

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended June 30, 2017*



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

# MONTGOMERY COUNTY INTERMEDIATE UNIT

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YEAR ENDED JUNE 30, 2017

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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of Directors  
Montgomery County Intermediate Unit  
Norristown, 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 Montgomery County Intermediate Unit as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Montgomery County Intermediate Unit's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Montgomery County Intermediate Unit 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.

To the Board of Directors  
Montgomery County Intermediate Unit  
Norristown, Pennsylvania

***Emphasis of Matter***

For the year ended June 30, 2017, the Montgomery County Intermediate Unit adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension*. Our opinion is not modified with respect to this matter.

***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 5 through 20, budgetary comparison information on pages 63 through 67, schedule of the intermediate unit's proportionate share of the net pension liability on page 69, schedule of the intermediate unit's contributions on page 70 and postemployment benefits other than pension funding progress on page 74 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 Montgomery County Intermediate Unit's basic financial statements. The schedule of expenditures of federal awards, 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit's internal control over financial reporting and compliance.



Oaks, Pennsylvania  
December 7, 2017

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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**INTRODUCTION**

This section of the Montgomery County Intermediate Unit's annual financial report provides a discussion and analysis of the Intermediate Unit's performance during the fiscal year ended June 30, 2017. The management's discussion and analysis should be read in conjunction with the accompanying financial statements.

Montgomery County Intermediate Unit #23, with revenues in excess of \$121 million, provides support and educational services for 22-member school districts, 4 technology centers and 127 nonpublic schools in Montgomery County. The Intermediate Unit's staff members provide a range of services that assist local education agencies in meeting state and federal standards. The Intermediate Unit serves as a regional resource for county educators, students and school administrators. Services provided by the Intermediate Unit include classroom instruction, continuing professional education programs, legislative updates, special education services, curriculum updates, technology services, cooperative purchasing and other cost-saving initiatives.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with Governmental Accounting Standards Board Statement Number 34 and present entity (government-wide) as well as fund level financial statements prepared under the full accrual and modified accrual basis of accounting, respectively.

The 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 types of statements that provide different perspectives of the Intermediate Unit's operations.

- The *Government-Wide Financial Statements* provide both a short-term and long-term perspective of the Intermediate Unit's financial status similar to the presentation provided by a commercial enterprise.
- The *Fund Financial Statements* focus on individual parts of the Intermediate Unit in more detail than the government-wide statements. The Governmental Funds statements provide a view of how instructional and support services were financed in the short term, as well as what remains for future spending (fund balance). The Proprietary Fund provides a view of how the food service operations and internal service fund were financed in the short term, as well as what is available for future spending (retained earnings).

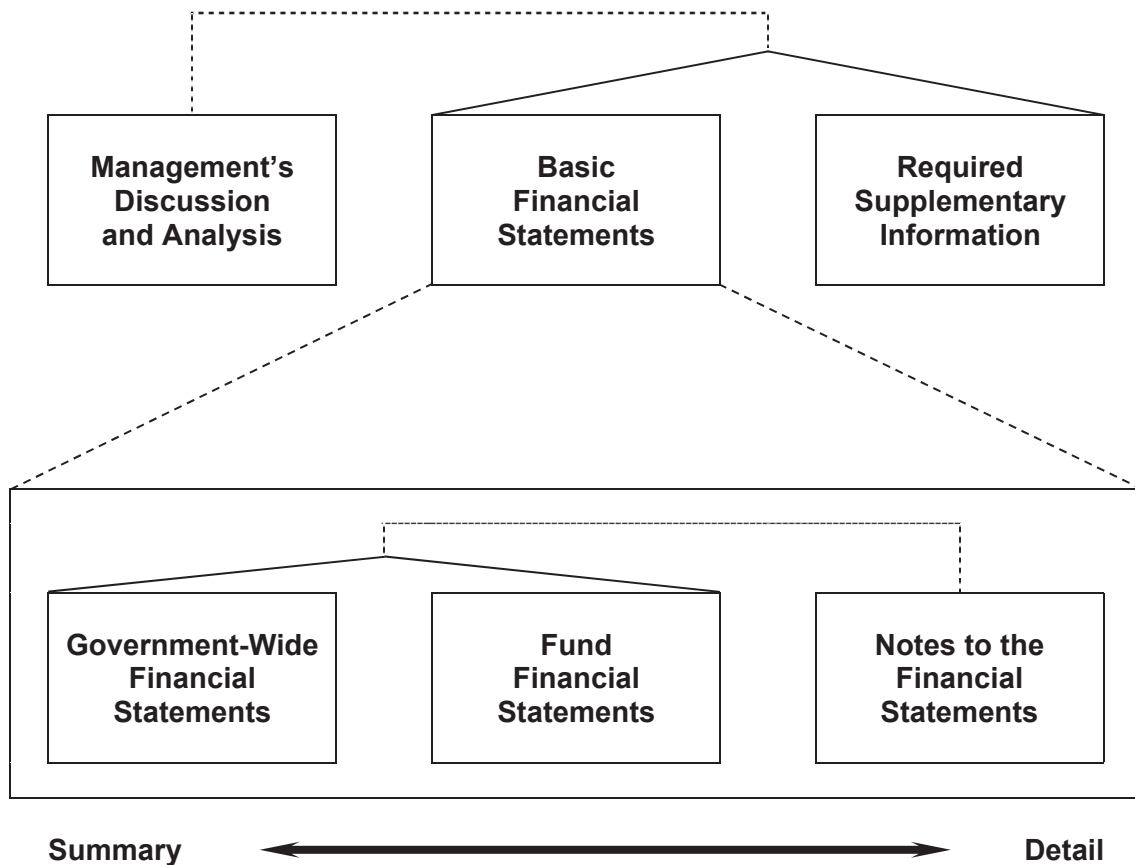


**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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By providing background information for the financial statement balances, footnotes are an integral part of the financial statements. The statements are followed by a section of required supplementary information that includes budgetary comparisons for the Intermediate Unit's General, Special Education, Special Education Transportation, Institutionalized Children and Early Intervention Funds. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Organization of the Montgomery County Intermediate Unit's Annual Financial Report**



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED JUNE 30, 2017**

Figure A-2 summarizes the major features of the Intermediate Unit’s financial statements, including the portion of the Intermediate Unit’s activities they cover and types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights 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 Fund	Fiduciary Funds
Scope	Entire Intermediate Unit (except Fiduciary Funds)	Includes General, Special Revenue and Capital Projects Funds; General Fund is used for activities not required to be accounted for in another fund; Special Revenue Funds account for specific revenue sources that are legally restricted; Capital Projects Fund accounts for resources used for the acquisition of capital assets	Activities the Intermediate Unit operates similar to private businesses, such as food services and the internal service fund (healthcare fund).	Used for instances in which the Intermediate Unit administers resources on behalf of someone else in a trustee or agency capacity
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances (deficit)</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities 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; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues which are received during or soon after the end of the year; expenditures when goods or services have been received	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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**Government-Wide Statements**

The government-wide statements report information about the Intermediate Unit as a whole using the full accrual basis of accounting similar to private sector companies. The statement of net assets includes all Intermediate Unit assets and liabilities. All of the current year's revenues and expenses are recognized regardless of when cash is received or paid.

The two government-wide statements report the Intermediate Unit's net assets and how they have changed. Net assets are one measure of the Intermediate Unit's financial health or position at the end of the fiscal year. Over time, changes in the Intermediate Unit's net assets are an indication of whether its financial position is improving or declining. In the government-wide statements, the Intermediate Unit's activities are financed by charges for services and operating grants and contributions from state and federal funding sources.

In the entity-wide financial statements, the Intermediate Unit's activities are divided into two categories:

- **Governmental Activities:** Most of the Intermediate Unit's basic services are included here, such as classroom instruction, continuing professional education programs, legislative updates, special education services, curriculum updates, technology services, cooperative purchasing and other cost-saving initiatives. These activities are financed by charges for services and operating grants and contributions from state and federal funding sources.
- **Business-Type Activities:** The Intermediate Unit charges fees to cover the costs of certain services it provides. The Intermediate Unit operates business-type activities for the food service program and the healthcare fund.

**Fund Level Financial Statements**

The fund financial statements provide more detailed information about the Intermediate Unit's operations. The Intermediate Unit's report includes the General Fund, Special Revenue Funds mandated by the Commonwealth of Pennsylvania, Capital Projects Funds and a Proprietary Fund. The Intermediate Unit utilizes prescribed fund and source codes to ensure that specific sources of funding are spent appropriately.

The Intermediate Unit has three kinds of funds:

- **Governmental Funds:** The majority of the Intermediate Unit's basic services are included in Governmental Funds. Governmental Funds provide a detailed short-term view of the Intermediate Unit's finances. The Governmental Funds focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances that remain at the end of the year and are available for spending in subsequent periods. Because of the short-term focus of the Fund Financial Statements, a reconciliation of the balances reported in the Government-Wide Financial Statements explains the relationship or differences between the two financial statements.
- **Proprietary Fund:** The Proprietary Fund uses the accrual basis of accounting, the same as the government-wide statements; therefore, the statements will essentially match the business-type activities portion of the government-wide statements.

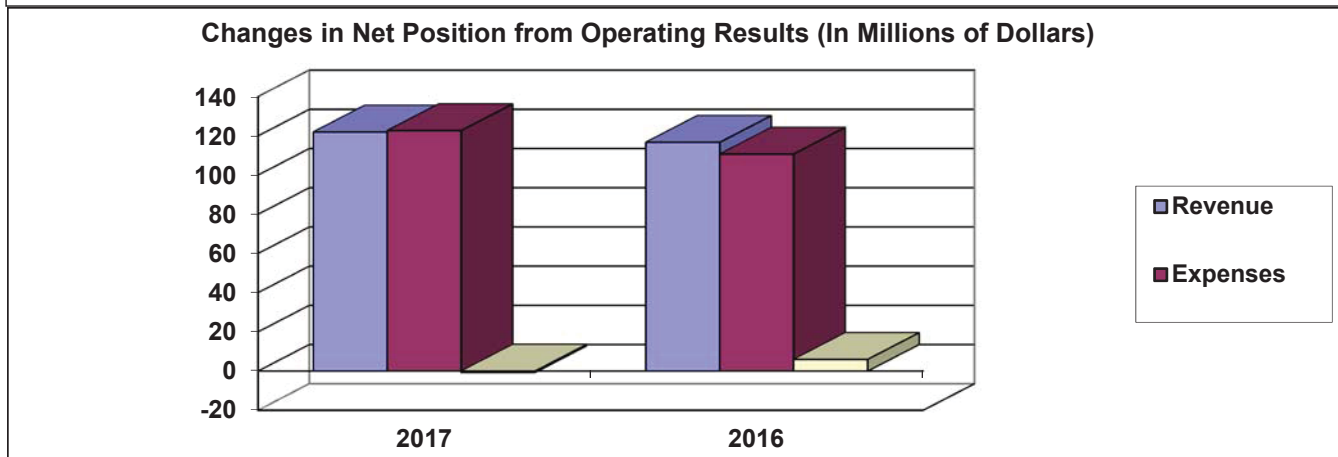
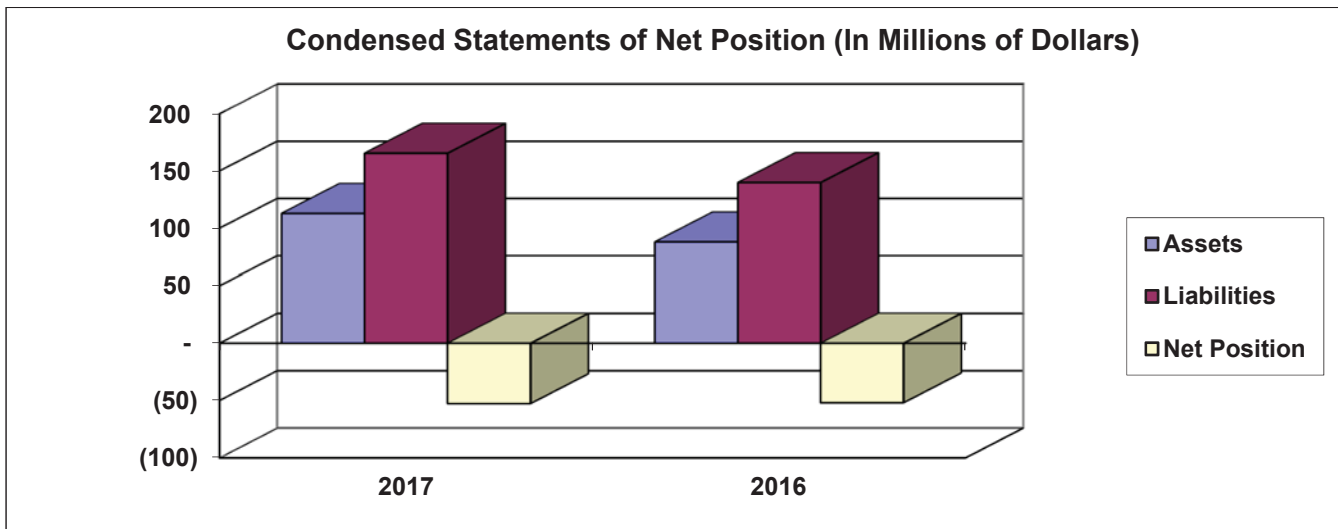
**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED JUNE 30, 2017**

- Fiduciary Funds:** The Intermediate Unit serves as a trustee or fiduciary for Trust Funds set up in memory of former colleagues, for affiliated outside organizations and for its Other Postemployment Benefits Trust Fund. The Intermediate Unit must safeguard these assets to ensure their use for the intended purpose by those to whom the assets belong. The Intermediate Unit excludes these activities from the Government-Wide Financial Statements.

