UPPER MERION AREA SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2017

Maillie®

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Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

UPPER MERION AREA SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2017

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UPPER MERION AREA SCHOOL DISTRICT

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FINANCIAL SECTION

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Independent Auditors' Report

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Upper Merion Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Upper Merion Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Upper Merion Area School District as of June 30, 2017, 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 6 through 15, budgetary comparison information on pages 53 and 54, schedule of the School District's proportionate share of the net pension liability on page 55, schedule of the School District's contributions on page 56 and postemployment benefits other than pension funding progress on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Merion Area School District's basic financial statements. The supplementary information listed in the table of contents and the schedule of expenditures of federal and certain state awards, as required by the U.S. Office of Management and Budget Uniform Guidance, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal and certain state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal and certain state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the Upper Merion Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Upper Merion Area School District's internal control over financial reporting and compliance.



Oaks, Pennsylvania
November 30, 2017

The discussion and analysis of the Upper Merion Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,* issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

SCHOOL DISTRICT HIGHLIGHTS

Upper Merion Area School District is comprised of the municipal subdivisions of the Borough of Bridgeport, the Borough of West Conshohocken and Upper Merion Township in Montgomery County, Pennsylvania, and covers an area of approximately 19 square miles. The School District had an enrollment of 4,010 students in 2016-17. The School District employs approximately 333 professional staff, 317 support staff and 23 administrators.

Upper Merion Area School District consists of four elementary schools, one middle school and one high school.

The School District's commitment to providing an excellent education for each student can be seen in the quality of programs and opportunities the School District maintains and supports.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting, and the budgeting system is designed to tightly control total site budgets but provide flexibility for site management.

Overall operating expenditures of the General Fund were $94,026,410. Actual operating revenues exceeded actual operating expenses by $4,991,441.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District.

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the government-wide statements.

  The **Governmental Funds** statements tell how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.

  Proprietary Funds statements offer short- and long-term financial information about the activities the School District operates like businesses, such as food services.

  Fiduciary Funds statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

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

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another.

Figure A-1
Organization of the Upper Merion Area School District Annual Financial Report

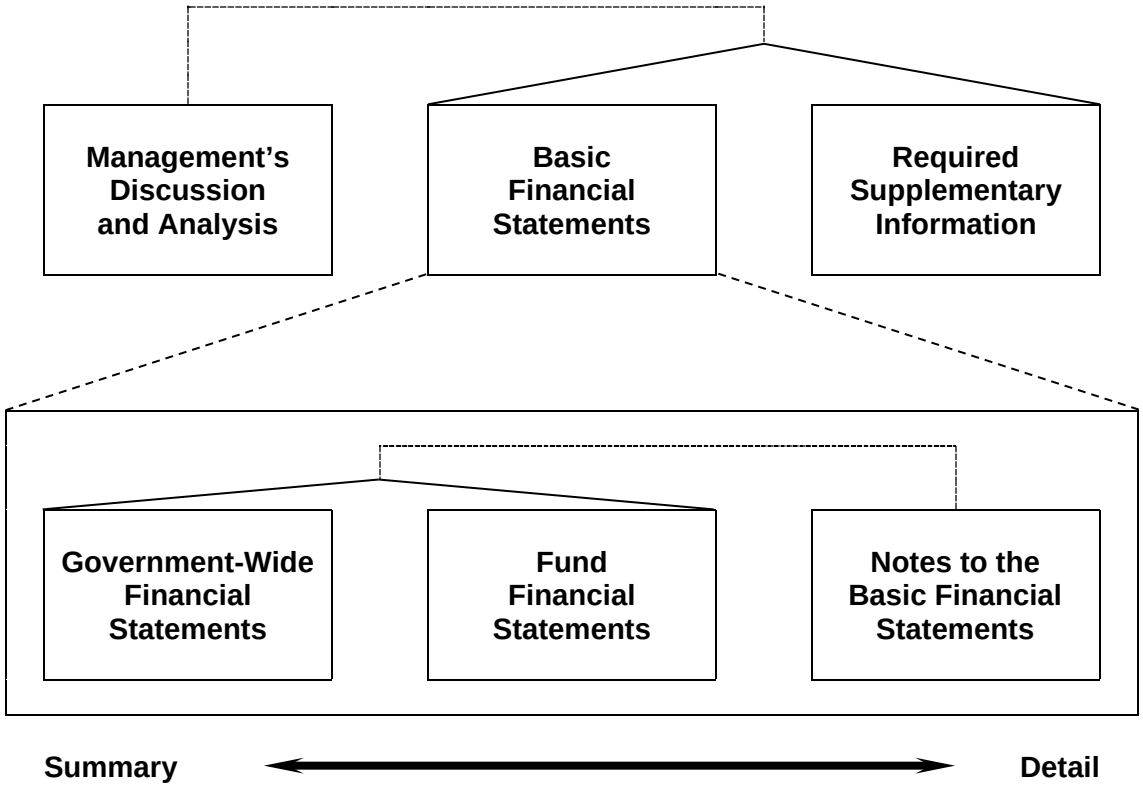


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except Fiduciary Funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration and community services	Activities the School District operates similar to private businesses--food services	Instances in which the School District is the trustee or agent to someone else's resources--Scholarship Funds
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

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

- ***Governmental Activities***: All the School 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 School District operates a food service operation and charges fees to staff, students and visitors to help cover the costs of the food service operation. The School District operates an extended day program and charges fees to students to cover the cost of the extended day program.

FUND FINANCIAL STATEMENTS

The School District's fund financial statements provide detailed information about the most significant funds--not the School District as a whole. Some funds are required by state law and by bond requirements.

- ***Governmental Funds***. Most of the School 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. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and Governmental Funds is reconciled in the financial statements.

- ***Proprietary Funds***. These funds are used to account for the School 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 School District charges customers for services it provides--whether to outside customers or to other units in the School District--these services are generally reported in Proprietary Funds. The Food Service and Extended Day Funds are the School District's Proprietary Funds and are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

- ***Fiduciary Funds***. The School District is the trustee, or fiduciary, for some Scholarship Funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net Position

The following tables reflect the condensed statements of net position for the current and prior periods.

The School District's total net position was $(75,433,734) at June 30, 2017.

Table A-1
Condensed Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current and other assets	$ 72,623,193	$ 914,912	$ 73,538,105
Capital assets	73,535,387	79,719	73,615,106
TOTAL ASSETS	146,158,580	994,631	147,153,211
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	86,166	-	86,166
Deferred outflows of resources, pension activity	31,888,000	825,000	32,713,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	31,974,166	825,000	32,799,166
LIABILITIES			
Current and other liabilities	17,483,200	430,936	17,914,136
Long-term liabilities	231,671,757	4,225,218	235,896,975
TOTAL LIABILITIES	249,154,957	4,656,154	253,811,111
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	1,536,000	39,000	1,575,000
NET POSITION			
Net investment in capital assets	7,292,482	79,719	7,372,201
Restricted	24,928,052	-	24,928,052
Unrestricted	(104,778,745)	(2,955,242)	(107,733,987)
TOTAL NET POSITION	$ (72,558,211)	$ (2,875,523)	$ (75,433,734)

The School District's total net position (restated) was $(76,380,003) at June 30, 2016.

Table A-2
Condensed Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current and other assets	$ 41,661,589	$ 1,018,875	$ 42,680,464
Capital assets	72,529,670	85,978	72,615,648
TOTAL ASSETS	114,191,259	1,104,853	115,296,112
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	37,991	-	37,991
Deferred outflows of resources, pension activity	14,477,000	375,000	14,852,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,514,991	375,000	14,889,991
LIABILITIES			
Current and other liabilities, restated	22,606,671	217,579	22,824,250
Long-term liabilities	179,009,856	3,562,000	182,571,856
TOTAL LIABILITIES	201,616,527	3,779,579	205,396,106
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	1,141,000	29,000	1,170,000
NET POSITION			
Net investment in capital assets	30,008,365	85,978	30,094,343
Unrestricted	(104,059,642)	(2,414,704)	(106,474,346)
TOTAL NET POSITION	$ (74,051,277)	$ (2,328,726)	$ (76,380,003)

Most of the School District's net position is invested in capital assets (building, land and equipment) or in the form of invested bond proceeds to be used for future capital expenditures.

