued Post Employment Benefits and Compensated Absences

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>
Accrued Compensated Absences	\$2,152,839	\$ 0	\$ 360,426	\$1,792,413
Accrued Other Post-Employment Benefits	<u>4,441,132</u>	<u>562,590</u>	<u>0</u>	<u>5,003,722</u>
TOTAL	<u><u>\$6,593,971</u></u>	<u><u>\$ 562,590</u></u>	<u><u>\$ 360,426</u></u>	<u><u>\$6,796,135</u></u>

NOTE 11 - Contingent Liabilities

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 District expects such amounts, if any, to be immaterial.

The District is currently in litigation with former employees of the District regarding wrongful discharge from employment, with taxpayers contesting real estate assessments, and with parents of students regarding educational and disciplinary issues. The amount, if any, of awards or settlements cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

In August 2016 the District received an injunction from the Court of Common Pleas of Montgomery County arising out of a complaint filed by a resident regarding past and current real estate tax increases. As part of the injunction, the Court has enjoined the District from enforcing or collecting a real estate tax increase for the fiscal year 2016-17 of over 2.4% than was in effect for the prior fiscal year. The District previously adopted a budget for the 2016-17 fiscal year which included a real estate tax increase of 4.44%. On August 31, 2016, the District formally filed an appeal to the Court's decision. The matter was heard by the Commonwealth Court on December 15, 2016. A formal decision is expected within 60-90 days.

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 12 - Employee Retirement Systems and Pension Plans

Pensions

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

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 retirement age may apply for disability benefits.

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

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

Member Contributions

1. 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.
2. 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.
3. 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.
4. 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 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 \$28,746,930 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$381,089,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .008798%, which was an increase of \$44,495,000 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$41,596,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 0	\$ 1,573,000.00
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	9,975,000	771,000
Changes in proportion	0	4,732,000
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	28,746,930	0
	<u>\$ 38,721,930</u>	<u>\$ 7,076,000</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date of \$28,746,930 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ended June 30:

2016	\$ (1,150,000)
2017	(1,150,000)
2018	(1,150,000)
2019	6,349,000
Total	<u>\$ 2,899,000</u>

Actuarial assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, 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.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

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.

<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.

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 12 - Employee Retirement Systems and Pension Plans (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	\$ 469,728,000	\$ 381,089,000	\$ 306,586,000

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.

NOTE 13 - Other Post-Employment Benefits

The District provides post-retirement health care benefits (medical, dental, prescription, vision) to its administrative personnel who retire under normal PSERS guidelines or elect early retirement at age 55 with 25 years of service. The District contributes toward the cost of single health coverage, and the amount of the contribution is based upon the employee's years of service. The District's contribution rate ranges from 50% for employees with 5 years of service to 100% for employees with 15 or more years of service. The lifetime maximum that the District will pay for a retiree's coverage shall not exceed the employee's highest annual salary while working at the District.

The health insurance plan is a single employer, defined benefit OPEB plan. The medical and prescription drug benefits are administered through Independence Blue Cross. Dental and Vision benefits are administered through Delta Dental and Davis Vision, respectively. Separate financial statements are not issued for the plan. The term life insurance is purchased from PSBA (Pennsylvania School Board Association) Insurance Trust.

Funding Policy

As established by either collective bargaining or school policy, all groups are entitled to receive benefits at retirement until Medicare eligibility age. Spouses and family are included in the coverage. A retiree can elect a higher coverage but the retiree must pay the difference in the premium cost. The District is responsible for funding the balance of the benefits.

As of June 30, 2016 the District has no segregated assets to fund this liability. It is the intention of the District to pay the premium each year as it comes due.

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 13 - Other Post-Employment Benefits (Continued)

Funding Progress

As of February 1, 2014, the date of the most recent actuarial report, the actuarial accrued liability for benefits was \$8,691,202, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$101,937,918 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.53%.

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

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. In the February 1, 2012 actuarial valuation, the following actuarial assumptions were used:

Interest	4.5%
Actuarial Cost Method	Entry Age Normal
Amortization Period	14 years, Open Period
Salary Increases	An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75 to 0.25%

Annual OPEB Cost and NET OPEB Obligations:

The District's annual other Post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 14 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's OPEB obligation.

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 13 - Other Post-Employment Benefits (Continued)

Annual OPEB Cost and NET OPEB Obligations: (Continued)

	<u>2016</u>
Annual OPEB Cost:	
Normal Cost	\$ 552,089
Amortization of Unfunded Actuarial	
Accrued Liability	850,178
Interest on Net OPEB Obligation	199,851
Adjustment to ARC	<u>(434,433)</u>
 ANNUAL OPEB COST	 <u><u>\$ 1,167,685</u></u>
Net OPEB Obligation:	
Normal OPEB Obligation year beginning July 1	\$ 4,441,132
OPEB Cost for the year ended June 30	1,167,685
Estimated Contributions	<u>(605,095)</u>
 NET OPEB OBLIGATION	 <u><u>\$ 5,003,722</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the year ended June 30, 2016 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 1,255,683	58.66%	\$ 3,884,405
June 30, 2015	1,197,090	53.49%	4,441,132
June 30, 2016	1,167,685	51.82%	5,003,722

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 14 - Deficit Net Position

A deficit of \$135,960,143 exists in the District-wide net position as of June 30, 2016 (the net pension deficit for governmental activities as of June 30, 2016 is \$133,357,449 and the net position deficit for business-type activities as of June 30, 2016 is \$2,602,694). The deficit is a result of the District's adoption of Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*.