**FINANCIAL HIGHLIGHTS OF THE INTERMEDIATE UNIT AS A WHOLE**

The following is a summary of the amounts reported on the traditional fund level financial statements and the government-wide financial statements.

- Net position decreased by \$0.71 million while total assets and deferred outflows and resources increased by \$24.86 million at the Intermediate Unit's government-wide basis including all governmental activities and business-type activities.



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED JUNE 30, 2017**

**Figure A-3**  
**Condensed Statements of Net Position (In Millions of Dollars)**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>ASSETS</b>						
Current and other assets	\$ 56.608	\$ 50.399	\$ (0.012)	\$ 0.005	\$ 56.596	\$ 50.404
Capital assets	24.809	25.251	0.239	0.247	25.048	25.498
<b>TOTAL ASSETS</b>	<b>81.417</b>	<b>75.650</b>	<b>0.227</b>	<b>0.252</b>	<b>81.644</b>	<b>75.902</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
DEFERRED OUTFLOWS OF RESOURCES	31.225	12.104	-	-	31.225	12.104
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>112.642</b>	<b>87.754</b>	<b>0.227</b>	<b>0.252</b>	<b>112.869</b>	<b>88.006</b>
<b>LIABILITIES</b>						
Current liabilities	20.497	16.678	0.003	-	20.500	16.678
Long-term liabilities	137.431	113.930	-	-	137.431	113.930
<b>TOTAL LIABILITIES</b>	<b>157.928</b>	<b>130.608</b>	<b>0.003</b>	<b>-</b>	<b>157.931</b>	<b>130.608</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
DEFERRED INFLOWS OF RESOURCES	7.546	9.295	-	-	7.546	9.295
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>165.474</b>	<b>139.903</b>	<b>0.003</b>	<b>-</b>	<b>165.477</b>	<b>139.903</b>
<b>NET POSITION</b>						
Net investment in capital assets	11.946	11.848	0.239	0.247	12.185	12.095
Restricted	0.589	8.850	-	-	0.589	8.850
Unrestricted	(65.367)	(72.847)	(0.015)	0.005	(65.382)	(72.842)
<b>TOTAL NET POSITION</b>	<b>\$ (52.832)</b>	<b>\$ (52.149)</b>	<b>\$ 0.224</b>	<b>\$ 0.252</b>	<b>\$ (52.608)</b>	<b>\$ (51.897)</b>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED JUNE 30, 2017**

**Figure A-4**  
**Changes in Net Position from Operating Results (In Millions of Dollars)**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program revenues						
Charges for services	\$ 23.401	\$ 21.880	\$ -	\$ 0.003	\$ 23.401	\$ 21.883
Operating grants and contributions	98.065	94.514	0.359	0.285	98.424	94.799
General revenues	0.182	0.063	-	-	0.182	0.063
TOTAL REVENUES	121.648	116.457	0.359	0.288	122.007	116.745
EXPENSES	122.331	110.438	0.387	0.337	122.718	110.775
CHANGE IN NET POSITION	\$ (0.683)	\$ 6.019	\$ (0.028)	\$ (0.049)	\$ (0.711)	\$ 5.970

For the fiscal year ended June 30, 2017, the Intermediate Unit's Governmental Funds revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances totaled \$121.648 million. These revenues were derived from local sources (\$23.583 million), state sources (\$57.992 million) and federal sources (\$40.073 million).

On the Government-Wide Statement of Activities, the program revenues were categorized as charges for services and operating grants and contributions and applied to each governmental and business-type activity (expense) to arrive at a net operating result for each category. Interest earnings of \$0.182 million are considered general revenue and are not allocated to any particular governmental activity.

**Expenditures/Expenses**

The revenues earned during the 2016-2017 fiscal year funded governmental expenditures totaling \$122.33 million on the Statement of Revenues, Expenditures and Changes in Fund Balances. These expenditures were segregated into various programs by the use of funds, functions, or source codes prescribed by the Pennsylvania Department of Education to ensure compliance with applicable reporting guidelines.

Expenses totaling \$122.72 million reported on the Government-Wide Statement of Activities include the effect of depreciation, capitalization of fixed asset purchases and changes in employee compensated absence balances and the cost of funding other postemployment retirement benefits and Pension retirement expenses that are not reflected in the same manner on the traditional Statement of Revenues, Expenditures and Changes in Fund Balances.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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**Changes in Fund Balance/Net Assets**

During the fiscal year ended June 30, 2017, net position for governmental activities decreased by \$0.683 million.

The business-type activities and Proprietary Fund operations both report the activities of the Intermediate Unit's food service operations and the self-insurance fund accounts for the financial transactions associated with the self-funded healthcare plan that provides benefits for all eligible employees of the intermediate unit. The net position of the business-type activities and Proprietary Fund decreased by \$0.028 million due to the cost of healthcare and the cost of providing food services to the Head Start and Pre-K Counts Programs.

**Budgets**

The Intermediate Unit provides a variety of programs to its member school districts and nonpublic schools throughout Montgomery County. The Intermediate Unit's budget is prepared according to Pennsylvania law on the modified accrual basis of accounting, whereby revenues are recognized when measurable and available and expenditures are recognized when incurred. The General Operating Budget requires the approval of the Superintendents Advisory Council, the Board of Directors of the Intermediate Unit and the majority of the Boards of School Directors of the 22 member school districts. Other Intermediate Unit budgets require the approval of the Intermediate Unit Board of Directors, the Pennsylvania Department of Education, or various federal and state agencies.

The Intermediate Unit utilizes budgetary and encumbrance accounting controls, whereby the available balances for each line item are restricted by the commitment of funds by the use of purchase orders before the funds are disbursed. The accompanying financial statements include budget versus actual comparisons for the General Fund and the state-mandated Special Education, Special Education Transportation, Institutionalized Children and State Early Intervention Funds.

Some of the larger component elements of the General Fund Budget include Administration, Curriculum, Instructional Materials, Management, State and Federal Liaison, Federal Programs, Act 89 and other state and locally funded programs.

**Labor Relations**

The professional employees of the Intermediate Unit are organized for collective bargaining purposes in accordance with the Public Employees Relations Act (Act 195) as enacted by the Pennsylvania Legislature. The Montgomery County Intermediate Unit Education Association, an affiliate of the Pennsylvania State Education Association (PSEA), represents the professional employees. The Intermediate Unit's professional employees agreed to a new contract in 2016-2017. This contract will expire at the end of the 2018-2019 fiscal year.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED JUNE 30, 2017**

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Support Staff personnel are under a meet and discuss agreement that was amended in 2016-2017. The plan is for the 2017-2018, 2018-2019, and 2019-2020 fiscal years expiring June 2020. The Support Staff and CTC (Coordinator, Technical, and Confidential) Staff agreed to new agreements starting July 1, 2017 and expiring on June 30, 2020.

A meet and discuss agreement with the Administrative Group was began on July 1, 2017 and will continue to be in effect until June 30, 2020.

**Capital Assets**

During the fiscal year ended June 30, 2017, the Intermediate Unit's capital assets net of depreciation decreased by \$0.46 million. The decrease is comprised of current year additions of \$0.79 million and depreciation of \$1.22 million.

**Figure A-5**  
**Capital Assets (Net of Depreciation, In Millions of Dollars)**

	Governmental Activities		Business-Type Activities		Totals		Total Percentage Change 2016-2017
	2017	2016	2017	2016	2017	2016	
CAPITAL ASSETS NOT BEING DEPRECIATED							
Land	\$ 0.59	\$ 0.59	\$ -	\$ -	\$ 0.59	\$ 0.59	
CAPITAL ASSETS BEING DEPRECIATED							
Buildings and building improvements	22.17	22.98	0.24	0.25	22.41	23.23	
Furniture and equipment	1.89	1.62	-	-	1.89	1.62	
Vehicles	0.16	0.07	-	-	0.16	0.07	
	<u>\$ 24.81</u>	<u>\$ 25.26</u>	<u>\$ 0.24</u>	<u>\$ 0.25</u>	<u>\$ 25.05</u>	<u>\$ 25.51</u>	-1.80%



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
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**FACTORS BEARING ON THE INTERMEDIATE UNIT'S FUTURE**

Throughout the 2016-2017 fiscal year, the Intermediate Unit continued to adapt to be responsive to the needs of the schools and students of Montgomery County in areas such as curriculum, technology, professional learning, and student services.

The following are office highlights of the 2016-2017 fiscal year:

- **Office of Student Services**

Throughout the year, the Office of Student Services responded to the needs of school districts seeking expertise and leadership in all areas of student services with the goal of achievement and success for students throughout their school career and beyond graduation.

The following is a summary of some of the services provided County-wide, including the number of students or participants served County-wide:

- School age classroom programs - 116 students
- Early intervention classroom programs - 301 students
- Itinerant programs (hearing, orientation, mobility and vision) - 778 students
- Evaluation services (auditory, bilingual speech, functional hearing and vision, psychiatric and psychological and cochlear implants) - 4,891 evaluations
- BrainSTEPS Program - 53 students
- Consultative services support - 877 days
- Transition program - 144 students
- Anderson school - 115 students
- Detention program - 293 students
- Professional development/training and consulting TAC workshops - 8,524 educators and 1,168 activities.
- Corrections education - 46 students
- Other services provided included acoustic measurement, tasks and tools (SETT) meetings, parents as partners meetings, right to education local task force, early intervention local council meetings, extended school year programs, and equitable participation trainings.

- **Office of Technology**

The Office of Technology supports all MCIU technology initiatives as well as the effective utilization of technology by schools in the county. These initiatives are in the area of application hosting, web and data development, network design and management, internet services, audiovisual design and installation, technology staffing, distance learning and consortium purchasing.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
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Office highlights include:

- Saved districts \$107,748 in e-Rate discounts on internet alone. Districts purchased 9,700 Mbps total bandwidth.
- Provided e-Rate support to 10 districts and 2 career technical schools for e-Rate reimbursements totaling \$551,999.00 for fiscal year 2016-2017.
- Provided 15 public and 8 non-public schools consortium pricing for Discovery digital content.
- Provided 5 public schools consortium pricing for Safari digital content.
- Submitted e-Rate applications for 10 public schools and 2 tech schools.
- Provided PIMS staffing and support for 4 public schools.
- Provided PowerSchool services for 7 public schools and 1 non-public school.
- Provided consortium pricing to 7 public schools for Level Data State Data validation suite.
- Provided 23 Data Quality Network, Child Count and Child Accounting meetings supporting 409 LEA participants with PIMS, data quality and Data Governance.
- Hosted 2 PowerSchool user group meetings to support LEAs with their SIS software for over 130 LEA participants.
- Provided support to 20 participants in 42 Data Quality Curriculum Tracks and Specialty modules to improve PIMS and Data Governance Skills.
- Organized the Middle School/High School Computer Fair. A total of 128 students from 8 school entities submitted 77 projects in 6 categories.

• **Office of Professional Learning**

The Office of Professional Learning provides a dynamic, coordinated and systematic array of services and support. The Office is responsible for establishing, coordinating and maintaining a wide range of activities, cooperative programs, and specialized services. The programs focus on curriculum content, instructional strategies, assessment and professional development.

Office highlights include:

- Provided consultation and training on Pennsylvania Department of Education initiatives including Educator Effectiveness, PA Student Learning Objectives, PVAAS, Comprehensive Planning, College and Career Readiness, PBA/Keystone Exams, School Climate and PA Core Standards.
- Provided 20 CPE courses and more than 300 professional development workshops in the areas of curriculum and instruction, special education, and technology.
- Organization of ten regional Reading Olympics events which attracted more than 500 teams and close to 7,000 students.
- Facilitated a MCIU PIIC (Pennsylvania Institute for Instructional Coaching) job alike group with over 70 members as well as working cooperatively with three other Southeast Region IUs to offer two Regional PIIC Network meetings with over 150 coaches.
- Facilitated 42 different job alike groups and curriculum councils to provide peers from all districts with a forum to discuss common challenges and support each other through collaboration and information/resource sharing.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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- Provided ten College Board Advanced Placement Summer Institutes offering subject specific support and training for Advanced Placement teachers.
- Provided Montgomery Virtual Program (MVP) services to 35 schools utilized during the 2016-2017 school year. Of the 448 enrollments throughout the regular school year, 389 completed 80% of the course and 95% had a passing score of 60 or better.
- The Montgomery Virtual Program (MVP) Summer Program offered Course Advancement to 442 students and credit recovery to another 281 students. Of the 723 enrollments, 677 students completed 90% of the required seatwork and received a passing score.
- Provided 74 on-site, professional development workshops to public and non-public schools.
- During the 16-17 school year, MCIU Conference Center provided over 1,200 hours of space to local constituents. The conference center provided rental space to 47 different organizations, of which 26 groups were given rooms gratis.

- **Office of Business Services**

The Office of Business Services serves a dual role within the Intermediate Unit. The Office is responsible for all of the internal fiscal operations and provides support and consultation services to school entities. These support services include annual statistical studies and reports that assist school entities with their financial operations. Special financial related studies to meet specific school entity needs are also available.