Statement of Activities

The results of this year's operations as a whole are reported in the statement of activities in the financial statements. The two largest general revenues are the Retirement Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers. Table A-3 takes the information from the statement of activities and rearranges it slightly, so you can see our total revenues for the year. The following tables reflect the revenues and expenses for the current and prior periods.

Table A-3
Changes in Net Position
Year Ended June 30, 2017

	Governmental Activities	Business-Type Activities	Totals
REVENUES			
Program revenues			
Charges for services	$ -	$ 1,593,854	$ 1,593,854
Operating grants and contributions	15,482,743	1,132,989	16,615,732
General revenues			
Property taxes	77,763,924	-	77,763,924
Other taxes	4,295,668	-	4,295,668
Investment earnings	317,129	2,437	319,566
Receipts from member districts	11,540	-	11,540
Other	745,593	200,000	945,593
TOTAL REVENUES	98,616,597	2,929,280	101,545,877
EXPENSES			
Instruction			
Regular programs	38,940,469	-	38,940,469
Special programs	14,033,297	-	14,033,297
Vocational programs	2,215,371	-	2,215,371
Other instructional programs	194,271	-	194,271
Support services			
Pupil personnel services	4,814,308	-	4,814,308
Instructional staff services	4,603,697	-	4,603,697
Administration services	7,324,562	-	7,324,562
Pupil health	1,463,204	-	1,463,204
Business services	1,082,179	-	1,082,179
Operation and maintenance of plant services	7,993,340	-	7,993,340
Student transportation services	4,791,120	-	4,791,120
Central services	1,497,994	-	1,497,994
Other support services	62,598	-	62,598
Non-instructional services			
Student activities	1,975,547	-	1,975,547
Community services	102,038	-	102,038
Refund of prior year revenues	309,354	-	309,354
Interest on long-term debt	2,399,915	-	2,399,915
Depreciation and amortization, unallocated	3,320,267	-	3,320,267
Food service	-	2,099,720	2,099,720
Extended day	-	1,376,357	1,376,357
TOTAL EXPENSES	97,123,531	3,476,077	100,599,608
CHANGE IN NET POSITION	1,493,066	(546,797)	946,269
NET POSITION, BEGINNING	(74,051,277)	(2,328,726)	(76,380,003)
NET POSITION, ENDING	$ (72,558,211)	$ (2,875,523)	$ (75,433,734)

Table A-4
Changes in Net Position
Year Ended June 30, 2016

	Governmental Activities	Business-Type Activities	Totals
REVENUES			
Program revenues			
Charges for services	$ -	$ 1,720,173	$ 1,720,173
Operating grants and contributions	14,119,043	1,097,022	15,216,065
General revenues			
Property taxes	72,898,390	-	72,898,390
Other taxes	3,577,482	-	3,577,482
Investment earnings	177,904	4,007	181,911
Receipts from member districts	12,085	-	12,085
Other	1,636,376	-	1,636,376
TOTAL REVENUES	92,421,280	2,821,202	95,242,482
EXPENSES			
Instruction			
Regular programs	36,294,105	-	36,294,105
Special programs	12,183,829	-	12,183,829
Vocational programs	2,268,948	-	2,268,948
Other instructional programs	128,110	-	128,110
Support services			
Pupil personnel services	4,339,557	-	4,339,557
Instructional staff services	2,399,258	-	2,399,258
Administration services	5,261,651	-	5,261,651
Pupil health	1,194,509	-	1,194,509
Business services	985,842	-	985,842
Operation and maintenance of plant services	7,717,438	-	7,717,438
Student transportation services	4,692,221	-	4,692,221
Central services	1,616,829	-	1,616,829
Other support services	131,197	-	131,197
Non-instructional services			
Student activities	1,790,315	-	1,790,315
Community services	90,217	-	90,217
Refund on prior year revenues	119,500	-	119,500
Interest on long-term debt	1,804,265	-	1,804,265
Depreciation and amortization, unallocated	3,054,516	-	3,054,516
Food service	-	1,817,261	1,817,261
Extended day	-	1,004,883	1,004,883
TOTAL EXPENSES	86,072,307	2,822,144	88,894,451
CHANGE IN NET POSITION	6,348,973	(942)	6,348,031
NET POSITION, BEGINNING	(80,400,250)	(2,327,784)	(82,728,034)
NET POSITION, ENDING	$ (74,051,277)	$ (2,328,726)	$ (76,380,003)

Analysis of these tables indicates that the total net position for governmental activities increased by $1,493,066. Revenues exceeded expenditures by this amount mainly due to increased real estate transfer tax and increased interim real estate taxes.

Business-type activities show a $546,797 decrease in total net position. Expenditures exceeded revenues by this amount mainly due to increases in salaries and benefits.

Capital Assets - At June 30, 2017, the School District had $73,615,106 invested in a broad range of capital assets, including land, buildings and furniture and equipment.

Table A-5
Government-Wide Activities
Capital Assets - Net of Depreciation

	2017	2016
Land	$ 3,778,132	$ 3,778,132
Construction in progress	3,993,294	430,880
Buildings and site improvements	60,124,261	62,470,045
Furniture and equipment	5,719,419	5,936,591
TOTAL	$ 73,615,106	$ 72,615,648

Debt Administration - As of July 1, **2016**, the School District had total outstanding bond principal of $42,145,000. During the year, the School District made net payments against principal of $18,205,000 and issued new debt in the amount of $35,785,000, resulting in ending outstanding debt as of **June 30, 2017**, of $59,725,000.

Table A-6
Outstanding Debt

	2017	2016
GENERAL OBLIGATION BONDS		
Series of 2004	$ -	$ 1,100,000
Series of 2004B	-	880,000
Series of 2005	-	4,615,000
Series of 2011	-	9,480,000
Series of 2012	8,580,000	9,290,000
Series of 2013	7,225,000	8,120,000
Series of 2014	8,150,000	8,660,000
Series of 2016	35,770,000	-
TOTAL	$ 59,725,000	$ 42,145,000

Other obligations include compensated absences (accrued vacation pay and sick leave for specific employees of the School District) and capital leases. More detailed information about our long-term liabilities is included in the notes to the financial statements.

FOR THE FUTURE

As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Academic performance is supported by regionally competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

Financial challenges face many school districts in the state of Pennsylvania and Upper Merion Area School District is not alone in this regard. With the passage of Act 1 of 2006, school districts are faced with a cap on the money that can be funded from a property tax increase. The cap is an inflationary index annually calculated by the Pennsylvania Department of Education (PDE). Act 1 does provide for some exceptions that permit districts to increase property taxes in excess of the cap. Exceptions are approved by the PDE. Limited tax relief arrived starting in the 2008-2009 fiscal year as the state distributed a portion of gambling revenue to offset real estate tax increases. The School District was fortunate to receive $611,403 in the 2016-2017 fiscal year that offset property taxes for those property owners who qualified for the homestead exemption.

The 2016-2017 school year was a particularly strong year financially for the Upper Merion Area School District. The District was able to make a $3,500,000 transfer to the Capital Reserve Fund. In addition, the District assigned $9,400,000 of fund balance for retirement stabilization ($5,200,000), tax assessment appeal refunds ($1,000,000), future technology purchases ($1,000,000), food service stabilization ($1,000,000), and transportation ($1,200,000). Finally, the unassigned fund balance increased slightly from $6,701,348 to $7,328,611.

Upper Merion Area School District faces the common problem of escalating costs for employee benefits, particularly the medical benefit cost and the retirement expense of the PSERS system. Each of these costs is established by outside influences and is not, in large part, a discretionary cost that can be controlled by the School District.

Upper Merion Area School District has committed itself to educational and financial excellence. The District's system of budgeting and internal controls is well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued successful financial performance well into the future.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

The financial report is designed to provide the citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Michael Keeley, Business Administrator, Upper Merion Area School District, 435 Crossfield Road, King of Prussia, PA 19406-2363, 610-205-6400, mkeeley@umasd.org or visit the School District's website at www.umasd.org.