NOTE 15 - Fund Balances - General Fund

Nonspendable:

Prepaid Expenses	\$ 180,286
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Committed:

Future Capital Projects	15,000,000	
Future PSERS Obligations	15,300,000	
Future Postemployment Healthcare Benefits	5,000,000	
Rate Stabilization of Variable Interest Rate Bonds	<u>500,000</u>	35,800,000

Unassigned		<u>20,282,605</u>
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TOTAL FUND BALANCES - GENERAL FUND		<u><u>\$ 56,262,891</u></u>
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NOTE 16 - Subsequent Events

The District has evaluated subsequent events through December 19, 2016, which represents the date the financial statements were available to be issued.

LOWER MERION SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Local Revenues	\$ 203,892,632	\$ 203,892,632	\$206,518,963	\$ 2,626,331
State Program Revenues	32,333,078	32,333,078	32,328,016	(5,062)
Federal Program Revenues	705,600	705,600	856,565	150,965
TOTAL REVENUES	236,931,310	236,931,310	239,703,544	2,772,234
Expenditures:				
Regular Programs	95,653,682	95,653,682	94,395,229	1,258,453
Special Programs	43,191,298	42,141,298	41,281,448	859,850
Vocational Programs	350,000	610,000	608,022	1,978
Other Instructional Programs	1,458,249	1,198,249	718,232	480,017
Pupil Personnel Services	9,302,571	9,302,571	8,597,398	705,173
Instructional Staff Services	6,474,420	6,124,420	5,589,759	534,661
Administrative Services	12,980,919	13,080,919	13,052,231	28,688
Pupil Health	3,951,303	3,851,303	3,400,780	450,523
Business Services	1,344,848	1,344,848	1,263,142	81,706
Operation and Maintenance of Plant Services	19,205,633	18,105,633	17,372,311	733,322
Student Transportation Services	12,156,308	13,256,308	13,203,694	52,614
Central and Other Support Services	6,391,745	6,741,745	6,493,697	248,048
Student Activities	4,986,985	4,981,985	4,714,291	267,694
Community Services	197,500	202,500	198,566	3,934
Debt Service	27,799,104	25,799,104	25,609,550	189,554
TOTAL EXPENDITURES	245,444,565	242,394,565	236,498,350	5,896,215
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,513,255)	(5,463,255)	3,205,194	8,668,449
Other Financing Uses:				
Budgetary Reserve	(800,000)	(800,000)	0	800,000
Refunds of Prior Years Revenues	0	0	(155,738)	(155,738)
Interfund Transfers Out	(22,000)	(3,072,000)	(3,051,790)	20,210
Sale of Fixed Assets	0	0	2,890	2,890
TOTAL OTHER FINANCING USES	(822,000)	(3,872,000)	(3,204,638)	667,362
NET CHANGE IN FUND BALANCES	(9,335,255)	(9,335,255)	556	9,335,811
Fund Balance - July 1, 2015	55,921,794	56,262,335	56,262,335	0
FUND BALANCE - JUNE 30, 2016	\$ 46,586,539	\$ 46,927,080	\$ 56,262,891	\$ 9,335,811

LOWER MERION SCHOOL DISTRICT
Schedule of Post Employment Benefit Obligation Funding Progress
For the Year Ended June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
February 1, 2010	\$ 0	\$ 8,953,608	\$ 8,953,608	0%	91,364,323	9.80%
February 1, 2012	0	8,920,298	8,920,298	0%	93,679,636	9.52%
February 1, 2014	0	8,691,202	8,691,202	0%	101,937,918	8.53%

LOWER MERION SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2016

<u>Year Ended</u>	<u>District's Proportion of the Net Pension Liability (Asset)</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>District's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2014	0.8504%	\$ 336,594,000	\$ 108,521,471	310.16%	-41.78%
June 30, 2015	0.8798%	\$ 381,089,000	\$ 113,197,880	336.66%	-35.68%

LOWER MERION SCHOOL DISTRICT
Schedule of the District's Pension Contributions
For the Year Ended June 30, 2016

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Excess/ (Deficiency)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2014	\$ 16,941,000	\$ (16,941,000)	0	\$ 108,521,471	15.61%
June 30, 2015	22,717,000	(22,717,000)	0	113,197,880	20.07%