Office highlights include:

- Managed the operations for the school entities participating in the Southeastern Pennsylvania Schools Trust (SEPaST).
- Coordinated the School Based ACCESS billing service for 13 school districts.
- Continued the partnership arrangement with North Montco Technical and Career Center (NMTCC) to provide Business Office Management services.
- Provided short term Business Office Management support to Pottstown School district.
- Established short term agreements to provide payroll support services to Springfield Township School District, Upper Merion School District, and continued long term payroll services for Jenkintown School District and North Montco Technical and Career Center.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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- **Office of Human Resources**

The Office of Human Resources coordinates all of the personnel operations for the MCIU and also provides comprehensive personnel support services and professional development to school entities.

Office highlights include:

- Coordinated the completion of a new bargaining unit agreement with the MCIU Education Association, and also created new multiyear Compensation Plans for the IUs Administrative, CTC and Support Staff Groups.
- Compiled on behalf of our Montgomery County school district partners a comprehensive Salary & Benefits Report for all Administrative, Professional and Support Staff groups throughout the county
- Completed projects for school districts in Montgomery County to review their compensation structure and if necessary implement changes to the structure to remain in alignment with the regional market.
- Held monthly job-alike meetings with school district partners for the purpose of information sharing and professional development.
- Maintain a fingerprinting service to assist customers in meeting the new clearance law requirements. Customers of this service have included the Archdiocese of Philadelphia, non-public schools, behavioral health programs, and private sector businesses.

- **Office of Non-Public School Services**

The Office of Non-Public School Services provides a variety of basic education and intervention programs for students enrolled in the approved nonpublic schools in Montgomery County. These programs include: remedial reading, remedial math, school counseling (individual, group and crisis intervention), psychological evaluation and speech therapy. The Office also offers professional development programs for teachers and administrators.

Office highlights include:

- Provided the following direct services to 19,972 students in 75 eligible non-public schools in Montgomery County (with some students receiving more than one service).
  - Elementary and secondary school counseling
  - Standardized achievement testing
  - Remedial mathematics
  - Remedial reading
  - Speech therapy including direct service, consultations, screening and assessments
  - Psychological services including full psychological-educational evaluations, diagnostic evaluations, consultations, therapy and crisis support

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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- Implemented the utilization teletherapy (remote speech and language services delivered via iPads) by the Speech Language Pathologists to serve more students particularly those in smaller non-public schools throughout the county.
- Provided on-site and MCIU-based professional development programs and instructional coaches for administrators and teachers in eligible non-public schools.
- Adapted the American School Counseling Association elementary, middle, and secondary *Standards & Competencies for Students* for our school counseling program.
- Fully implemented the *Naviance* program in the secondary schools whereby students are able to explore post-secondary college and career pathways consistent with their interests and established personal goals early in their high school education.
- Continued to provide summer camps focusing on cognitive, relationship and social skills development for nearly 300 students entering grades 1 thru 12.

- **Office of Community and Government Relations**

The Office of Community and Government Relations provides identification, review and analysis of legislative, judicial and executive activities that may affect Montgomery County school districts and educators. The Office conducts legislative research, drafts proposals, writes white papers and provides testimony on educational issues. The Office also provides assistance to school districts and the MCIU in locating and writing grants.

Office highlights include:

- Provides timely information to Montgomery County Superintendents, School Directors, Administrators and Educators about proposed state and federal legislation, regulations, and other pertinent issues affecting public education.
- Works with the Montgomery County Superintendents' Legislative Committee and the Montgomery County School Districts' Legislative Committee to develop an annual legislative platform, to coordinate meetings with legislators and critical legislative staff members, and to disseminate legislative information that can be presented to their respective stakeholders.
- Strengthens relationships with federal and state legislative offices to ensure that the MCIU is the point of contact when education matters arise.
- Promotes awareness and understanding of Intermediate Units, especially the work of the MCIU, and the diverse programs and services offered throughout the Commonwealth.
- Fosters partnerships and strengthens relationships with businesses and local governments, and pursues grants and other resources, to enable the MCIU to fulfill its mission of service to children aged 3 to 21 throughout Montgomery County.
- Drafts MCIU Policy for adoption by the Montgomery County Intermediate Unit Board and prepares ancillary Administrative Regulations for MCIU Executive Leadership approval.
- Facilitates School Board professional development sessions to assist in developing board governance practices and procedures to strengthen internal and external relations.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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- Coordinates the MCIU Minigrant Program for staff pursuant to contractual guidelines.
- Operates as communications/MCIU liaison to the Montgomery County Intermediate Unit Education Foundation.

- **Office of PaTTAN**

The Pennsylvania Training and Technical Assistance Network (PaTTAN), Eastern Region Office is part of a network of consultants that supports the efforts and initiatives of the Bureau of Special Education. PaTTAN is focused on improving the results for students with disabilities by providing systematic, results oriented training and technical assistance.

Office highlights include:

- The PaTTAN office relocated from King of Prussia to Malvern in July 2016. This move allows PaTTAN to provide a greater number of educators across the Eastern region of Pennsylvania easy access to our facility as well as a modernized infrastructure to meet the needs of our participants across the state with updated virtual capacity.
- PaTTAN continues to hold and implement work of two highly competitive federal grants for a combined total of over 7.5 million dollars: The State Personnel Development Grant (Project MAX) and the Pennsylvania Deaf-Blind Project are both designed to increase educational opportunities for students with complex instructional needs across the commonwealth. Feedback on our Annual Performance Report (APR) indicate that we are indeed meeting our stated goals across both grants.
- The PaTTAN Special Education Leadership initiative offers a year-long cohort opportunity for Special Education Leaders (Administrators, Directors, Coordinators, Supervisors, etc.) known as the Pennsylvania Fellowship Program (PFP). During the 2016-17 year, 54 Special Education Leaders from across the state were accepted into this year long program, culminating at the July 2017 Special Education Leadership Academy.
- The PaTTAN East office leads the work of providing asynchronous online learning opportunities that allow paraprofessionals to gain knowledge related to the standards outlined in the Pennsylvania Credential of Competency Checklist that assist them in obtaining their required 20 hours of annual training, as required by Pennsylvania regulations. In the 2016-17 school year, there were a total of ten course hours available through the PaTTAN website resulting in over 17,000 certificates of completion being awarded.
- PaTTAN East continues to coordinate multiple statewide conferences as directed by the Bureau of Special Education and the PA Department of Education. During the 2016-17 school year, these conferences included the Pennsylvania Department of Education's annual conference (over 1600 attendees), the Special Education Leadership Academy (over 250 attendees), the Low Incidence Institute/Project MAX Summer Institute (over 500 attendees), and the Assistive Technology Expo (over 1000 attendees). These conferences provide much sought after professional development and ability to earn professional credit hours, including Act 48, ASHA, ACVREP, OT, and PSYCH credit hours.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2017

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The following are highlights of items that will have an impact upon the Intermediate Unit's operations in the future:

- Since the Intermediate Unit receives 52% of its funding from State Sources and 29% of its Federal Funds on a pass thru basis from the Commonwealth of Pennsylvania, timely passage of the State Budget as well as possible budget cuts will have an effect on the Intermediate Unit's operations in the future.
- Funding of Future Employer Pension Plan Contributions: Scheduled pension plan contributions based upon projections provided by the Public School Employees Retirement System show that employer contribution rates are expected to rise in fiscal year 2018 to 32.57%. Employer contributions for fiscal years 2019 to 2023 will range from 34.18% to 36.56%.

**CONTACTING THE INTERMEDIATE UNIT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Montgomery County Intermediate Unit's finances for all those with an interest in the Intermediate Unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Stan Wisler  
Chief Financial Officer  
Montgomery County Intermediate Unit  
2 West Lafayette Street  
Norristown, PA 19401  
Call: 610-755-9304

# MONTGOMERY COUNTY INTERMEDIATE UNIT

## STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,229,482	\$ -	\$ 9,229,482
Investments	30,292,057	-	30,292,057
Internal balances	107,049	(107,049)	-
Due from other governments	16,579,009	94,586	16,673,595
Inventory	22,949	-	22,949
Prepaid expenses	44,569	-	44,569
Net OPEB asset	332,844	-	332,844
Capital assets			
Land	590,000	-	590,000
Buildings and building improvements net of accumulated depreciation	22,171,779	239,429	22,411,208
Furniture and equipment, net of accumulated depreciation	1,890,080	-	1,890,080
Vehicles, net of accumulated depreciation	157,023	-	157,023
<b>TOTAL ASSETS</b>	<b>81,416,841</b>	<b>226,966</b>	<b>81,643,807</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension activity	31,225,533	-	31,225,533
<b>TOTAL ASSETS AND         DEFERRED OUTFLOWS         OF RESOURCES</b>	<b>\$ 112,642,374</b>	<b>\$ 226,966</b>	<b>\$ 112,869,340</b>
<b>LIABILITIES</b>			
Due to other governments	\$ 7,966,432	\$ -	\$ 7,966,432
Accounts payable	3,896,655	2,884	3,899,539
Accrued salaries and benefits	5,533,591	-	5,533,591
Accrued interest	40,297	-	40,297
Unearned revenue	2,369,120	-	2,369,120
Noncurrent liabilities			
Due within one year	691,634	-	691,634
Due in more than one year	137,430,518	-	137,430,518
<b>TOTAL LIABILITIES</b>	<b>157,928,247</b>	<b>2,884</b>	<b>157,931,131</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	7,545,689	-	7,545,689
<b>NET POSITION</b>			
Net investment in capital assets	11,945,550	239,429	12,184,979
Restricted	9,956,576	-	9,956,576
Unrestricted	(74,733,688)	(15,347)	(74,749,035)
<b>TOTAL NET POSITION</b>	<b>(52,831,562)</b>	<b>224,082</b>	<b>(52,607,480)</b>
<b>TOTAL LIABILITIES, DEFERRED         INFLOWS OF RESOURCES         AND NET POSITION</b>	<b>\$ 112,642,374</b>	<b>\$ 226,966</b>	<b>\$ 112,869,340</b>

See accompanying notes to the basic financial statements.



# MONTGOMERY COUNTY INTERMEDIATE UNIT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>GOVERNMENTAL ACTIVITIES</b>			
Instruction			
Special programs	\$ 23,872,754	\$ 8,793,778	\$ 17,400,692
Other instructional programs	3,041,571	620,870	1,955,309
Nonpublic school programs	5,197,484	21,306	5,270,921
Pre-kindergarten programs	2,820,427	113,871	2,492,326
Support services			
Pupil personnel services	15,416,338	4,343,694	12,225,690
Instructional staff services	7,363,789	1,666,058	5,423,899
Administration services	8,605,982	390,540	7,472,681
Pupil health services	4,113,776	540,120	3,820,091
Business services	2,788,400	1,052,053	452,602
Operation and maintenance of plant services	3,315,265	346,456	2,437,881
Student transportation services	10,905,472	608,498	10,345,843
Central and other support services	4,535,806	3,229,570	453,132
Other support services	29,979,580	1,266,308	27,813,304
Community services	1,312	-	-
Debt service	373,266	408,013	501,100
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>122,331,222</b>	<b>23,401,135</b>	<b>98,065,471</b>
<b>BUSINESS-TYPE ACTIVITIES</b>			
Food service	387,346	-	359,085
<b>TOTAL INTERMEDIATE UNIT ACTIVITIES</b>	<b>\$ 122,718,568</b>	<b>\$ 23,401,135</b>	<b>\$ 98,424,556</b>

### GENERAL REVENUES

Investment earnings

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
\$ 2,321,716	\$ -	\$ 2,321,716
(465,392)	-	(465,392)
94,743	-	94,743
(214,230)	-	(214,230)
1,153,046	-	1,153,046
(273,832)	-	(273,832)
(742,761)	-	(742,761)
246,435	-	246,435
(1,283,745)	-	(1,283,745)
(530,928)	-	(530,928)
48,869	-	48,869
(853,104)	-	(853,104)
(899,968)	-	(899,968)
(1,312)	-	(1,312)
535,847	-	535,847
(864,616)	-	(864,616)
-	(28,261)	(28,261)
(864,616)	(28,261)	(892,877)
182,047	-	182,047
(682,569)	(28,261)	(710,830)
(52,148,993)	252,343	(51,896,650)
\$ <u>(52,831,562)</u>	\$ <u>224,082</u>	\$ <u>(52,607,480)</u>

# MONTGOMERY COUNTY INTERMEDIATE UNIT

## BALANCE SHEET

### GOVERNMENTAL FUNDS

JUNE 30, 2017

		<u>Special</u>	
		<u>Special</u>	<u>Special</u>
	<u>General Fund</u>	<u>Education</u>	<u>Education</u>
		<u>Fund</u>	<u>Transportation</u>
			<u>Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,527,974	\$ 1,988,175	\$ 809,402
Investments	24,292,057	6,000,000	-
Due from other funds	107,049	-	-
Due from other governments	14,495,468	1,541,881	-
Inventory	22,949	-	-
Prepaid expenditures	44,569	-	-
	<u>41,490,066</u>	<u>9,530,056</u>	<u>809,402</u>
TOTAL ASSETS	\$ <u>41,490,066</u>	\$ <u>9,530,056</u>	\$ <u>809,402</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Due to other governments	\$ 7,942,758	\$ -	\$ -
Accounts payable	1,745,165	298,321	635,999
Accrued salaries and benefits	5,533,591	-	-
Unearned revenues	2,331,640	37,480	-
	<u>17,553,154</u>	<u>335,801</u>	<u>635,999</u>
TOTAL LIABILITIES	<u>17,553,154</u>	<u>335,801</u>	<u>635,999</u>
<b>FUND BALANCES</b>			
Nonspendable	67,518	-	-
Restricted	588,918	9,194,255	173,403
Committed	1,510,884	-	-
Assigned	17,681,830	-	-
Unassigned	4,087,762	-	-
	<u>23,936,912</u>	<u>9,194,255</u>	<u>173,403</u>
TOTAL FUND BALANCES	<u>23,936,912</u>	<u>9,194,255</u>	<u>173,403</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>41,490,066</u>	\$ <u>9,530,056</u>	\$ <u>809,402</u>

See accompanying notes to the basic financial statements.