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	$ 30,115,751	$ 676,604	$ 30,792,355
Investments	12,942,492	-	12,942,492
Restricted cash and cash equivalents	5,029,587	-	5,029,587
Restricted investments	19,903,935	-	19,903,935
Receivables, net	1,184,278	13,363	1,197,641
Due from other governments	3,216,552	138,899	3,355,451
Internal balances	230,598	(230,598)	-
Inventories	-	86,046	86,046
Capital assets			
Land	3,778,132	-	3,778,132
Construction in progress	3,993,294	-	3,993,294
Buildings and site improvements	99,763,775	-	99,763,775
Furniture and equipment	22,183,760	386,057	22,569,817
Accumulated depreciation	(56,183,574)	(306,338)	(56,489,912)
TOTAL ASSETS	146,158,580	764,033	146,922,613
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	86,166	-	86,166
Deferred outflows of resources, pension activity	31,888,000	825,000	32,713,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	31,974,166	825,000	32,799,166
LIABILITIES			
Accounts payable	7,757,664	10,056	7,767,720
Accrued salaries and benefits	8,774,767	26,437	8,801,204
Accrued interest	950,769	-	950,769
Unearned revenue	-	163,845	163,845
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	4,540,000	-	4,540,000
Bond premiums and discounts, net	365,888	-	365,888
Compensated absences	451,041	10,021	461,062
Portion due or payable after one year			
Bonds payable	55,185,000	-	55,185,000
Bond premiums and discounts, net	6,152,017	-	6,152,017
Compensated absences	4,059,372	90,197	4,149,569
Net pension liability	159,561,000	4,125,000	163,686,000
Net OPEB obligation	1,357,439	-	1,357,439
TOTAL LIABILITIES	249,154,957	4,425,556	253,580,513
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	1,536,000	39,000	1,575,000
NET POSITION			
Net investment in capital assets	7,292,482	79,719	7,372,201
Restricted	24,928,052	-	24,928,052
Unrestricted	(104,778,745)	(2,955,242)	(107,733,987)
TOTAL NET POSITION	$ (72,558,211)	$ (2,875,523)	$ (75,433,734)

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	$ 38,940,469	$ -	$ 5,738,305	$ -
Special programs	14,033,297	-	3,183,787	-
Vocational programs	2,215,371	-	197,996	-
Other instructional programs	194,271	-	2,201,293	-
Support services				
Pupil personnel services	4,814,308	-	519,406	-
Instructional staff services	4,603,697	-	223,540	-
Administration services	7,324,562	-	414,223	-
Pupil health	1,463,204	-	139,366	-
Business services	1,082,179	-	95,534	-
Operation and maintenance of plant services	7,993,340	-	596,416	-
Student transportation services	4,791,120	-	1,459,453	-
Central services	1,497,994	-	115,096	-
Other support services	62,598	-	-	-
Non-instructional services				
Student activities	1,975,547	-	198,855	-
Community services	102,038	-	-	-
Refund of prior year revenues	309,354	-	-	-
Interest on long-term debt	2,399,915	-	399,474	-
Depreciation and amortization, unallocated	3,320,267	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	97,123,531	-	15,482,743	-
BUSINESS-TYPE ACTIVITIES				
Food service	2,099,720	761,770	1,040,494	-
Extended day	1,376,357	832,084	92,495	-
TOTAL BUSINESS-TYPE ACTIVITIES	3,476,077	1,593,854	1,132,989	-
TOTAL SCHOOL DISTRICT ACTIVITIES	$ 100,599,608	$ 1,593,854	$ 16,615,732	$ -
GENERAL REVENUES				
Property taxes, levied for general purposes				
Occupational, real estate transfer and amusement taxes				
Public utility taxes				
Investment earnings				
Receipts from member districts				
Miscellaneous				
TRANSFERS				
SPECIAL ITEM, gain on disposition of capital assets				
TOTAL GENERAL REVENUES, TRANSFERS AND SPECIAL ITEM				
CHANGE IN NET POSITION				
NET POSITION AT BEGINNING OF YEAR				
NET POSITION AT END OF YEAR				

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
$ (33,202,164)	$ -	$ (33,202,164)
(10,849,510)	-	(10,849,510)
(2,017,375)	-	(2,017,375)
2,007,022	-	2,007,022
(4,294,902)	-	(4,294,902)
(4,380,157)	-	(4,380,157)
(6,910,339)	-	(6,910,339)
(1,323,839)	-	(1,323,839)
(986,645)	-	(986,645)
(7,396,924)	-	(7,396,924)
(3,331,667)	-	(3,331,667)
(1,382,898)	-	(1,382,898)
(62,598)	-	(62,598)
(1,776,692)	-	(1,776,692)
(102,038)	-	(102,038)
(309,354)	-	(309,354)
(2,000,441)	-	(2,000,441)
(3,320,267)	-	(3,320,267)
(81,640,788)	-	(81,640,788)
-	(297,456)	(297,456)
-	(451,778)	(451,778)
-	(749,234)	(749,234)
(81,640,788)	(749,234)	(82,390,022)
77,763,924	-	77,763,924
4,214,934	-	4,214,934
80,734	-	80,734
317,129	2,437	319,566
11,540	-	11,540
796,006	-	796,006
(200,000)	200,000	-
149,587	-	149,587
83,133,854	202,437	83,336,291
1,493,066	(546,797)	946,269
(74,051,277)	(2,328,726)	(76,380,003)
$ (72,558,211)	$ (2,875,523)	$ (75,433,734)

UPPER MERION AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 19,968,612	$ 10,147,139	$ -	$ 30,115,751
Investments	12,942,492	-	-	12,942,492
Restricted cash and cash equivalents	-	-	5,029,587	5,029,587
Restricted investments	-	-	19,903,935	19,903,935
Taxes receivable, net	1,119,150	-	-	1,119,150
Other receivables	65,128	-	-	65,128
Due from other governments	3,216,552	-	-	3,216,552
Due from other funds	230,598	3,505,470	-	3,736,068
TOTAL ASSETS	$ 37,542,532	$ 13,652,609	$ 24,933,522	$ 76,128,663
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 7,733,360	$ 24,304	$ -	$ 7,757,664
Accrued salaries and benefits	8,774,767	-	-	8,774,767
Due to other funds	3,500,000	-	5,470	3,505,470
TOTAL LIABILITIES	20,008,127	24,304	5,470	20,037,901
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues, property taxes	805,794	-	-	805,794
FUND BALANCES				
Restricted for capital projects	-	-	24,928,052	24,928,052
Assigned to				
Tax assessment appeal settlement refunds	1,000,000	-	-	1,000,000
Retirement stabilization	5,200,000	-	-	5,200,000
Food service stabilization	1,000,000	-	-	1,000,000
Technology purchases	1,000,000	-	-	1,000,000
Transportation	1,200,000	-	-	1,200,000
Capital projects	-	13,628,305	-	13,628,305
Unassigned	7,328,611	-	-	7,328,611
TOTAL FUND BALANCES	16,728,611	13,628,305	24,928,052	55,284,968
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 37,542,532	$ 13,652,609	$ 24,933,522	$ 76,128,663

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

TOTAL GOVERNMENTAL FUNDS BALANCES	$	55,284,968
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:		
Land		3,778,132
Construction in progress		3,993,294
Buildings and site improvements		99,763,775
Furniture and equipment		22,183,760
Accumulated depreciation		(56,183,574)
Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.		30,352,000
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Accrued interest		(950,769)
Deferred amount on refunding		86,166
Bonds payable		(59,725,000)
Bond premiums and discounts		(6,517,905)
Compensated absences		(4,510,413)
Net pension liability		(159,561,000)
Net OPEB obligation		(1,357,439)
Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		805,794
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	(72,558,211)