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Revenue Funds

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<u>Institutionalized Children Fund</u>	<u>Early Intervention Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ 23,674	\$ 658,910	\$ 3,000,000	\$ 9,008,135
-	-	-	30,292,057
-	-	-	107,049
-	541,660	-	16,579,009
-	-	-	22,949
-	-	-	44,569
<u>23,674</u>	<u>1,200,570</u>	<u>3,000,000</u>	<u>56,053,768</u>
\$ 23,674	\$ -	\$ -	\$ 7,966,432
-	1,200,570	-	3,880,055
-	-	-	5,533,591
-	-	-	2,369,120
<u>23,674</u>	<u>1,200,570</u>	<u>-</u>	<u>19,749,198</u>
-	-	-	67,518
-	-	-	9,956,576
-	-	-	1,510,884
-	-	3,000,000	20,681,830
-	-	-	4,087,762
<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>36,304,570</u>
<u>\$ 23,674</u>	<u>\$ 1,200,570</u>	<u>\$ 3,000,000</u>	<u>\$ 56,053,768</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES**  
**TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2017**

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TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 36,304,570
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	590,000
Buildings and building improvements, net of accumulated depreciation	22,171,779
Furniture and equipment, net of accumulated depreciation	1,890,080
Vehicles, net of accumulated depreciation	157,023
<p>Net OPEB asset is not recorded as an asset in the Governmental Funds; however, this item is reported as an asset in the government-wide financial statements.</p>	
	332,844
<p>Internal Service Funds are used by management to charge the costs of health care to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net position.</p>	
	204,746
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.</p>	
	23,679,844
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Compensated absences	(1,465,819)
Bonds payable	(8,306,654)
Accrued interest	(40,297)
Net pension liability	(123,793,000)
Lease purchase obligations	(4,556,678)
	<u>(138,162,448)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (52,831,562)</u>

*See accompanying notes to the basic financial statements.*

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Special Education Transportation Fund</u>
<b>REVENUES</b>			
Local sources	\$ 8,628,599	\$ 14,886,403	\$ 10,413
State sources	23,407,783	4,576,697	10,269,961
Federal sources	<u>40,073,638</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>72,110,020</u>	<u>19,463,100</u>	<u>10,280,374</u>
<b>EXPENDITURES</b>			
Instruction	11,079,141	9,287,403	-
Support services	63,708,465	5,510,317	9,640,092
Operation of non-instructional services	1,312	-	-
Debt service	590,979	321,814	-
<b>TOTAL EXPENDITURES</b>	<u>75,379,897</u>	<u>15,119,534</u>	<u>9,640,092</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(3,269,877)</u>	<u>4,343,566</u>	<u>640,282</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	2,568,345	-	-
Operating transfers out	<u>-</u>	<u>(2,982,663)</u>	<u>(771,207)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>2,568,345</u>	<u>(2,982,663)</u>	<u>(771,207)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(701,532)	1,360,903	(130,925)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>24,638,444</u>	<u>7,833,352</u>	<u>304,328</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 23,936,912</u>	<u>\$ 9,194,255</u>	<u>\$ 173,403</u>

*See accompanying notes to the basic financial statements.*

Revenue Funds

<u>Institutionalized Children Fund</u>	<u>Early Intervention Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ 266	\$ 57,498	\$ -	\$ 23,583,179
30,501	19,706,894	-	57,991,836
-	-	-	40,073,638
<u>30,767</u>	<u>19,764,392</u>	<u>-</u>	<u>121,648,653</u>
30,760	12,533,581	-	32,930,885
7	5,916,336	-	84,775,217
-	-	-	1,312
-	-	-	912,793
<u>30,767</u>	<u>18,449,917</u>	<u>-</u>	<u>118,620,207</u>
-	1,314,475	-	3,028,446
-	-	2,500,000	5,068,345
-	(1,314,475)	-	(5,068,345)
-	(1,314,475)	2,500,000	-
-	-	2,500,000	3,028,446
-	-	500,000	33,276,124
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 36,304,570</u>

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

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NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,028,446

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$1,217,218) exceeds capital outlays (\$787,149) in the current period. (430,069)

The net effect of various miscellaneous transactions involving capital assets i.e., sales, trade-ins and donations is to decrease net assets. (11,575)

The issuance of long-term debt (e.g., leases) provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. Also, Governmental Funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 538,849

The net change in the asset for the net OPEB asset is reported in the government-wide statements but not in the Governmental Funds statements. (20,940)

Internal Service Funds are used by management to charge the costs of health care to individual funds. The net revenue of the Internal Service Fund is reported with governmental activities. 72,691

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. This is the effect of this difference in the treatment of interest payable. 679

Pension plan 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. (3,904,353)

In the statement of activities, certain operating expenses--compensated absences and retirement incentives--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). 43,703

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (682,569)

*See accompanying notes to the basic financial statements.*



# MONTGOMERY COUNTY INTERMEDIATE UNIT

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

JUNE 30, 2017

	Business-Type Activities <u>Food Service Fund</u>	Governmental Activities <u>Internal Service Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ -	\$ 221,347
Due from other governments	<u>94,586</u>	<u>-</u>
TOTAL CURRENT ASSETS	94,586	221,347
CAPITAL ASSETS, net		
Building	<u>239,429</u>	<u>-</u>
TOTAL ASSETS	\$ <u><u>334,015</u></u>	\$ <u><u>221,347</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,884	\$ 16,601
Due to other funds	<u>107,049</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>109,933</u>	<u>16,601</u>
NET POSITION		
Net investment in capital assets	239,429	-
Unrestricted	<u>(15,347)</u>	<u>204,746</u>
TOTAL NET POSITION	<u>224,082</u>	<u>204,746</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u><u>334,015</u></u>	\$ <u><u>221,347</u></u>

See accompanying notes to the basic financial statements.

# MONTGOMERY COUNTY INTERMEDIATE UNIT

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

	Business-Type Activities	Governmental Activities
	Food Service Fund	Internal Service Fund
<b>OPERATING REVENUES</b>		
Charges for services	\$ -	\$ 7,962,935
<b>OPERATING EXPENSES</b>		
Salaries	27,077	-
Employee benefits	12,827	7,898,218
Purchased professional and technical services	24	-
Supplies	339,649	-
Depreciation	7,769	-
TOTAL OPERATING EXPENSES	<u>387,346</u>	<u>7,898,218</u>
OPERATING INCOME (LOSS)	<u>(387,346)</u>	<u>64,717</u>
<b>NONOPERATING REVENUES</b>		
State sources	5,058	-
Federal sources	354,027	-
Earnings on investments	-	7,974
TOTAL NONOPERATING REVENUE	<u>359,085</u>	<u>7,974</u>
CHANGE IN NET POSITION	(28,261)	72,691
NET POSITION AT BEGINNING OF YEAR	<u>252,343</u>	<u>132,055</u>
NET POSITION AT END OF YEAR	<u>\$ 224,082</u>	<u>\$ 204,746</u>

See accompanying notes to the basic financial statements.

# MONTGOMERY COUNTY INTERMEDIATE UNIT

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

	Business-Type Activities <u>Food Service Fund</u>	Governmental Activities <u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ -	\$ 7,962,935
Payments to suppliers	(277,634)	-
Payments to employees for services	(39,904)	-
Cash payments for insurance services	-	(7,890,351)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(317,538)</u>	<u>72,584</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	5,058	-
Federal sources	312,480	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>317,538</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	-	7,974
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	80,558
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
	<u>-</u>	<u>140,789</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ -</u>	<u>\$ 221,347</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (387,346)	\$ 64,717
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	7,769	-
Increase in due to other funds	59,155	-
Increase in accounts payable	2,884	7,867
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (317,538)</u>	<u>\$ 72,584</u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2017**

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	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 11,130	\$ 6,407,805
Investments	1,635,235	57,555,000
Due from other governments	<u>-</u>	<u>355,833</u>
TOTAL ASSETS	<u>1,646,365</u>	<u>\$ 64,318,638</u>
LIABILITIES		
Accounts payable	-	\$ 140,445
Due to SEPAST	<u>-</u>	<u>64,178,193</u>
TOTAL LIABILITIES	<u>-</u>	<u>\$ 64,318,638</u>
NET POSITION		
Held in trust for other purposes	<u>\$ 1,646,365</u>	

*See accompanying notes to the basic financial statements.*

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2017

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	<u>Trust Funds</u>
ADDITIONS	
Local sources	\$ 104,903
DEDUCTIONS	
Support services	<u>27,679</u>
CHANGE IN NET POSITION	77,224
NET POSITION AT BEGINNING OF YEAR	<u>1,569,141</u>
NET POSITION AT END OF YEAR	<u>\$ 1,646,365</u>

*See accompanying notes to the basic financial statements.*

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The Montgomery County Intermediate Unit (the "Intermediate Unit") was established on July 1, 1971, pursuant to Section 901-A of the Public School Code of 1949. The Intermediate Unit Board of Directors (the "Board") is the basic level of government, which has oversight responsibility and control over all activities related to providing programs and resources to 22 individual school districts within Montgomery County. The Board receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The Board is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board (GASB) pronouncements. Board members are elected by the public at the local level and are elected by their peers to serve on the Intermediate Unit Board. The Board members have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The basic financial statements of the Intermediate Unit have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Fund Accounting**

The Intermediate Unit 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 Intermediate Unit 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 Intermediate Unit are grouped into the categories governmental and fiduciary.

***Governmental Funds***

**General Fund** - Accounts for all activities of the Intermediate Unit not required to be accounted for in some other fund. Included in this fund are Administrative, Instructional Materials Services, Curriculum, Legislative, Federal Projects, Nonpublic School Services (Act 89) and Grant Program Administration.

**Special Revenue Funds** - Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the Intermediate Unit are the Special Education, Special Education Transportation, Institutionalized Children and Early Intervention Funds.

**Capital Project Funds** - Accounts for financial resources that are used for the acquisition or construction of major capital equipment and improvements.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Proprietary Fund***

**Food Service Fund** - The Food Service Fund is 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 cost (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.

**Internal Service Fund** - The Internal Service Fund is used to account for the financing of insurance services provided to the other funds of the Intermediate Unit on a cost reimbursement basis.

***Fiduciary Funds*** - Fiduciary Funds reporting focuses on net position and changes in net position.

**Trust and Agency Funds** - Trust Funds are used to account for assets held by the Intermediate Unit 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.

The Intermediate Unit serves in a trustee capacity for funds deposited with the Intermediate Unit in memory of former colleagues or with affiliated organizations. The following are Trust Funds held by the Intermediate Unit as of June 30, 2017:

- Bobbie Goodman Memorial Fund
- Cynthia Welder
- Montgomery County Science Teachers Association Research Program
- OPEB Trust Fund

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the Intermediate Unit as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This 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. 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 function or program of the Intermediate Unit's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Intermediate Unit, 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 Intermediate Unit.

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 Intermediate Unit. The focus of Governmental Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Intermediate Unit 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.



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included in 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 Intermediate Unit finances and meets the cash flow needs of its proprietary activities.

The Proprietary Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the Intermediate Unit's Food Service Fund are charges to customers for sales and services. Operating expenses for the Food Service Fund include cost of sales and services, administrative expenses and depreciation of 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 Intermediate Unit's policy to use restricted resources first, then unrestricted resources as they are needed.

**Cash Equivalents**

Cash equivalents in the basic financial statements include all highly liquid investments with an original maturity of three months or less. Authorized bank depositories are submitted to the Intermediate Unit's Board of Directors prior to the start of the fiscal year.

**Investments**

Statutes authorize the Intermediate Unit 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 Intermediate Unit 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 Funds are invested in accordance with Section 440.1 of the School Code. Each entity owns a pro rata share of each investment or deposit which is held in the name of the fund.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments (Continued)**

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the United States, any state of the United States, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120% of the funds deposited. The security pledged by the various depositories utilized during the year and at June 30, 2017, was in excess of the minimum requirements just described.

The Intermediate Unit 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."

**Inventories and Prepaid Items**

Inventories in the General Fund are valued at cost determined under the weighted average method.

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 and equipment, are reported in the governmental activities column in the government-wide financial statements. The Intermediate Unit defines capital assets as assets with an initial, individual cost equal to or greater than \$2,000 (amount not rounded) or purchased with debt proceeds and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

	<u>Years</u>
Buildings and building improvements	25-40
Furniture and equipment	3-15
Vehicles	5

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. 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 reported as expenditures in the period 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.

**Unearned Revenue**

Unearned revenue arises when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Intermediate Unit before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Intermediate Unit has a legal claim to the resources, the liability for unearned revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net 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 Intermediate Unit has one item that qualify for reporting in this category. The deferred outflow related to pension activity reported in the government-wide statement of net position. The deferred outflow related to pension activity is the result of changes in the Intermediate Unit’s proportionate share of the total plan from year to year, the difference between actual employer contributions and the Intermediate Unit’s proportionate share of total contributions, and actual contributions subsequent to the measurement date.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the statement of net 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 Intermediate Unit does not have any items that qualify for reporting in this category. The Intermediate Unit has one item that qualifies for reporting in this category. Deferred inflows related to pension activity are reported in the government-wide statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Net Position Flow Assumption**

Sometimes the Intermediate Unit 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 Intermediate Unit's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Fund Balance**

The Intermediate Unit has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Intermediate Unit's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory or prepaid assets) or are legally or contractually required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts with constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- ***Committed Fund Balance*** - Amounts limited by Board policy or action. Once committed, it cannot be used for any other purpose unless changed by Board policy or action (e.g., future anticipated costs).
- ***Assigned Fund Balance*** - Amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Board or by an official or authority to whom the Board has granted authority.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- ***Unassigned Fund Balance*** - Amounts available for consumption or not restricted in any manner. Only the General Fund may report positive unassigned fund balance.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.

By passage of resolution of Board policy, the Board of Directors has authorized funds to be assigned with the authorization of the Chief Executive Officer and the Chief Financial Officer.

Order for the fund balances used for disbursement is at the discretion of the Executive Director and Chief Financial Officer when expenditure is incurred for which both restricted and unrestricted amounts (or for committed, assigned, or unassigned within unrestricted amounts) are available. The Intermediate Unit will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**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.

**Compensated Absences**

The Intermediate Unit accounts for compensated absences by complying with GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires a liability be reported for certain compensated absences as the benefits are earned by employees instead of when they are paid.

Sick leave is granted as appropriate (medical evidence required) with budgetary provision being made annually for the estimated cost of substitute personnel. Contractual provisions with professional personnel require payment at the rate of \$55 per day for accumulated unused sick leave days on retirement to a maximum of 225 days. The rate is \$52.50 per day for administrative and supervisory personnel to a maximum of 215 days, \$42 per day for support staff/classified personnel to a maximum of 200 days and \$50 per day for teachers' assistants and paraprofessionals to a maximum of 100 days. A liability based on these rates, including a provision for employer social security, has been recorded for the vested portion of accumulated sick and vacation leave in the government-wide financial statements.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Other Postemployment Benefits**

The Intermediate Unit offers health and dental insurance to its administrative employees upon retirement provided they meet certain conditions. They must have been a member of the Public School Employees Retirement System (PSERS) for 30 years and an employee of the Intermediate Unit for 15 years. If these conditions are met, the Intermediate Unit will pay an amount equal to the monthly premium for single coverage for hospitalization and dental as of the date of retirement. Any additional costs will be the responsibility of the retiree. This benefit will continue until the retiree is eligible for Medicare benefits.

Professional employees with 15 years of service who retired under normal retirement effective June 30, 2006, and who have not taken a non-elective employer contribution to their 403(b) plan, will have \$25,000 available for monthly health insurance premiums at the single rate for up to a maximum of six years or until they become eligible for Medicare benefits. This benefit had a second \$30,000 window available to employees who elected to retire on June 30, 2009.

**NOTE B - CASH DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS**

In order to optimize interest earnings, the Intermediate Unit pools its cash and investment balances. Each fund's share of the cash and investment balances is reflected as equity in pooled cash and investments on the balance sheet. Certificates of deposit are purchased for individual funds based upon their available balance and cash flow requirements. All deposits are carried at cost plus interest credited prior to June 30, 2017.

The Intermediate Unit's investment policy and choice of depositories require collateralization of public funds in accordance with Act 72 to limit custodial credit risk for amounts in excess of the \$250,000 FDIC insurance threshold. Act 72 permits banks to collateralize all public fund deposits with a pool of permitted securities held in the name of the bank's trust department. Since the securities are not held in the name of the participating governmental entities, custodial credit risk exists that the deposits may not be returned promptly in the event of a bank failure. As of June 30, 2017, \$288,979 of the Intermediate Unit's \$16,179,610 bank balance is uninsured and collateralized with securities held by the pledging bank's trust department not in the Intermediate Unit's name, \$276,764 was insured by the FDIC and \$15,613,867 is uninsured and uncollateralized. The Intermediate Unit also places funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF), Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania Treasurer's INVEST Program. Each member owns a pro rata share of each of the fund's underlying investments or deposits, which are held in the name of the applicable fund. The underlying pool of securities for each of these funds is permitted in Section 440.1 of the School Code. In order to minimize interest rate risks, each fund strives to maintain investment maturities to keep the net asset values for participants at \$1.00 per share.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE B - CASH DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS (Continued)**

The Pennsylvania OPEB Trust, an external investment pool, is not registered with the SEC and is not insured or guaranteed by any governmental agency. The Trust is not required to comply with the investment guidance in the Pennsylvania School Code. The reported value of the pool is the same as the fair value of the pool shares.

As of June 30, 2017, the Intermediate Unit had the following investments and maturities:

Investment Type	Amortized Cost	Fair Value	Maturities Less Than One Year
State investment pools	\$ 87,847,057	\$ -	\$ 87,847,057
Trusts	-	1,635,235	1,635,235
	<u>\$ 87,847,057</u>	<u>\$ 1,635,235</u>	<u>\$ 89,482,292</u>

A portion of the Intermediate Unit'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 cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2017, is \$87,847,057. 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.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79. The Intermediate Unit had \$2,316,057 invested in a PLGIT I-Class account at June 30, 2017. This investment limits redemptions or exchanges to two per calendar month.

**Fair Value Measurement**

The Intermediate Unit categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The Intermediate Unit did not have Level 2 or Level 3 investments as of June 30, 2017 and all investments were considered to be Level 1.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE C - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables consist of the following:

	General Fund	Special Revenue Funds			Totals
		Special Education Fund	Special Education Transportation Fund	Early Intervention Fund	
<b>FEDERAL SOURCES</b>					
Excess of program expenditures over amounts received	\$ 11,132,848	\$ -	\$ -	\$ -	\$ 11,132,848
<b>STATE SUBSIDIES</b>					
Retirement	1,492,615	-	-	-	1,492,615
Professional development	320,761	-	-	-	320,761
Excess of program expenditures over amounts received	-	-	-	541,660	541,660
<b>TOTAL STATE SUBSIDIES</b>	<b>1,813,376</b>	<b>-</b>	<b>-</b>	<b>541,660</b>	<b>2,355,036</b>
<b>LOCAL SOURCES</b>					
Continuing professional education	231,168	-	-	-	231,168
Special Education	-	1,541,881	-	-	1,541,881
Detention center	756,659	-	-	-	756,659
Technology and information services	8,214	-	-	-	8,214
Other local revenues from districts	553,203	-	-	-	553,203
<b>TOTAL LOCAL SOURCES</b>	<b>1,549,244</b>	<b>1,541,881</b>	<b>-</b>	<b>-</b>	<b>3,091,125</b>
<b>TOTAL INTERGOVERN- MENTAL RECEIVABLES</b>	<b>\$ 14,495,468</b>	<b>\$ 1,541,881</b>	<b>\$ -</b>	<b>\$ 541,660</b>	<b>\$ 16,579,009</b>

**Allowance for Doubtful Accounts**

Management believes that all receivables are collectible. Therefore, an allowance for doubtful accounts is not needed.



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE D - INTERFUND RECEIVABLES AND PAYABLES**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food service	\$ <u>107,049</u>

The Food Service Fund cash overdraft was due to outstanding receivables at the end of the fiscal year.

**NOTE E - INTERFUND TRANSFERS**

A summary of interfund transfers is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,568,345	\$ -
Capital Projects Fund	2,500,000	-
Special Education Fund	-	(2,982,663)
Special Education Transportation Fund	-	(771,207)
Early Intervention Fund	-	(1,314,475)
	<u>\$ 5,068,345</u>	<u>\$ (5,068,345)</u>

Transfers are used to (1) allocate indirect and administrative costs, (2) charge Instructional Media Services to specific funds, (3) allocate building costs to the specific funds, (4) cover deficits in other funds or programs and (5) reimburse expenditures.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE F - CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 590,000	\$ -	\$ -	\$ 590,000
Capital assets being depreciated				
Buildings and building improvements	29,285,962	-	-	29,285,962
Furniture and equipment	6,888,357	664,968	(3,598,724)	3,954,601
Vehicles	428,894	122,181	(150,957)	400,118
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>36,603,213</u>	<u>787,149</u>	<u>(3,749,681)</u>	<u>33,640,681</u>
Accumulated depreciation				
Buildings and building improvements	(6,234,763)	(879,420)	-	(7,114,183)
Furniture and equipment	(5,261,330)	(390,340)	3,587,149	(2,064,521)
Vehicles	(446,594)	52,542	150,957	(243,095)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>(11,942,687)</u>	<u>(1,217,218)</u>	<u>3,738,106</u>	<u>(9,421,799)</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<u>24,660,526</u>	<u>(430,069)</u>	<u>(11,575)</u>	<u>24,218,882</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<u>\$ 25,250,526</u>	<u>\$ (430,069)</u>	<u>\$ (11,575)</u>	<u>\$ 24,808,882</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Buildings	\$ 310,579	\$ -	\$ -	\$ 310,579
Accumulated depreciation	(63,381)	(7,769)	-	(71,150)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<u>\$ 247,198</u>	<u>\$ (7,769)</u>	<u>\$ -</u>	<u>\$ 239,429</u>

The net book value of each capital asset category for governmental activities is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
<b>CAPITAL ASSETS</b>			
Land	\$ 590,000	\$ -	\$ 590,000
Buildings and building improvements	29,285,962	(7,114,183)	22,171,779
Furniture and equipment	3,954,601	(2,064,521)	1,890,080
Vehicles	400,118	(243,095)	157,023
	<u>\$ 34,230,681</u>	<u>\$ (9,421,799)</u>	<u>\$ 24,808,882</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE F - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Special programs	\$ 94,279
Other instructional programs	234,795
Non-public school programs	78,087
SUPPORT SERVICES	
Pupil personnel services	64,631
Instructional staff services	35,209
Administration services	139,908
Pupil health services	1,799
Prekindergarten services	9,629
Business services	52,451
Operation and maintenance of plant services	387,717
Central and other support services	<u>118,713</u>
	<u>\$ 1,217,218</u>

**NOTE G - CHANGES IN LONG-TERM LIABILITIES**

**Capital Lease Obligation**

On December 30, 2008, the Montgomery County Intermediate Unit entered into a \$5,911,981, 25-year capital lease for the Anderson School Facility with the State Public School Building Authority. For the first five years, the interest rate was fixed at 5.25% and thereafter set to change to a variable rate that would reset each January not to exceed 12%. The \$5,911,981 purchase price was assigned \$5,321,981 to the building and \$590,000 to land. On November 26, 2013, the Montgomery County Intermediate Unit refinanced the 2008 lease for \$5,342,784 at a 1.95% interest rate. The lease is payable for 20 years and is set to mature in January 2034.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE G - CHANGES IN LONG-TERM LIABILITIES (Continued)**

The annual capital lease payments are as follows:

Year Ending June 30,	Principal	Interest	Totals
2018	\$ 235,052	\$ 86,762	\$ 321,814
2019	239,677	82,137	321,814
2020	244,392	77,421	321,813
2021	249,201	72,613	321,814
2022	254,104	67,710	321,814
2023 to 2027	1,347,508	261,560	1,609,068
2028 to 2032	1,485,391	123,677	1,609,068
2033 to 2034	501,353	8,186	509,539
	<u>\$ 4,556,678</u>	<u>\$ 780,066</u>	<u>\$ 5,336,744</u>

**Revenue Bonds, Series of 2012**

On September 27, 2012, the Intermediate Unit issued Revenue Bonds, Series of 2012, in the aggregate principal amount of \$10,000,000. The bonds were issued for the purpose of providing funds for and toward the costs of certain capital projects of the Intermediate Unit, including, without limitation, the acquisition of certain parcels of land, together with the building and improvements located thereon, and the costs of renovations and construction of improvements with respect thereto; and the payment of costs and expenses related to the issuance of the bonds. The bonds are scheduled to mature in 2037 with interest charged at rates from 0.90% to 4.00%.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Totals
2018	\$ 310,000	\$ 276,329	\$ 586,329
2019	320,000	270,129	590,129
2020	325,000	263,249	588,249
2021	335,000	255,530	590,530
2022	345,000	245,480	590,480
2023 to 2027	1,880,000	1,065,989	2,945,989
2028 to 2032	2,200,000	743,205	2,943,205
2033 to 2037	2,625,000	318,515	2,943,515
	<u>\$ 8,340,000</u>	<u>\$ 3,438,426</u>	<u>\$ 11,778,426</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE G - CHANGES IN LONG-TERM LIABILITIES (Continued)**

**Changes in Long-Term Liabilities**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
BONDS PAYABLE					
Revenue Bonds, Series of 2012	\$ 8,650,000	\$ -	\$ (310,000)	\$ 8,340,000	\$ 310,000
Discount	(35,013)	-	1,667	(33,346)	-
TOTAL BONDS PAYABLE	<u>8,614,987</u>	<u>-</u>	<u>(308,333)</u>	<u>8,306,654</u>	<u>310,000</u>
NET PENSION LIABILITY	<u>99,018,000</u>	<u>24,775,000</u>	<u>-</u>	<u>123,793,000</u>	<u>-</u>
CAPITAL LEASE	<u>4,787,194</u>	<u>-</u>	<u>(230,516)</u>	<u>4,556,678</u>	<u>235,052</u>
COMPENSATED ABSENCES					
Vacation leave	554,067	-	(48,349)	505,718	50,572
Sick leave	955,455	4,646	-	960,101	96,010
TOTAL COMPENSATED ABSENCES	<u>1,509,522</u>	<u>4,646</u>	<u>(48,349)</u>	<u>1,465,819</u>	<u>146,582</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 113,929,703</u>	<u>\$ 24,779,646</u>	<u>\$ (587,198)</u>	<u>\$ 138,122,151</u>	<u>\$ 691,634</u>

Compensated absences, pension and other postemployment benefits are generally liquidated by the General Fund.