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local sources	$ 83,811,702	$ 24,705	$ -	$ 83,836,407
State sources	13,988,193	-	-	13,988,193
Federal sources	1,217,956	-	-	1,217,956
TOTAL REVENUES	99,017,851	24,705	-	99,042,556
EXPENDITURES				
Instruction				
Regular programs	36,565,672	-	-	36,565,672
Special programs	13,308,956	-	-	13,308,956
Vocational programs	2,164,018	-	-	2,164,018
Other instructional programs	182,838	-	-	182,838
Support services				
Pupil personnel services	4,506,657	-	-	4,506,657
Instructional staff services	4,478,133	-	-	4,478,133
Administration services	5,641,971	-	1,431,732	7,073,703
Pupil health	1,386,076	-	-	1,386,076
Business services	1,011,483	-	13,968	1,025,451
Operation and maintenance of plant services	7,642,001	-	-	7,642,001
Student transportation services	4,524,279	-	-	4,524,279
Central services	1,625,646	-	-	1,625,646
Other support services	62,598	-	-	62,598
Non-instructional services				
Student activities	1,860,225	-	-	1,860,225
Community services	102,038	-	-	102,038
Refund of prior year revenues	741,241	-	-	741,241
Capital outlay	-	612,882	3,562,414	4,175,296
Debt service	8,222,578	-	-	8,222,578
TOTAL EXPENDITURES	94,026,410	612,882	5,008,114	99,647,406
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FORWARD	$ 4,991,441	$ (588,177)	$ (5,008,114)	$ (604,850)

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FORWARDED	$ 4,991,441	$ (588,177)	$ (5,008,114)	$ (604,850)
OTHER FINANCING SOURCES				
Earnings from investments	-	-	65,688	65,688
Proceeds from sale of fixed assets	194,635	-	-	194,635
Proceeds from bonds issued	-	-	25,602,609	25,602,609
Premium on bonds issued	-	-	4,698,749	4,698,749
Proceeds from refunding bonds issued	10,182,391	-	-	10,182,391
Premium on refunding bonds issued	1,868,735	-	-	1,868,735
Payment to refunded bond escrow agent	(11,940,819)	-	-	(11,940,819)
Transfers in	-	3,500,000	-	3,500,000
Transfers out	(3,700,000)	-	-	(3,700,000)
TOTAL OTHER FINANCING SOURCES	(3,395,058)	3,500,000	30,367,046	30,471,988
NET CHANGE IN FUND BALANCES	1,596,383	2,911,823	25,358,932	29,867,138
FUND BALANCES AT BEGINNING OF YEAR	15,132,228	10,716,482	(430,880)	25,417,830
FUND BALANCES AT END AT END	$ 16,728,611	$ 13,628,305	$ 24,928,052	$ 55,284,968

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$	29,867,138
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 exceeds depreciation in the current period.		1,050,765
The net effect of various transactions involving capital assets (i.e., gains on dispositions) is to decrease net assets.		(45,048)
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year.		(441,234)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.		18,300,819
Net borrowings proceeds is an increase to the Governmental Funds balance; however, this is an increase to liabilities in the statement of net position.		(42,352,484)
Governmental Funds report premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the differences in the treatment of these items.		378,240
In the statement of activities, certain operating expenses--compensated absences (vacation and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		(164,504)
Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues regardless of when it is due.		(483,690)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:		
Pension plan expense		(4,792,880)
The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.		175,944
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$	1,493,066

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise Funds		Total
	Food Service Fund	Extended Day Fund	Proprietary Funds
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 176,772	$ 499,832	$ 676,604
Receivables	-	7,150	7,150
Due from other governments	143,366	1,746	145,112
Inventories	86,046	-	86,046
TOTAL CURRENT ASSETS	406,184	508,728	914,912
PROPERTY AND EQUIPMENT	386,057	-	386,057
Accumulated depreciation	(306,338)	-	(306,338)
PROPERTY AND EQUIPMENT, net	79,719	-	79,719
TOTAL ASSETS	485,903	508,728	994,631
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources, pension activity	422,321	402,679	825,000
LIABILITIES			
Accounts payable	10,057	-	10,057
Accrued payroll	10,926	15,511	26,437
Due to other funds	230,597	-	230,597
Unearned revenue	38,810	125,035	163,845
Long-term liabilities			
Portion due or payable within one year			
Compensated absences	4,768	5,253	10,021
Portion due or payable after one year			
Compensated absences	42,913	47,284	90,197
Net pension liability	2,111,607	2,013,393	4,125,000
TOTAL LIABILITIES	2,449,678	2,206,476	4,656,154
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	19,964	19,036	39,000
NET POSITION			
Net investment in capital assets	79,719	-	79,719
Unrestricted	(1,641,137)	(1,314,105)	(2,955,242)
TOTAL NET POSITION	$ (1,561,418)	$ (1,314,105)	$ (2,875,523)

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds		Total
	Food Service Fund	Extended Day Fund	Proprietary Funds
OPERATING REVENUES			
Food service revenues	$ 761,770	$ -	$ 761,770
Tuition revenues	-	832,084	832,084
TOTAL OPERATING REVENUES	761,770	832,084	1,593,854
OPERATING EXPENSES			
Salaries	617,441	521,065	1,138,506
Employee benefits	684,152	390,673	1,074,825
Other expenses	19,417	420,871	440,288
Supplies	761,388	43,748	805,136
Depreciation	17,322	-	17,322
TOTAL OPERATING EXPENSES	2,099,720	1,376,357	3,476,077
OPERATING LOSS	(1,337,950)	(544,273)	(1,882,223)
NONOPERATING REVENUES			
Transfers in	200,000	-	200,000
Earnings on investments	353	2,084	2,437
State sources	156,250	92,495	248,745
Federal sources	884,244	-	884,244
TOTAL NONOPERATING REVENUES	1,240,847	94,579	1,335,426
CHANGE IN NET POSITION	(97,103)	(449,694)	(546,797)
NET POSITION AT BEGINNING OF YEAR	(1,464,315)	(864,411)	(2,328,726)
NET POSITION AT END OF YEAR	$ (1,561,418)	$ (1,314,105)	$ (2,875,523)

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds		Total
	Food Service Fund	Extended Day Fund	Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 773,815	$ 824,934	$ 1,598,749
Payments to employees	(1,190,948)	(813,626)	(2,004,574)
Payments to suppliers	(575,530)	(460,863)	(1,036,393)
NET CASH USED BY OPERATING ACTIVITIES	(992,663)	(449,555)	(1,442,218)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Facility acquisition, construction and improvements	(11,063)	-	(11,063)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund transfers	200,000	-	200,000
Due from other governments	(4,467)	-	(4,467)
State sources	148,182	93,944	242,126
Federal sources	790,642	-	790,642
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,134,357	93,944	1,228,301
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on investments	353	2,084	2,437
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	130,984	(353,527)	(222,543)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	45,788	853,359	899,147
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 176,772	$ 499,832	$ 676,604

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds		Total
	Food Service Fund	Extended Day Fund	Proprietary Funds
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating loss	$ (1,337,950)	$ (544,273)	$ (1,882,223)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	17,322	-	17,322
Pension expense	62,964	60,036	123,000
Compensated absences	47,681	52,537	100,218
(Increase) decrease in			
Receivables	8,547	(7,150)	1,397
Inventories	(15,289)	-	(15,289)
Increase (decrease) in			
Accounts payable	(128)	(1,582)	(1,710)
Accrued payroll	(9,905)	(12,879)	(22,784)
Due from other funds	-	-	-
Due to other funds	230,597	-	230,597
Unearned revenue	3,498	3,756	7,254
NET CASH USED BY OPERATING ACTIVITIES	$ (992,663)	$ (449,555)	$ (1,442,218)
SUPPLEMENTAL DISCLOSURES			
Noncash activities			
Donated foods	$ 126,527	$ -	$ 126,527

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 208,625	$ 595,239
LIABILITIES AND NET POSITION		
LIABILITIES		
Other current liabilities	$ -	$ 595,239
NET POSITION		
Held in trust for scholarships	208,625	-
TOTAL LIABILITIES AND NET POSITION	$ 208,625	$ 595,239

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017

	Private-Purpose Trust Fund
ADDITIONS	
Donations	$ 56,868
Investment income	550
TOTAL ADDITIONS	57,418
DEDUCTIONS	
Scholarships	21,979
CHANGE IN NET POSITION	35,439
NET POSITION AT BEGINNING OF YEAR	173,186
NET POSITION AT END OF YEAR	$ 208,625

See accompanying notes to the basic financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Upper Merion Area School District is located in King of Prussia, Pennsylvania. The School District's tax base includes portions of Montgomery County and consists of the following townships and boroughs: Upper Merion Township and the Boroughs of Bridgeport and West Conshohocken.