**NOTE H - OPERATING LEASES**

The Intermediate Unit leases building space under operating leases expiring no later than June 2026 at annual amounts ranging from \$12,903 to \$379,040.

The Intermediate Unit leases a vehicle under an operating lease expiring August 2019 at a monthly cost of \$497.

The Intermediate Unit leases office equipment under operating leases expiring no later than June 2020 at monthly costs ranging from \$80 to \$6,308.

# MONTGOMERY COUNTY INTERMEDIATE UNIT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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### NOTE H - OPERATING LEASES (Continued)

A schedule of future minimum lease payments under all noncancelable leases is as follows:

<u>Year Ending June 30,</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Equipment</u>	<u>Totals</u>
2018	\$ 541,673	\$ 5,965	\$ 107,235	\$ 654,873
2019	405,267	5,965	75,700	486,932
2020	402,124	994	75,700	478,818
2021	414,187	-	-	414,187
2022	426,613	-	-	426,613
2023-2026	<u>1,838,333</u>	<u>-</u>	<u>-</u>	<u>1,838,333</u>
	<u>\$ 4,028,197</u>	<u>\$ 12,924</u>	<u>\$ 258,635</u>	<u>\$ 4,299,756</u>

Rent expense under operating leases for the year ended June 30, 2017, was \$643,159.

### NOTE I - 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.

#### 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](http://www.psers.state.pa.us).

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE I - PENSION PLAN (Continued)**

**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.

**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.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE I - PENSION PLAN (Continued)**

- 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 Intermediate Unit's contractually required contribution rate for the fiscal year ended June 30, 2017, was 29.20% 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 Intermediate Unit were \$9,615,836 for the year ended June 30, 2017.

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

At June 30, 2017, the Intermediate Unit reported a liability of \$123,793,000 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 Intermediate Unit'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 Intermediate Unit's proportion was 0.2498%, which was an increase of 0.0212% from its proportion measured as of June 30, 2015.



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE I - PENSION PLAN (Continued)**

For the year ended June 30, 2017, the Intermediate Unit recognized pension expense of \$13,520,189. At June 30, 2017, the Intermediate Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 1,031,189
Changes in assumptions	4,469,000	-
Net difference between projected and actual investment earnings	6,899,652	-
Changes in proportions	10,124,500	6,514,500
Difference between employer contributions and proportionate share of total contributions	116,545	-
Contributions subsequent to the measurement date	<u>9,615,836</u>	<u>-</u>
	<u>\$ 31,225,533</u>	<u>\$ 7,545,689</u>

\$9,615,836 reported as deferred outflows of resources related to pensions resulting from Intermediate Unit 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:

<u>Year Ending June 30,</u>	
2018	\$ 2,974,376
2019	2,972,377
2020	3,653,749
2021	4,461,572
2022	<u>1,934</u>
	<u>\$ 14,064,008</u>

**Changes in 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:

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE I - PENSION PLAN (Continued)**

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016:

- 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 growth changed from an effective average rate of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases 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 increases.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three 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 Morality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with the 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 Morality 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.

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.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE I - PENSION PLAN (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
Finance (LIBOR)	-14.0%	0.5%
	<u>100.00%</u>	

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

**Sensitivity of the Intermediate Unit'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 <u>6.25%</u>	Current Discount Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
Intermediate Unit's proportionate share of the net pension liability	\$ <u>151,432,092</u>	\$ <u>123,793,000</u>	\$ <u>100,567,931</u>

**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](http://www.psers.state.pa.us).

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE J - OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description** - The Intermediate Unit provides healthcare benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The Board of Directors has the authority to establish and amend benefit provisions, and the plan is under the control of the Board Directors. The plan does not issue a stand-alone financial report.

**Plan Membership** - At June 30, 2017, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	145
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>421</u>
	<u><u>566</u></u>

**Funding Policy**

The contribution requirements of plan members are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of Directors. The costs of administering the plan are paid by the Intermediate Unit.

Additionally, in fiscal year 2011, the Intermediate Unit joined the Pennsylvania OPEB Trust, a statewide Trust established to fund other post-employment benefits offered by the Pennsylvania School Local Government Units to current and prospective retirees and dependents. The Intermediate Unit contributed \$1,038,396 to the Trust in the 2010-2011 fiscal year to offset future benefit costs.

**Benefits Provided**

The plan provides the following benefits:

- For the former director of special education, medical, prescription drug, dental and life insurance benefits are provided. The member pays full premium for medical, prescription drug and dental, and the spouse and family are included. The Intermediate Unit pays full premium for life insurance in the amount of \$50,000 for up to 10 years.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE J - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

- For the current executive director, current assistant chief executive director, chief financial officer, and director of human resources, medical, prescription drug, dental and life insurance benefits are provided. If a member has a least 30 years of PSERS service and at least 15 years of service with the Intermediate Unit, the Intermediate Unit pays 100% for single coverage premium at the time of retirement for the medical and prescription drug core plan and dental. Member must pay the remainder of the premium which includes any increases in the premium after retirement, plus any additional premium due to coverage in a plan other than the core plan and the coverage of spouse and/or dependents. The core plan is Personal Choice 20/30/70. Upon reaching age 65, member can continue coverage for Dental provided that the member pays full premium. The Intermediate Unit pays full premium for life insurance in the amount of \$50,000 for up to 10 years after member's retirement. If the member does not meet the requirements for the Intermediate Unit subsidy, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA. Spouse and family is included.
- For all other administrators, medical, prescription drug and dental benefits are provided. If a member has a least 30 years of PSERS service and at least 15 years of service with the Intermediate Unit, the Intermediate Unit pays 100% for single coverage premium at the time of retirement for the medical and prescription drug core plan and dental. Member must pay the remainder of the premium which includes any increases in the premium after retirement, plus any additional premium due to coverage in a plan other than the core plan and the coverage of spouse and/or dependents. The core plan is Personal Choice 20/30/70. Upon reaching age 65, member can continue coverage for Dental provided that the member pays full premium. Spouse and family is included.
- For all other employees not listed above, upon retirement with 30 years of PSERS service or upon superannuation retirement, retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Directors. It is the policy of the Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE J - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	30%
Fixed income	70%
	<u>100%</u>

**Rate of Return** - For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 5.19%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested

**OTHER POSTEMPLOYMENT BENEFITS - PLAN DISCLOSURES**

***Net OPEB Liability of the Intermediate Unit***

The components of the net pension liability of the Intermediate Unit at June 30, 2017, were as follows:

Total OPEB liability	\$ 1,658,142
Plan fiduciary net position	<u>(1,635,235)</u>
NET OPEB LIABILITY	<u>\$ 22,907</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>98.62%</u>

***Discount Rate***

The discount rate is based on the long-term expected rate of return on OPEB plan investments that is expected to be used to finance the payment of benefits. The plan's fiduciary net position is expected to be sufficient to make projected benefit payments.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE J - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the net OPEB liability of the Intermediate Unit, as well as what the Intermediate Unit's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current discount rate:

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB liability	\$ <u>126,449</u>	\$ <u>22,907</u>	\$ <u>(73,538)</u>

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the net OPEB liability of the Intermediate Unit, as well as what the Intermediate Units' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current healthcare cost trend rate:

	1% Decrease (5.5%)	Healthcare Cost Trend Rate (6.5%)	1% Increase (7.5%)
Net OPEB liability	\$ <u>(124,331)</u>	\$ <u>22,907</u>	\$ <u>193,867</u>

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	7.0%
Fixed income	1.6%

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE J - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

**OTHER POSTEMPLOYMENT BENEFITS - EMPLOYER DISCLOSURES**

***Annual OPEB Cost and Net OPEB Liability***

The Intermediate Unit'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.

During the fiscal year ended June 30, 2017, the Intermediate Unit paid health insurance premiums totaling \$24,191 for hospitalization and dental coverage for four Administrative, Supervisory, Consultative and Psychological (ASCAP) retirees. The Intermediate Unit's policy is to fund these costs as they are incurred by providing for them in the annual budget.

The components of the Intermediate Unit's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Intermediate Unit's net OPEB asset to the plan are as follows:

Normal cost	\$ 142,797
Interest	(19,847)
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>122,950</u>
Adjustment to ARC	37,148
ANNUAL OPEB EXPENSE	<u>160,098</u>
Net OPEB contributions during the year	(139,158)
INCREASE IN NET OPEB OBLIGATION	<u>20,940</u>
Net OPEB obligation at beginning of year	<u>(353,784)</u>
NET OPEB ASSET AT END OF YEAR	<u><u>\$ (332,844)</u></u>

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
2014-2015	\$ 173,916	150.79%	\$ 346,218
2015-2016	179,931	104.20%	353,784
2016-2017	160,098	86.92%	332,844



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE J - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

**Funded Status and Funding Progress**

As of July 1, 2016, the actuarial accrued liability for benefits was \$1,668,932 and the actuarial value of assets was \$1,554,482, leaving \$114,450 unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$31,257,637, and the ratio of the UAAL to the covered payroll was 0.366%.

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 following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**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 benefits 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 5.61% 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% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later. Rates included a 3% inflation assumption. 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 14 years.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE K - DEFERRED COMPENSATION PLANS**

The Intermediate Unit offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan permits each employee to shelter a portion of his/her salary from federal income tax.

The Intermediate Unit also offers an Enhanced 403(b) plan for certain administrative and professional employees. Employees in these two groups are required to deposit their severance payments for unused sick and vacation time into the plan. The amounts deposited are sheltered from federal withholding, FICA and state and local income taxes at retirement.

The deferred compensation for both plans is not available to employees until termination, retirement, death, or an unforeseeable emergency. Employee contributions to the plans are withheld from their earnings and remitted to the applicable mutual fund and/or plan administrators. The assets of these plans no longer belong to the Intermediate Unit and are not included in its financial reporting.

**NOTE L - RISK MANAGEMENT**

The Intermediate Unit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation for which the Intermediate Unit retains risk of loss. For insured programs, there were no significant reductions in insurance coverage for the 2016-2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The Intermediate Unit is a member of the School Districts Insurance Consortium (SDIC) for workers' compensation coverage. SDIC is comprised of 78-member school districts which jointly self-assume their workers' compensation liabilities. Even though the member school districts contribute to SDIC's insurance fund, they remain individually liable for their own workers' compensation claims. The members of SDIC are required to participate in any deficiencies of SDIC and are subject to periodic assessments, as required. At June 30, 2017, there was no unfunded liability.

**NOTE M - COMMITMENTS AND CONTINGENT LIABILITIES**

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

The Intermediate Unit is the defendant in several lawsuits arising in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements, and, accordingly, no provision for losses has been recorded.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE N - FUND BALANCES**

The detail breakdown of fund balances as of June 30, 2017, is as follows:

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Special Education Transportation Fund</u>
<b>FUND BALANCES</b>			
Nonspendable			
Inventory	\$ 22,949	\$ -	\$ -
Prepaid expenses	44,569	-	-
Restricted			
Title I	563,124	-	-
Statewide system of support	5,645	-	-
Title II - districts	20,149	-	-
Special education	-	9,194,255	173,403
Committed			
Self-insured unemployment compensation	1,185,577	-	-
Self-insured dental	325,307	-	-
Assigned			
Projects administration	8,696,289	-	-
Non-pub fee based	15,561	-	-
Pattan conferences	328,209	-	-
Facilities	4,107,914	-	-
Unemployment compensation	621,983	-	-
Dental consortium	29	-	-
IDEA - EIPA	83,377	-	-
Access - school age	3,828,468	-	-
Capital improvements and repairs	-	-	-
Unassigned	4,087,762	-	-
	<u>4,087,762</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	\$ <u>23,936,912</u>	\$ <u>9,194,255</u>	\$ <u>173,403</u>

Revenue Funds

<u>Institutionalized Children Fund</u>	<u>Early Intervention Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 22,949
-	-	-	44,569
-	-	-	563,124
-	-	-	5,645
-	-	-	20,149
-	-	-	9,367,658
-	-	-	1,185,577
-	-	-	325,307
-	-	-	8,696,289
-	-	-	15,561
-	-	-	328,209
-	-	-	4,107,914
-	-	-	621,983
-	-	-	29
-	-	-	83,377
-	-	-	3,828,468
-	-	3,000,000	3,000,000
-	-	-	4,087,762
\$ -	\$ -	\$ 3,000,000	\$ 36,304,570

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 7,718,855	\$ 7,718,855	\$ 8,628,599	\$ 909,744
State sources	23,879,646	23,879,646	23,407,783	(471,863)
Federal sources	42,470,549	42,470,549	40,073,638	(2,396,911)
<b>TOTAL REVENUES</b>	<b>74,069,050</b>	<b>74,069,050</b>	<b>72,110,020</b>	<b>(1,959,030)</b>
<b>EXPENDITURES</b>				
Instruction				
Special programs	986,779	986,779	1,277,096	(290,317)
Other instructional programs	2,091,593	2,091,593	2,340,441	(248,848)
Nonpublic school programs	4,766,544	4,766,544	4,775,324	(8,780)
Pre-kindergarten programs	2,317,079	2,317,079	2,686,280	(369,201)
Support services				
Pupil personnel services	7,829,530	7,829,530	7,864,833	(35,303)
Instructional staff services	6,847,521	6,847,521	7,002,860	(155,339)
Administration services	8,980,530	8,980,530	8,007,896	972,634
Pupil health services	161,786	161,786	194,033	(32,247)
Business services	2,806,032	2,806,032	2,532,408	273,624
Operation and maintenance of plant services	3,916,597	3,916,597	2,896,963	1,019,634
Student transportation services	519,932	519,932	1,268,173	(748,241)
Central and other support services	5,083,995	5,083,995	3,958,397	1,125,598
Other support services	31,679,687	31,679,687	29,982,902	1,696,785
Community service	-	-	1,312	(1,312)
Debt service	590,979	590,979	590,979	-
<b>TOTAL EXPENDITURES</b>	<b>78,578,584</b>	<b>78,578,584</b>	<b>75,379,897</b>	<b>3,198,687</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(4,509,534)</b>	<b>(4,509,534)</b>	<b>(3,269,877)</b>	<b>1,239,657</b>
<b>OTHER FINANCING SOURCES</b>				
Operating transfers in	4,575,362	4,575,362	2,568,345	(2,007,017)
<b>NET CHANGE IN FUND BALANCE</b>	<b>65,828</b>	<b>65,828</b>	<b>(701,532)</b>	<b>\$ (767,360)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>24,638,444</b>	<b>24,638,444</b>	<b>24,638,444</b>	
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 24,704,272</b>	<b>\$ 24,704,272</b>	<b>\$ 23,936,912</b>	

See accompanying notes to the budgetary comparison schedules.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL EDUCATION FUND**  
**YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 16,284,062	\$ 16,284,062	\$ 14,886,403	\$ (1,397,659)
State sources	4,601,833	4,601,833	4,576,697	(25,136)
<b>TOTAL REVENUES</b>	<b>20,885,895</b>	<b>20,885,895</b>	<b>19,463,100</b>	<b>(1,422,795)</b>
<b>EXPENDITURES</b>				
Instruction				
Special programs	10,371,949	10,371,949	8,917,185	1,454,764
Other instructional programs	509,368	509,368	370,218	139,150
Support services				
Pupil personnel services	5,018,821	5,018,821	4,401,408	617,413
Instructional staff services	38,822	38,822	81,495	(42,673)
Administration services	312,848	312,848	291,569	21,279
Pupil health services	650,828	650,828	530,788	120,040
Business services	3,600	3,600	9,509	(5,909)
Operation and maintenance of plant services	167,315	167,315	94,595	72,720
Central and other support services	316,875	316,875	100,953	215,922
Debt service	322,300	322,300	321,814	486
<b>TOTAL EXPENDITURES</b>	<b>17,712,726</b>	<b>17,712,726</b>	<b>15,119,534</b>	<b>2,593,192</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>3,173,169</b>	<b>3,173,169</b>	<b>4,343,566</b>	<b>1,170,397</b>
<b>OTHER FINANCING USES</b>				
Operating transfers out	(3,197,950)	(3,197,950)	(2,982,663)	215,287
<b>NET CHANGE IN FUND BALANCE</b>	<b>(24,781)</b>	<b>(24,781)</b>	<b>1,360,903</b>	<b>\$ 1,385,684</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>				
	<b>7,833,352</b>	<b>7,833,352</b>	<b>7,833,352</b>	
<b>FUND BALANCE AT END OF YEAR</b>				
	<b>\$ 7,808,571</b>	<b>\$ 7,808,571</b>	<b>\$ 9,194,255</b>	

See accompanying notes to the budgetary comparison schedules.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL EDUCATION TRANSPORTATION FUND**  
**YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 1,200	\$ 1,200	\$ 10,413	\$ 9,213
State sources	10,581,269	10,581,269	10,269,961	(311,308)
<b>TOTAL REVENUES</b>	<b>10,582,469</b>	<b>10,582,469</b>	<b>10,280,374</b>	<b>(302,095)</b>
<b>EXPENDITURES</b>				
Support services				
Administration services	1,400	1,400	1,200	200
Business services	50	50	16,151	(16,101)
Student transportation services	9,801,336	9,801,336	9,622,741	178,595
<b>TOTAL EXPENDITURES</b>	<b>9,802,786</b>	<b>9,802,786</b>	<b>9,640,092</b>	<b>162,694</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>779,683</b>	<b>779,683</b>	<b>640,282</b>	<b>(139,401)</b>
<b>OTHER FINANCING USES</b>				
Operating transfers out	(779,683)	(779,683)	(771,207)	8,476
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>(130,925)</b>	<b>\$ (130,925)</b>
<b>FUND DEFICIT AT BEGINNING OF YEAR</b>	<b>304,328</b>	<b>304,328</b>	<b>304,328</b>	
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 304,328</b>	<b>\$ 304,328</b>	<b>\$ 173,403</b>	

See accompanying notes to the budgetary comparison schedules.



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**BUDGETARY COMPARISON SCHEDULE**  
**INSTITUTIONALIZED CHILDREN FUND**  
**YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ -	\$ -	\$ 266	\$ 266
State sources	37,930	37,930	30,501	(7,429)
TOTAL REVENUES	<u>37,930</u>	<u>37,930</u>	<u>30,767</u>	<u>(7,163)</u>
EXPENDITURES				
Instruction				
Special programs	37,930	37,930	30,760	7,170
Administration services	-	-	7	(7)
TOTAL EXPENDITURES	<u>37,930</u>	<u>37,930</u>	<u>30,767</u>	<u>7,163</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-	-
OTHER FINANCING USES				
Operating transfers out	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-	\$ <u>-</u>
FUND BALANCE AT BEGINNING OF YEAR	-	-	-	
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See accompanying notes to the budgetary comparison schedules.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**BUDGETARY COMPARISON SCHEDULE**  
**EARLY INTERVENTION FUND**  
**YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 95,000	\$ 95,000	\$ 57,498	\$ (37,502)
State sources	19,237,435	19,237,435	19,706,894	469,459
TOTAL REVENUES	<u>19,332,435</u>	<u>19,332,435</u>	<u>19,764,392</u>	<u>431,957</u>
EXPENDITURES				
Instruction				
Special programs	10,952,345	10,952,345	12,533,581	(1,581,236)
Support services				
Pupil personnel services	3,667,223	3,667,223	2,330,163	1,337,060
Instructional staff services	31,800	31,800	31,960	(160)
Administration services	253,848	253,848	127,396	126,452
Pupil health services	2,944,699	2,944,699	3,259,198	(314,499)
Business services	18,620	18,620	25,976	(7,356)
Operation and maintenance of plant services	2,400	2,400	2,429	(29)
Central and other support services	147,025	147,025	139,214	7,811
TOTAL EXPENDITURES	<u>18,017,960</u>	<u>18,017,960</u>	<u>18,449,917</u>	<u>(431,957)</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,314,475	1,314,475	1,314,475	-
OTHER FINANCING USES				
Operating transfers out	<u>(1,314,475)</u>	<u>(1,314,475)</u>	<u>(1,314,475)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	\$ <u><u>-</u></u>
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See accompanying notes to the budgetary comparison schedules.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULES**  
**JUNE 30, 2017**

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**NOTE A - LEGAL COMPLIANCE BUDGETS**

The Intermediate Unit follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. In October, the Chief Financial Officer and Director of Management Services submit to the Board a proposed operating budget for the General Fund for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
2. In November, the Board approves the General Fund budget document and authorizes the administration to distribute copies to all school districts in Montgomery County for district board approval.
3. Upon receiving a favorable vote from the school districts, the General Fund budget is legally enacted prior to June 30.
4. All other budgets must receive Board approval prior to their submission to the Department of Education.
5. The Board may, by resolution, transfer unencumbered budgeted amounts between departments within any fund.
6. Budgets for all funds are adopted on a basis prescribed by the Department of Education.
7. All budgeted amounts lapse at year-end.

The Intermediate Unit's General Fund budget includes programs that have budgets approved on an annual basis and federal and state program budgets approved on a project-length basis that do not coincide with the Intermediate Unit's fiscal year.

The budgetary comparison schedules include amounts from the formally adopted budget, current year actual amounts for grant programs and internal budgets for federal project administration.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULES**  
**JUNE 30, 2017**

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**NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2017, expenditures exceeded appropriations in the following General Fund, Special Education Transportation Fund, Institutionalized Children Fund and Early Intervention Fund department levels (the legal level of budgetary control):

<b>GENERAL FUND</b>	
Special programs	\$ 290,317
Other instructional programs	248,848
Nonpublic school programs	8,780
Pre-kindergarten programs	369,201
Pupil personnel services	35,303
Instructional staff services	155,339
Pupil health services	32,247
Student transportation services	748,241
Community service	1,312
<b>SPECIAL EDUCATION FUND</b>	
Instructional staff services	\$ 42,673
Business services	5,909
<b>SPECIAL EDUCATION TRANSPORTATION FUND</b>	
Business services	\$ 16,101
<b>INSTITUTIONALIZED CHILDREN FUND</b>	
Pupil health services	\$ 7
<b>EARLY INTERVENTION FUND</b>	
Special programs	\$ 1,581,236
Administration services	160
Pupil health services	314,499
Business services	7,356
Operation and maintenance of plant services	29

These excess expenditures were funded by available fund balance in the General Fund, Special Education Fund, Special Education Transportation Fund, Institutionalized Children Fund and Early Intervention Fund.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF THE INTERMEDIATE UNIT'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY**  
**LAST THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Intermediate Unit's proportion of the net pension liability (asset)	<u>0.2498%</u>	<u>0.2286%</u>	<u>0.2542%</u>
Intermediate Unit's proportionate share of the net pension liability (asset)	<u>\$ 123,793,000</u>	<u>\$ 99,018,000</u>	<u>\$ 100,615,000</u>
Intermediate Unit's covered-employee payroll	<u>\$ 32,053,516</u>	<u>\$ 29,410,257</u>	<u>\$ 32,432,489</u>
Intermediate Unit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>386.21%</u>	<u>336.68%</u>	<u>310.23%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>50.14%</u>	<u>54.36%</u>	<u>57.24%</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF INTERMEDIATE UNIT'S CONTRIBUTIONS**  
**LAST THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 9,615,836	\$ 8,013,379	\$ 5,979,417
Contributions in relation to the contractually required contribution	<u>9,615,836</u>	<u>8,013,379</u>	<u>5,979,417</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Intermediate Unit's covered-employee payroll	\$ <u>32,930,945</u>	\$ <u>32,053,516</u>	\$ <u>29,410,257</u>
Contributions as a percentage of covered-employee payroll	<u>29.20%</u>	<u>25.00%</u>	<u>20.33%</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT**  
**BENEFIT PLAN LIABILITY AND RELATED RATIOS**  
**LAST FISCAL YEAR**

---

TOTAL OPEB LIABILITY	
Service cost	\$ 108,873
Interest	105,094
Benefit payments	<u>(139,158)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	74,809
Total OPEB liability, beginning	<u>1,583,333</u>
 TOTAL OPEB LIABILITY, ENDING (a)	 \$ <u>1,658,142</u>
 PLAN FIDUCIARY NET POSITION	
Contributions	
Employer	\$ 139,158
Net investment income	94,582
Benefit payments	(139,158)
Administrative expense	<u>(13,829)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	80,753
Plan fiduciary net position, beginning	<u>1,554,482</u>
 PLAN FIDUCIARY NET POSITION, ENDING (b)	 \$ <u>1,635,235</u>
 NET OPEB LIABILITY, ENDING (a)-(b)	 \$ <u>22,907</u>
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	  <u>98.62%</u>
 COVERED-EMPLOYEE PAYROLL	  \$ <u>31,257,637</u>
 NET OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	  <u>0.07%</u>

**NOTES TO SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT**  
**PLAN CONTRIBUTIONS**  
**LAST FISCAL YEAR**

---

ACTUARIALLY DETERMINED CONTRIBUTION	\$ 142,797
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>139,158</u>
CONTRIBUTION EXCESS	<u><u>\$ 3,639</u></u>
COVERED-EMPLOYEE PAYROLL	<u><u>\$ 31,257,637</u></u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u><u>0.45%</u></u>

**NOTES TO SCHEDULE**

Valuation date: July 1, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value
Inflation	2.5%
Salary increases	3.75% to 6.25% annual increase
Investment rate of return	4.59%
Retirement age	Normal retirement age based on PSERS plan experience
Mortality	rates assumed in the PSERS defined benefit pension plan actuarial valuation

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT PLAN  
INVESTMENT RETURNS  
LAST FISCAL YEAR

---

ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF  
INVESTMENT EXPENSE

5.19%

**NOTES TO SCHEDULE**

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**POSTEMPLOYMENT BENEFITS OTHER THAN**  
**PENSION FUNDING PROGRESS**  
**JUNE 30, 2017**

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**SCHEDULE OF FUNDING PROGRESS**

Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial 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 July 1,	\$ 1,162,468	\$ 2,522,076	\$ 1,359,608	46.09%	\$ 29,885,173	4.55%
2014	1,492,839	1,987,592	494,753	75.11%	28,569,569	1.73%
2016	1,554,482	1,668,932	114,450	93.14%	31,257,637	0.37%

***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 Directors  
Montgomery County Intermediate Unit  
Norristown, 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 Montgomery County Intermediate Unit as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Montgomery County Intermediate Unit's basic financial statements, and have issued our report thereon dated December 7, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montgomery County Intermediate Unit'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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors  
Montgomery County Intermediate Unit  
Norristown, Pennsylvania

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Montgomery County Intermediate Unit'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.