The School District is a unit established, organized and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out on the local level the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968).

The School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The Board of School Directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary and other schools necessary to educate eligible students between the ages of 5 and 21 years residing in such School District who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any schools, or to pay any school indebtedness which the School District is required to pay, the Board of School Directors is vested with all necessary authority and power annually to levy and collect the taxes required and granted by the legislature, in addition to the annual state appropriation, and is vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949 as amended.

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, component units can be other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the Upper Merion Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. This report presents the activities of the Upper Merion Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

The tax collectors are elected officers who collect taxes on behalf of the municipalities in the School District and for the School District in the county. The School District regards the tax collectors' offices as separate entities and, therefore, does not account for their activity in the financial statements.

Basis of Presentation and Accounting

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District. Expenses reported for functional activities include allocated indirect expenses.

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

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

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

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

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal operating revenues of the School District's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

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

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements. The School District's *Capital Reserve Fund* and *Capital Projects Fund* are accounted for in this fund type.

Proprietary Funds

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

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

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition and with no restrictions on withdrawal.

Investments

Statutes authorize the School District to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the District may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value.

Pennsylvania Local Government Investment Trust ("PLGIT") Funds are invested in accordance with Section 440.1 of the School Code. Each school district owns a pro rata share of each investment or deposit which is held in the name of the fund.

The School District has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* No. 72*, Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

Short-Term Interfund Receivables/Payables

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than $500 or purchased with debt proceeds and must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

	Years
Site improvements	15-20
Buildings and building improvements	20-40
Furniture and equipment	5-20

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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized during the period in which they were incurred.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Unused vacation amounts may be carried forward for one fiscal year only. Employees are paid for unused vacation only upon termination at their standard per diem rates in effect at the date of their departure. Sick leave is granted as appropriate (medical evidence required) with budgetary provisions being made annually for the estimated costs of substitute personnel. Contractual provisions with employees require payment at the employees' per diem rate (at retirement) for accumulated unused sick leave days upon retirement up to a maximum of 45 days. Administrators are eligible for an additional 15 days if certain notice requirements are met.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The second item, deferred inflows related to pension activity, are reported in the government-wide statement of net position and the proprietary fund statement of net position. The deferred inflow related to pension activity is the result of differences between expected and actual experience, changes in the School District's proportionate share of the total plan from year to year, and the difference between actual employer contributions and the School District's proportionate share of total contributions. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Use of Estimates

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

Fund Balance

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

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

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

- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal action by the Board of School Directors. This includes the budget reserve account.

- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the authority.

- ***Unassigned*** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 18). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

NOTE B - CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The School District does not have a deposit policy for custodial credit risk. The carrying value of the District's cash accounts at June 30, 2017, was $36,625,806.

As of June 30, 2017, $36,369,728 of the School District's bank balance of $37,120,828 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the School District's name	$ 26,170,578
Uninsured and uncollateralized with State investment pools	10,199,150
	$ 36,369,728

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

Investments

As of June 30, 2017, the School District had the following investments and maturities:

			Investment Maturities	
Investment Type	Amortized Cost	Fair Value	Less Than One Year	One to Five Years
State investment pools	$ 16,354,358	$ -	$ 16,354,358	$ -
Certificates of deposit	16,492,069	-	16,492,069	-
	$ 32,846,427	$ -	$ 32,846,427	$ -

A portion of the School District's investments is in the PSDLAF and PLGIT programs, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF and PLGIT investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2017, is $16,354,358. These assets maintain a stable net asset value of $1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

NOTE B - CASH AND INVESTMENTS (Continued)

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79.

Certificates of deposit held by banks of $16,492,069 are stated at cost plus interest earned.

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

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

The School District's investment policy does not further limit its investment choices. As of June 30, 2017, the School District's investment in the state investment pools was rated AAAm by Standard & Poor's.

Concentration of Credit Risk - The following investments represent greater than 5% of the School District's total investments:

Certificates of deposit with Valley Green Bank, PLGIT and PSDLAF	$ 16,492,069

NOTE C - TAXES - REAL ESTATE AND OTHER

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

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

Discount period .....July 1 to August 31 - 2% of gross levy
Face period ..... September 1 to October 31
Penalty period .....November 1 to collection - 10% of gross levy
Lien date ..... January 15

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

In addition, the School District participates in a $52 Local Services Tax levied by the Township.

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017, consisted of taxes and other revenue. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	General Fund	Extended Day Fund
Real estate taxes	$ 1,119,150	$ -
Other revenue	65,128	8,896
	$ 1,184,278	$ 8,896

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017, is as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
Capital Reserve Fund	Capital Projects Fund	$ 5,470
Capital Reserve Fund	General Fund	3,500,000
General Fund	Food Service Fund	230,598
		$ 3,736,068

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

Interfund Transfers

Transfers are used to move unrestricted revenues to finance various programs that the School District must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Transfer In	Transfer Out	Amount
Capital Reserve Fund	General Fund	$ 3,500,000
Food Service Fund	General Fund	200,000
		$ 3,700,000

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	$ 3,778,132	$ -	$ -	$ 3,778,132
Construction in progress	430,880	3,562,414	-	3,993,294
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	4,209,012	3,562,414	-	7,771,426
Capital assets being depreciated				
Buildings and site improvements	99,736,889	26,886	-	99,763,775
Furniture and equipment	22,188,512	491,246	(495,998)	22,183,760
TOTAL CAPITAL ASSETS BEING DEPRECIATED	121,925,401	518,132	(495,998)	121,947,535
Accumulated depreciation	(53,604,743)	(3,029,781)	450,950	(56,183,574)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	68,320,658	(2,511,649)	(45,048)	65,763,961
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	72,529,670	1,050,765	(45,048)	73,535,387
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	374,994	11,063	-	386,057
Accumulated depreciation	(289,016)	(17,322)	-	(306,338)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	85,978	(6,259)	-	79,719
CAPITAL ASSETS, net	$ 72,615,648	$ 1,044,506	$ (45,048)	$ 73,615,106

NOTE G - LONG-TERM DEBT

General Obligation Bonds

Bonded debt payable at June 30, 2017, is comprised of the following individual issues:

General Obligation Bonds, Series of 2012, $9,995,000 due in annual principal installments ranging from $130,000 to $1,525,000 through February 15, 2024, interest rate is variable from 0.62% to 2.30%	$ 8,580,000
General Obligation Bonds, Series of 2013, $9,995,000 due in annual principal installments ranging from $65,000 to $1,990,000 through February 15, 2025, interest rate is variable from 0.630% to 2.45%	7,225,000
General Obligation Bonds, Series of 2014, $9,995,000 due in annual principal installments ranging from $185,000 to $1,440,000 through February 15, 2023, interest rate is variable from 0.230% to 4.00%	8,150,000
General Obligation Bonds, Series of 2016, $35,785,000 due in annual principal installments ranging from $15,000 to $3,810,000 through January 15, 2038, interest rate is variable from 0.750% to 5.00%	35,770,000
	$ 59,725,000

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 4,540,000	$ 2,173,301
2019	3,230,000	2,079,401
2020	3,315,000	1,992,301
2021	3,465,000	1,928,526
2022	3,535,000	1,860,796
2023 to 2027	16,570,000	7,936,231
2028 to 2032	9,980,000	5,318,000
2033 to 2037	12,740,000	2,561,000
2038	2,350,000	117,500
	$ 59,725,000	$ 25,967,056

NOTE H - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
GENERAL OBLIGATION BONDS					
Series of 2004	$ 1,100,000	$ -	$ (1,100,000)	$ -	$ -
Series of 2004B	880,000	-	(880,000)	-	-
Series of 2005	4,615,000	-	(4,615,000)	-	-
Series of 2011	9,480,000	-	(9,480,000)	-	-
Series of 2012	9,290,000	-	(710,000)	8,580,000	1,265,000
Series of 2013	8,120,000	-	(895,000)	7,225,000	1,990,000
Series of 2014	8,660,000	-	(510,000)	8,150,000	1,270,000
Series of 2016	-	35,785,000	(15,000)	35,770,000	15,000
TOTAL GENERAL OBLIGATION BONDS	42,145,000	35,785,000	(18,205,000)	59,725,000	4,540,000
ADVANCE ON REFUNDING	35,533	-	(35,533)	-	-
BOND PREMIUMS AND DISCOUNTS, net	340,772	6,567,484	(390,351)	6,517,905	365,888
COMPENSATED ABSENCES	4,674,917	-	(164,504)	4,510,413	451,041
NET PENSION LIABILITY	137,775,000	21,786,000	-	159,561,000	-
NET OPEB OBLIGATION	1,181,495	310,010	(134,066)	1,357,439	-
TOTAL LONG-TERM LIABILITIES	$ 186,152,717	$ 64,448,494	$ (18,929,454)	$ 231,671,757	$ 5,356,929
BUSINESS-TYPE ACTIVITIES					
COMPENSATED ABSENCES	-	100,218	-	100,218	10,021
NET PENSION LIABILITY	3,562,000	563,000	-	4,125,000	-
TOTAL LONG-TERM LIABILITIES	$ 3,562,000	$ 663,218	$ -	$ 4,225,218	$ 10,021

NOTE I - DEFEASED DEBT

In prior years, certain bonds were defeased in substance by placing an amount in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the School District's financial statements.

As of June 30, 2017, the School District has defeased debt outstanding of $21,845,000.

NOTE J - UNEARNED REVENUE

Food Service Fund

Unearned revenue of $27,449 in the Food Service Fund represents the carryover of student deposits. Unearned revenue of $11,361 represents unearned donated foods revenue.

Extended Day Fund

Unearned revenue of $125,035 represents deposits received for July and August summer camp programs and student deposits for the fall extended day programs.

NOTE K - JOINT VENTURE

The School District participates in an ongoing joint venture with other school districts in funding the operation of the Central Montgomery County Area Vocational-Technical School (the "Technical School"). The Technical School provides vocational education for all the participating schools. The School District has an accumulated interest in the Technical School that is reserved for building improvements and educational projects. The School District's proportionate share of the accumulated interest in the Technical School's operating fund balance is not material and is not included in the General Fund of these financial statements.

The financial statements of the Technical School are audited according to state guidelines and are available to the public for inspection at the Technical School.

The School District agreed to make additional payments to the Technical School for various improvements, renovations, modernizations and new equipment. The following is a schedule by years of future minimum payments under the contract:

Year Ending June 30,	
2018	$ 548,126
2019	547,514
2020	548,284
2021	547,584
2022 and thereafter	1,645,936
	$ 3,837,444

NOTE L - PENSION PLAN

Summary of Significant Accounting Policies

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

NOTE L - PENSION PLAN (Continued)

General Information About the Pension Plan

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

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

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.

NOTE L - PENSION PLAN (Continued)

Contributions

Members Contributions

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

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

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

- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017, was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School District were $13,002,000 for the year ended June 30, 2017.

NOTE L - PENSION PLAN (Continued)

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

At June 30, 2017, the School District reported a liability of $163,686,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was 0.3303%, which was an increase of 0.0040% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of $18,179,000. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	$ -	$ 1,330,000
Changes in assumptions	5,760,000	-
Net difference between projected and actual investment earnings	8,893,000	-
Changes in proportions	4,075,000	199,000
Difference between employer contributions and proportionate share of total contributions	486,000	7,000
Contributions subsequent to the measurement date	12,674,000	-
	$ 31,888,000	$ 1,536,000
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	$ -	$ 33,000
Changes in assumptions	149,000	-
Net difference between projected and actual investment earnings	230,000	-
Changes in proportions	105,000	5,000
Difference between employer contributions and proportionate share of total contributions	13,000	1,000
Contributions subsequent to the measurement date	328,000	-
	$ 825,000	$ 39,000

NOTE L - PENSION PLAN (Continued)

$13,002,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2017	$ 3,876,780	$ 100,220
2018	3,877,754	100,246
2019	5,057,262	130,738
2020	4,866,204	126,796
	$ 17,678,000	$ 458,000

Actuarial Assumptions - The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Actuarial Cost Method** - Entry Age Normal - level % of pay
- **Investment Return** - The Investment Rate of Return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.0% to 2.75%.
- **Salary Increases** - Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.0%, real wage growth and for merit or seniority raises of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority raises.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. 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 to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

NOTE L - PENSION PLAN (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	100.0%	

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, 2016.

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE L - PENSION PLAN (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	$ 200,232,000	$ 163,686,000	$ 132,977,000

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

NOTE M - ACCUMULATED COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

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

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was $366,565 at June 30, 2017, is recorded in compensated absences on the statement of net position.

The School District pays a per diem rate to retirees for unused sick time based on employment classification. Compensation payable in future years, which was $4,244,066 at June 30, 2017, is recorded in compensated absences on the statement of net position.

NOTE N - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Normal cost	$ 173,442
Amortization of unfunded actuarial accrued liability	155,935
ANNUAL REQUIRED CONTRIBUTION (ARC)	329,377
Interest on net OPEB obligation	53,167
Adjustment to ARC	(72,534)
ANNUAL OPEB EXPENSE	310,010
Net OPEB contributions during the year	(134,066)
INCREASE IN NET OPEB OBLIGATION	175,944
Net OPEB obligation at beginning of year	1,181,495
NET OPEB OBLIGATION AT END OF YEAR	$ 1,357,439

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 397,653	49.2%	$ 993,256
2015	394,344	52.3%	1,181,495
2016	310,010	43.3%	1,357,439

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $2,540,014 and the actuarial value of assets was $0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $42,201,639, and the ratio of the UAAL to the covered payroll was 6.02%.

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

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 57, 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.

Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.5%, reduced by decrements of .5% to an ultimate rate of 5.5% after two years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 27 years.

NOTE O - COMMITMENTS AND CONTINGENCIES

There are a number of tax assessment appeals pending in the Court of Common Pleas of Montgomery County from the decisions of the Board of Assessment Appeals. Legal counsel for the School District cannot give an opinion on the outcome of these appeals nor can they reasonably estimate the financial impact.