The image shows a handwritten signature in black ink that reads "Maullie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania  
December 7, 2017

***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 Directors  
Montgomery County Intermediate Unit  
Norristown, Pennsylvania

***Report on Compliance for Each Major Federal Program***

We have audited the Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit's major federal programs for the year ended June 30, 2017. The Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit's compliance.

To the Board of Directors  
Montgomery County Intermediate Unit  
Norristown, Pennsylvania

### ***Opinion on Each Major Federal Program***

In our opinion, the Montgomery County Intermediate Unit 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 Montgomery County Intermediate Unit 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 Montgomery County Intermediate Unit'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 Montgomery County Intermediate Unit's internal control over compliance.

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

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

To the Board of Directors  
Montgomery County Intermediate Unit  
Norristown, 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 Montgomery County Intermediate Unit as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Montgomery County Intermediate Unit'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.



Oaks, Pennsylvania  
December 7, 2017

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL  
AWARD PROGRAMS AUDIT**



**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL 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
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<b>Direct Federal Assistance</b>				
The Pennsylvania Deaf-Blind Project (Year 3)	D	84.326T	H326T130083	October 1, 2013 to September 30, 2018
The Pennsylvania Deaf-Blind Project (Year 4)	D	84.326T	H326T130083	October 1, 2013 to September 30, 2018
TOTAL THE PENNSYLVANIA DEAF-BLIND PROJECT				
<b>Passed through the Pennsylvania Department of Education</b>				
Title I Improving Basic Programs	I	84.010	013-160623	July 17, 2015 to September 30, 2016
Title I Improving Basic Programs	I	84.010	013-170623	July 2, 2016 to September 30, 2017
Title I Delinquent	I	84.010	107-150623	September 9, 2014 to September 30, 2016
Title I Delinquent	I	84.010	107-160623	July 17, 2015 to September 30, 2017
Title I Delinquent	I	84.010	107-170623	July 2, 2016 to September 30, 2017
Data Governance	I	84.010	147-160002	December 8, 2015 to September 30, 2016
Data Governance	I	84.010	147-170006	October 1, 2016 to June 30, 2017
Keystone Exams/PBA	I	84.010	148-160023	October 1, 2015 to September 30, 2016
Supports for Effective Standards Based Instruction	I	84.010	149-150022	October 1, 2015 to September 30, 2016
Supports for Effective Standards Based Instruction	I	84.010	149-170020	October 1, 2016 to September 30, 2017
TOTAL TITLE I CLUSTER				
IDEA-B	I	84.027	062-140035	July 1, 2013 to September 30, 2015
IDEA-B	I	84.027	062-150035	July 1, 2014 to September 30, 2016
IDEA-B	I	84.027	062-160035	July 1, 2015 to September 30, 2017
IDEA-B	I	84.027	062-170035	July 1, 2016 to September 30, 2017
IDEA-B	I	84.027	062-150023	July 1, 2014 to September 30, 2016
IDEA-B	I	84.027	062-160023	July 1, 2015 to September 30, 2016
IDEA-B	I	84.027	062-170023	July 1, 2016 to September 30, 2018
IDEA-B	I	84.027	131-160023	July 1, 2016 to June 30, 2017
IDEA-B	I	84.027	131-140023	July 1, 2014 to June 30, 2015
IDEA Preschool	I	84.173	131-160023	July 1, 2016 to June 30, 2017
TOTAL IDEA CLUSTER FORWARD				
SUBTOTAL FORWARD				

*See accompanying notes to the schedule of expenditures of federal awards.*

Program or Award Amount	Total Received	Accrued or (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Passed Through to Sub-Recipients	Accrued or (Deferred) Revenue at June 30, 2017
\$ 371,952	\$ 180,522	\$ 99,402	\$ 81,119	\$ 81,119	\$ -	\$ -
371,952	<u>200,174</u>	<u>-</u>	<u>246,742</u>	<u>246,742</u>	<u>-</u>	<u>46,569</u>
	<u>380,696</u>	<u>99,402</u>	<u>327,861</u>	<u>327,861</u>	<u>-</u>	<u>46,569</u>
113,036	29,523	18,367	11,156	11,156	-	-
111,780	59,616	-	58,419	58,419	-	(1,197)
360,737	-	(4,289)	4,289	4,289	-	-
409,330	136,443	(11,046)	145,124	145,124	-	(2,365)
395,133	289,764		380,359	380,359	-	90,595
12,000	6,000	6,000	-	-	-	-
12,533	8,355	-	12,533	12,533	-	4,178
5,886	3,434	3,434	-	-	-	-
68,174	45,449	45,449	-	-	-	-
80,961	<u>44,978</u>	<u>-</u>	<u>80,961</u>	<u>80,961</u>	<u>-</u>	<u>35,983</u>
	<u>623,563</u>	<u>57,915</u>	<u>692,841</u>	<u>692,841</u>	<u>-</u>	<u>127,193</u>
6,797,745	8,899	8,899	-	-	-	-
8,769,700	-	(513,335)	513,335	513,335	-	-
10,009,700	3,735,920	1,561,810	1,988,249	1,988,249	397,748	(185,861)
10,348,257	7,325,993	-	5,356,165	5,356,165	196,512	(1,969,828)
21,038,243	-	(12,134)	12,134	12,134	-	-
20,927,083	3,312,355	5,055,344	1,892,499	1,892,499	-	3,635,488
23,233,829	15,489,219	-	22,093,892	22,093,892	20,632,114	6,604,673
1,677,108	1,677,108	-	1,677,108	1,677,108	-	-
1,644,157	<u>-</u>	<u>(175)</u>	<u>175</u>	<u>175</u>	<u>-</u>	<u>-</u>
	<u>31,549,494</u>	<u>6,100,409</u>	<u>33,533,557</u>	<u>33,533,557</u>	<u>21,226,374</u>	<u>8,084,472</u>
402,636	<u>402,636</u>	<u>-</u>	<u>402,636</u>	<u>402,636</u>	<u>79,012</u>	<u>-</u>
	<u>31,952,130</u>	<u>6,100,409</u>	<u>33,936,193</u>	<u>33,936,193</u>	<u>21,305,386</u>	<u>8,084,472</u>
\$	<u>\$ 32,956,389</u>	<u>\$ 6,257,726</u>	<u>\$ 34,956,895</u>	<u>\$ 34,956,895</u>	<u>\$ 21,305,386</u>	<u>\$ 8,258,234</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL 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
<b>U.S. DEPARTMENT OF EDUCATION</b>				
SUBTOTAL FORWARDED				
<b>Passed through the Pennsylvania Department of Education</b>				
Title III Inst LEP/Immigrant Students	I	84.365	010-150623	September 9, 2014 to September 30, 2016
Title III Inst LEP/Immigrant Students	I	84.365	010-160623	July 17, 2015 to September 30, 2017
Title III Inst LEP/Immigrant Students	I	84.365	010-170623	July 2, 2016 to September 30, 2017
TOTAL TITLE III				
Title II Improving Teacher Quality	I	84.367	020-150623	July 17, 2015 to September 30, 2016
Title II Improving Teacher Quality	I	84.367	020-170623	July 2, 2016 to September 30, 2017
TOTAL TITLE III				
<b>Passed through Eastern Center for Arts and Technology</b>				
Vocational Education	I	84.048	Sub-Contract	September 4, 2015 to June 30, 2016
TOTAL U.S. DEPARTMENT OF EDUCATION FORWARD				

<u>Program or Award Amount</u>	<u>Total Received</u>	<u>Accrued or (Deferred) Revenue at July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Passed Through to Sub-Recipients</u>	<u>Accrued or (Deferred) Revenue at June 30, 2017</u>
	\$ <u>32,956,389</u>	\$ <u>6,257,726</u>	\$ <u>34,956,895</u>	\$ <u>34,956,895</u>	\$ <u>21,305,386</u>	\$ <u>8,258,234</u>
\$ 200,072	-	(25,203)	25,203	25,203	-	-
218,955	55,920	(86,460)	140,378	140,378	-	(2,001)
273,898	143,826	-	155,933	155,933	-	12,107
	<u>199,746</u>	<u>(111,663)</u>	<u>321,514</u>	<u>321,514</u>	<u>-</u>	<u>10,106</u>
134,492	44,831	(61,711)	106,541	106,541	-	-
134,492	<u>71,729</u>	<u>-</u>	<u>80,943</u>	<u>80,943</u>	<u>-</u>	<u>9,214</u>
	<u>116,560</u>	<u>(61,711)</u>	<u>187,484</u>	<u>187,484</u>	<u>-</u>	<u>9,214</u>
65,000	<u>6,500</u>	<u>6,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>33,279,195</u>	\$ <u>6,090,852</u>	\$ <u>35,465,893</u>	\$ <u>35,465,893</u>	\$ <u>21,305,386</u>	\$ <u>8,277,554</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL 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
<b>U.S. DEPARTMENT OF EDUCATION</b>				
SUBTOTAL FORWARDED				
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through the Pennsylvania Department of Public Welfare				
Medical Assistance - Access	I	93.778	4100009941	July 1, 2016 to June 30, 2017
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES ADMINISTRATION FOR CHILDREN AND FAMILIES</b>				
Head Start	D	93.600		June 1, 2015 to May 31, 2016
Head Start	D	93.600		June 1, 2016 to May 31, 2017
Head Start	D	93.600		June 1, 2017 to May 31, 2018
TOTAL HEAD START				
<b>U.S. DEPARTMENT OF AGRICULTURE FOOD AND NUTRITION SCIENCE</b>				
Passed through the Pennsylvania Department of Education				
Child and Adult Care Food Program	I	10.558		
TOTAL FEDERAL AWARDS				

**Source Codes**

D - Direct funding  
I - Indirect funding

**Programs Tested**

IDEA-B  
IDEA Preschool  
Head Start

TOTAL PROGRAMS TESTED

<u>Program or Award Amount</u>	<u>Total Received</u>	<u>Accrued or (Deferred) Revenue at July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Passed Through to Sub-Recipients</u>	<u>Accrued or (Deferred) Revenue at June 30, 2017</u>
	\$ 33,279,195	\$ 6,090,852	\$ 35,465,893	\$ 35,465,893	\$ 21,305,386	\$ 8,277,554
\$ -	68,047	-	68,047	68,047	-	-
3,471,996	717,906	717,906	-	-	-	-
3,856,020	3,557,189	177,155	3,676,179	3,676,179	-	296,144
3,913,862	-	-	186,897	186,897	-	186,897
	4,275,095	895,061	3,863,076	3,863,076	-	483,041
-	312,480	53,039	354,027	354,027	-	94,586
	<u>\$ 37,934,817</u>	<u>\$ 7,038,952</u>	<u>\$ 39,751,043</u>	<u>\$ 39,751,043</u>	<u>\$ 21,305,386</u>	<u>\$ 8,855,181</u>
<u>CFDA #</u>						
84.027	\$ 33,533,557	Total programs tested		\$ 37,799,269	=	95.09%
84.173	402,636	Total federal expenditures		\$ 39,751,043		
93.600	3,863,076					
	<u>\$ 37,799,269</u>					

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

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**NOTE A - BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note A to the Intermediate Unit's basic financial statements.

**NOTE B - FEDERAL EXPENDITURES**

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

**NOTE C - INDIRECT COST RATES**

The Intermediate Unit has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

**NOTE D - ADJUSTMENTS TO BEGINNING BALANCES**

As a result of the information obtained during the year, adjustments to accrued (deferred) revenue at July 1, 2016 were necessary for the programs listed below. A schedule of adjustments is as follows:

<u>Grant Program / Title</u>	<u>Federal CFDA Number</u>	<u>Accrued (Deferred) Revenue at June 30, 2016</u>	<u>Adjustment</u>	<u>Accrued (Deferred) Revenue at July 1, 2016</u>
IDEA-B	84.027	\$ <u>5,056,444</u>	\$ <u>(1,100)</u>	\$ <u>5,055,344</u>

Reconciliation to the schedule of expenditures of federal awards totals:

TOTAL ACCRUED (DEFERRED) REVENUE				
June 30, 2016				\$ 7,040,052
July 1, 2016				<u>7,038,952</u>
	TOTAL ADJUSTMENT TO ACCRUED (DEFERRED) REVENUE AT BEGINNING OF YEAR			<u>\$ (1,100)</u>

**MONTGOMERY COUNTY INTERMEDIATE UNIT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

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**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of the Montgomery County Intermediate Unit.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Montgomery County Intermediate Unit were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the 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.
5. The auditors' report on compliance for the major award programs for the Montgomery County Intermediate Unit expresses an unmodified opinion.
6. The programs tested as major federal programs were:

Program	CFDA
Special Education Cluster (IDEA)	
Special Education	
Grants to States (IDEA, Part B)	84.027
Preschool Grants (IDEA, Section 619)	84.173
Head Start	93.600

7. The threshold for distinguishing Types A and B programs was \$1,193,549.
8. The Montgomery County Intermediate Unit was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

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

None.