NOTE P - RISK MANAGEMENT

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

NOTE Q - SUBSEQUENT EVENT

In October 2017, the school district issued $28,920,000 of general obligation bonds for the purpose of demolition and reconstruction of the Caley and Gulph Elementary Schools. Bonds mature through 2037 at interest rates ranging from 0.9% to 5.00%.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER MERION AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance Favorable
	Original	Final	Actual	(Unfavorable)
REVENUES				
Local sources	$ 75,682,386	$ 75,682,386	$ 83,811,702	$ 8,129,316
State sources	13,777,340	13,777,340	13,988,193	210,853
Federal sources	1,231,962	1,231,962	1,217,956	(14,006)
TOTAL REVENUES	90,691,688	90,691,688	99,017,851	8,326,163
EXPENDITURES				
Instruction				
Regular programs	37,968,198	37,739,450	36,565,672	1,173,778
Special programs	12,135,789	12,440,222	13,308,956	(868,734)
Vocational programs	2,170,348	2,171,848	2,164,018	7,830
Other instructional programs	177,834	204,799	182,838	21,961
TOTAL INSTRUCTION	52,452,169	52,556,319	52,221,484	334,835
Support services				
Pupil personnel services	4,457,294	4,467,901	4,506,657	(38,756)
Instructional staff services	2,682,801	2,698,274	4,478,133	(1,779,859)
Administration services	4,797,930	4,794,807	5,641,971	(847,164)
Pupil health	1,254,173	1,348,036	1,386,076	(38,040)
Business services	1,020,959	1,029,041	1,011,483	17,558
Operation and maintenance of plant services	7,632,443	7,632,445	7,642,001	(9,556)
Student transportation services	4,818,668	4,818,668	4,524,279	294,389
Central services	1,660,331	1,660,330	1,625,646	34,684
Other support services	288,000	67,104	62,598	4,506
TOTAL SUPPORT SERVICES	28,612,599	28,516,606	30,878,844	(2,362,238)
Non-instructional services				
Student activities	1,865,834	1,889,788	1,860,225	29,563
Community services	100,000	100,000	102,038	(2,038)
TOTAL NON-INSTRUCTIONAL SERVICES	1,965,834	1,989,788	1,962,263	27,525
Refund of prior year revenues	-	-	741,241	(741,241)
Capital outlay	50,000	50,000	-	50,000
Debt service	9,529,529	9,529,529	8,222,578	1,306,951
TOTAL EXPENDITURES	92,610,131	92,642,242	94,026,410	(1,384,168)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,918,443)	(1,950,554)	4,991,441	6,941,995
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of fixed assets	-	-	194,635	194,635
Refunding bonds issued	-	-	10,182,391	10,182,391
Premium on refunding bonds issued	-	-	1,868,735	1,868,735
Payment to refunded bond escrow agent	-	-	(11,940,819)	(11,940,819)
Interfund transfers out	(500,000)	(500,000)	(3,700,000)	(3,200,000)
Budgetary reserve	(250,000)	(217,889)	-	217,889
TOTAL OTHER FINANCING SOURCES (USES)	(750,000)	(717,889)	(3,395,058)	(2,677,169)
NET CHANGE IN FUND BALANCE	$ (2,668,443)	$ (2,668,443)	1,596,383	$ 4,264,826
FUND BALANCE AT BEGINNING OF YEAR			15,132,228	
FUND BALANCE AT END OF YEAR			$ 16,728,611	

See accompanying note to the budgetary comparison schedule.

NOTE A - BUDGETARY INFORMATION

Budgets are adopted on a modified accrual basis plus encumbrances. 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 Project Funds.

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

1. Prior to March 1, the Business Administrator submits to the School Board a preliminary operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted at the School District offices to obtain taxpayer comments.

3. Prior to July 1, the budget is legally enacted through passage of an ordinance.

4. The Business Administrator 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. Formal budgetary integration is not employed for the Special Revenue Funds. Formal budgetary integration is also not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

6. Budgeted amounts are as originally adopted or as amended by the School Board.

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

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS

	2017	2016	2015
SCHOOL DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	0.3303%	0.3263%	0.3271%
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	$ 163,686,000	$ 141,337,000	$ 129,469,000
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	$ 42,774,319	$ 41,985,564	$ 41,734,460
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	382.67%	336.63%	310.22%
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	49.86%	45.64%	57.24%

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
LAST THREE FISCAL YEARS

	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 13,002,000	$ 10,768,000	$ 8,398,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	13,002,000	10,768,000	8,398,000
CONTRIBUTION (EXCESS) DEFICIENCY	$ -	$ -	$ -
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	$ 45,124,806	$ 42,774,319	$ 41,985,564
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	28.81%	25.17%	20.00%

UPPER MERION AREA SCHOOL DISTRICT

POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2017

SCHEDULE OF FUNDING PROGRESS

Valuation Date July 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2012	$ -	$ 3,105,104	$ 3,105,104	0%	$ 37,850,224	8.20%
2014	-	3,193,180	3,193,180	0%	38,963,737	8.20%
2016	-	2,540,014	2,540,014	0%	42,201,639	6.02%

SUPPLEMENTARY INFORMATION SECTION

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF CURRENT REAL ESTATE SETTLEMENTS
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Borough of Bridgeport		Borough of West Conshohocken	
	Assessed Valuation	Tax at 18.96	Assessed Valuation	Tax at 18.96
CHARGES AGAINST TAX COLLECTORS				
Original duplicate	$ 179,697,510		$ 304,911,510	
Net reductions by Montgomery County Board of Assessment (Homestead Exclusion) and other adjustments made throughout year	(2,949,582)		(1,368,776)	
TOTAL CHARGES AGAINST TAX COLLECTORS	$ 176,747,928	$ 3,351,141	$ 303,542,734	$ 5,755,169
CREDITS TO COLLECTORS				
Cash received from tax collectors				
Amount paid at discount	$ 2,553,592		$ 5,266,284	
Amount paid at face	469,963		252,317	
Amount paid at penalty	102,479		75,602	
NET TAX RECEIVED		$ 3,126,034		$ 5,594,203
Add 2% discount		55,383		107,013
Less 10% penalty		(6,500)		(6,873)
FACE AMOUNT OF TAXES COLLECTED		3,174,917		5,694,343
Delinquent taxes liened with the county treasurer		176,224		60,826
TOTAL CREDITS TO COLLECTORS		$ 3,351,141		$ 5,755,169
	At Face	%	At Face	%
Collected at discount	$ 2,608,975	77.9%	$ 5,373,297	93.3%
Collected at face	469,963	14.0%	252,317	4.4%
Collected at penalty	95,979	2.9%	68,729	1.2%
TOTAL COLLECTED BY SCHOOL DISTRICT	3,174,917	94.7%	5,694,343	98.9%
Liened taxes	176,224	5.3%	60,826	1.1%
TOTAL DUPLICATE	$ 3,351,141	100.0%	$ 5,755,169	100.0%

Township of Upper Merion		Totals	
Assessed Valuation	Tax at 18.96	Assessed Valuation	Tax at 18.96
$ 3,483,889,458		$ 3,968,498,478	
(32,820,098)		(37,138,457)	
$ 3,451,069,360	$ 65,432,275	$ 3,931,360,021	$ 74,538,585
$ 59,267,306		$ 67,087,182	
3,660,379		4,382,659	
743,829		921,910	
	$ 63,671,514		$ 72,391,751
	1,207,905		1,370,300
	(45,188)		(58,560)
	64,834,231		73,703,491
	598,044		835,094
	$ 65,432,275		$ 74,538,585
At Face	%	At Face	%
$ 60,475,211	92.4%	$ 68,457,483	91.8%
3,660,379	5.6%	4,382,659	5.9%
698,641	1.1%	863,349	1.2%
64,834,231	99.1%	73,703,491	98.9%
598,044	0.9%	835,094	1.1%
$ 65,432,275	100.0%	$ 74,538,585	100.0%

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF REVENUES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017

			Budgeted Revenue	Actual Revenue	Over (Under) Budget
6000	REVENUE FROM LOCAL SOURCES				
	6111	Current real estate taxes	$ 71,959,817	$ 72,242,253	$ 282,436
	6112	Interim real estate taxes	308,000	5,072,470	4,764,470
	6113	Public utility realty tax	86,000	80,734	(5,266)
	6114	Payments in lieu of current taxes - state/local	-	107,074	107,074
	6143	Occupational privilege taxes	240,000	261,328	21,328
	6153	Real estate transfer tax	1,302,810	3,636,876	2,334,066
	6154	Amusement taxes	-	179,776	179,776
	6410	Delinquent real estate tax	790,100	783,361	(6,739)
	6440	Delinquent 511 and amusement taxes	-	136,954	136,954
	6500	Earnings on investments	125,000	226,736	101,736
	6700	Revenue from student activities	15,000	17,674	2,674
	6910	Rentals	405,704	285,690	(120,014)
	6940	Tuitions	5,000	11,540	6,540
	6990	Miscellaneous revenue	444,955	769,236	324,281
		TOTAL 6000 REVENUE FROM LOCAL SOURCES	75,682,386	83,811,702	8,129,316
7000	REVENUE FROM STATE SOURCES				
	7110	Basic instructional subsidy	2,165,016	2,346,967	181,951
	7271	Special education subsidy	1,415,140	1,421,964	6,824
	7299	Act 30	-	377	377
	7310	Transportation	790,000	987,982	197,982
	7320	Rentals and sinking fund payments	270,915	261,900	(9,015)
	7330	Medical and dental subsidy	89,000	79,505	(9,495)
	7340	State property tax reduction	611,803	611,403	(400)
	7500	Extra grants	137,324	137,574	250
	7800	State's share of FICA payments	1,690,228	1,611,893	(78,335)
	7810	State's share of retirement	6,607,914	6,528,628	(79,286)
		TOTAL 7000 REVENUE FROM STATE SOURCES	13,777,340	13,988,193	210,853
8000	REVENUE FROM FEDERAL SOURCES				
	8512	IDEA revenue	500,000	535,455	35,455
	8514	Title I	342,557	424,455	81,898
	8515	Title II	103,796	102,107	(1,689)
	8516	Title III	50,609	50,690	81
	8690	C.A.S.T. grant	100,000	80,809	(19,191)
	8810	Federal Access funds	100,000	-	(100,000)
	8820	Medical Assistance reimbursement	35,000	24,440	(10,560)
		TOTAL 8000 REVENUE FROM FEDERAL SOURCES	1,231,962	1,217,956	(14,006)
9000	OTHER FINANCING SOURCES				
	9400	Sale of fixed assets	-	194,635	194,635
		TOTAL REVENUES	$ 90,691,688	$ 99,212,486	$ 8,520,798

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

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

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

Internal Control Over Financial Reporting

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

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

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

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

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



Oaks, Pennsylvania
November 30, 2017

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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance With the Uniform Guidance

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Upper Merion Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the Upper Merion Area School District's major federal programs for the year ended June 30, 2017. Upper Merion Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Opinion of Each Major Federal Program

In our opinion, Upper Merion Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Report on Schedule of Expenditures of Federal Awards Required By the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Upper Merion Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Upper Merion Area School District's basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
November 30, 2017

SUPPLEMENTARY INFORMATION - MAJOR FEDERAL AWARD PROGRAMS AUDIT

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
Passed through the Pennsylvania Department of Education				
Title I	I	84.010	13-160451	September 15, 2015 to September 30, 2016
Title I	I	84.010	13-170451	July 12, 2016 to September 30, 2017
Total Title I				
Title III	I	84.365	10-170451	July 12, 2016 to September 30, 2017
Title II/A	I	84.367	20-160451	September 15, 2015 to September 30, 2016
Title II/A	I	84.367	20-170451	July 12, 2016 to September 30, 2017
Total Title II/A				
Passed through the Montgomery County Intermediate Unit 23				
Special Education Cluster				
IDEA	I	84.391	62-02014	July 1, 2016 to June 30, 2017
IDEA	I	84.027	62-02014	July 1, 2015 to June 30, 2016
IDEA	I	84.027	62-02014	July 1, 2016 to June 30, 2017
TOTAL SPECIAL EDUCATION CLUSTER				
TOTAL U.S. DEPARTMENT OF EDUCATION FORWARD				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Drug Free Communities		93.276	044-007451	September 30, 2012 to September 29, 2017
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES FORWARD				

Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Amount Passed Through to Sub-Recipients
$ 342,557	$ (1,737)	$ (1,737)	$ -	$ -	$ -	$ -
424,455	313,954	-	424,455	424,455	110,501	-
767,012	312,217	(1,737)	424,455	424,455	110,501	-
50,690	43,931	-	50,690	50,690	6,759	-
103,796	39,766	39,766	-	-	-	-
102,107	75,185	-	102,107	102,107	26,922	-
205,903	114,951	39,766	102,107	102,107	26,922	-
3,377	-	-	3,377	3,377	3,377	-
493,012	89,128	89,128	-	-	-	-
532,078	528,946	-	532,078	532,078	3,132	-
1,028,467	618,074	89,128	535,455	535,455	6,509	-
2,052,072	1,089,173	127,157	1,112,707	1,112,707	150,691	-
622,940	82,177	(549)	81,358	81,358	(1,368)	-
$ 622,940	$ 82,177	$ (549)	$ 81,358	$ 81,358	$ (1,368)	$ -

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
TOTAL FORWARDED				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
TOTAL FORWARDED				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Department of Education				
Child Nutrition Cluster				
National School Lunch Program	I	10.555	N/A	July 1, 2015 to June 30, 2016
National School Lunch Program	I	10.555	N/A	July 1, 2016 to June 30, 2017
Passed through the Pennsylvania Department of Agriculture				
National School Lunch Program	I	10.555	N/A	July 1, 2016 to June 30, 2017
Total National School Lunch Program				
Passed through the Pennsylvania Department of Education				
National School Breakfast Program	I	10.553	N/A	July 1, 2015 to June 30, 2016
National School Breakfast Program	I	10.553	N/A	July 1, 2016 to June 30, 2017
Total National School Breakfast Program				
National School Lunch Program	S	N/A	N/A	July 1, 2016 to June 30, 2017
TOTAL CHILD NUTRITION CLUSTER				
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AND CERTAIN STATE AWARDS				
LESS STATE SHARE				
TOTAL FEDERAL AWARDS				

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

Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Amount Passed Through to Sub-Recipients
$ 2,052,072	$ 1,089,173	$ 127,157	$ 1,112,707	$ 1,112,707	$ 150,691	$ -
622,940	82,177	(549)	81,358	81,358	(1,368)	-
N/A	27,365	27,365	-	-	-	-
N/A	520,851	-	622,889	622,889	102,038	-
N/A	125,237	(19,833)	126,527	126,527	(18,543)	-
	673,453	7,532	749,416	749,416	83,495	-
N/A	8,009	8,009	-	-	-	-
N/A	109,938	-	134,828	134,828	24,890	-
	117,947	8,009	134,828	134,828	24,890	-
N/A	37,339	-	44,856	44,856	7,517	-
-	828,739	15,541	929,100	929,100	115,902	-
-	828,739	15,541	929,100	929,100	115,902	-
2,675,012	2,000,089	142,149	2,123,165	2,123,165	265,225	-
-	(37,339)	-	(44,856)	(44,856)	(7,517)	-
$ 2,675,012	$ 1,962,750	$ 142,149	$ 2,078,309	$ 2,078,309	$ 257,708	$ -

NOTE A - ORGANIZATION AND SCOPE

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District uses the modified accrual basis of accounting to report federal, state and other grants. Revenues designated for payment of specified School District expenditures are recognized when the related expenditures are incurred. Any excess of receipts or expenditures at the fiscal year-end are recorded as deferred revenue or a receivable, respectively. The modified accrual basis of accounting is described in Note A to the financial statements.

Total assistance is valued at the sum of cash received and the value of U.S.D.A. donated foods based upon the federal price list accompanying each shipment.

NOTE C - PROGRAM OBJECTIVES

Title I Grants to Improve Basic Programs - To improve the teaching and learning of children who are at risk of not meeting challenging and academic standards and who reside in areas with high concentrations of children from low-income families.

National School Lunch Program - To (1) assist states through cash grants and donations in making lunch available to school children and (2) encourage the domestic consumption of agricultural commodities and other foods. To improve the diets of school children in need of food assistance and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

Title II Improving Teacher Quality - To upgrade the expertise of teachers and other school staff to enable them to teach all children to meet state content standards and to sustain high quality professional development focused on core academic subjects.

Title III Language Instruction LEP/Immigrant Students - Improve education of limited English proficient students and provide enhanced instructional opportunities for immigrant children and youths.

Individuals with Disabilities Education (IDEA) Programs - To (1) ensure that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist states, localities, educational service agencies and federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure that effectiveness of efforts to educate children with disabilities.

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified: **No**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Noncompliance material to financial statements noted: **No**

Federal Awards

Type of auditors' report issued on compliance for major programs: **Unmodified**

Internal control over major programs:

Material weaknesses(es) identified: **No**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 500.516(a): **No**

Identification of major programs:

Program	CFDA
Child Nutrition Cluster	10.553, 10.555

Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

Auditee qualified as a low-risk auditee: **Yes**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.

UPPER MERION AREA SCHOOL DISTRICT

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

None.