

In the opinion of Bond Counsel, assuming compliance with certain covenants of the School District, interest on the Bonds is excludable from gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Interest on the Bonds will not be an item of tax preference under the Internal Revenue Code of 1986, as amended (the “Code”), for purposes of determining the alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds may be indirectly subject to corporate alternative minimum tax for certain corporations as more fully described under the heading “TAX MATTERS” herein. Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

\$73,910,000

Downingtown Area School District

Chester County, Pennsylvania

\$14,635,000 General Obligation Bonds, Series A of 2018

\$32,620,000 General Obligation Bonds, Series B of 2018

\$26,655,000 General Obligation Bonds, Series C of 2018

Dated: Date of Issue

2018A Bonds and 2018B Bonds Principal Due: Initially on February 1, 2019; thereafter on August 1, as shown on inside cover

2018C Bonds Principal Due: August 1, as shown on inside cover

First Interest Payment: February 1, 2019

Interest Due: February 1 and August 1

The Bonds described herein are in the aggregate principal amount of \$73,910,000 and consist of three series, the \$14,635,000 General Obligation Bonds, Series A of 2018 (the “2018A Bonds”), the \$32,620,000 General Obligation Bonds, Series B of 2018 (the “2018B Bonds”) and the \$26,655,000 General Obligation Bonds, Series C of 2018 (the “2018C Bonds”). The 2018A Bonds, the 2018B Bonds and the 2018C Bonds are collectively referred to herein as the “Bonds”. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry only system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See “BOOK-ENTRY ONLY SYSTEM” herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein.

The Bonds are general obligations of the Downingtown Area School District, Chester County, Pennsylvania (the “School District”), payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking funds established under the Resolution or any other of its revenues or funds the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District, subject to statutory restrictions and limitations, irrevocably has pledged its full faith, credit and available taxing power, which taxing power presently includes the power to levy ad valorem taxes on all taxable real property within the School District (But see “Security” and “Act 1 of Special Session 2006 (Taxpayer Relief Act)” herein).

Interest on each of the Bonds is payable initially on February 1, 2019, and thereafter semiannually on February 1 and August 1 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for. The School District has appointed Fulton Bank, National Association (the “Paying Agent”), as paying agent and sinking fund depository for the Bonds. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, payments of the principal of, redemption premium, if any, and interest on the Bonds, when due for payment, will be made directly to DTC by the Paying Agent, and DTC will in turn remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. If the use of the Book-Entry Only System for the Bonds is ever discontinued, the principal of and redemption premium, if any, on each of the Bonds will be payable, when due, upon surrender of such Bond to the Paying Agent at its corporate trust office located in Lancaster, Pennsylvania (or any successor paying agent at its designated office(s)) and interest on such Bond will be payable by check and mailed to the person(s) in whose name(s) such Bond is registered as of the Record Date with respect to the particular interest payment date (See “THE BONDS,” *infra*).

The 2018A Bonds and 2018C Bonds are subject to redemption prior to maturity as described herein. The 2018B Bonds are not subject to redemption prior to maturity.

Proceeds of the 2018A Bonds, along with a School District cash contribution, will be used to refund the School District’s outstanding General Obligation Bonds, Series of 2010 (see “THE REFUNDING PROGRAM” herein) and pay the costs incurred by the School District in connection with the issuance of the 2018A Bonds.

Proceeds of the 2018B Bonds, along with a School District cash contribution, will be used to refund the School District’s outstanding General Obligation Notes, Series A of 2006 and Series C of 2006 (see “THE REFUNDING PROGRAM” herein) and pay the costs incurred by the School District in connection with the issuance of the 2018B Bonds.

Proceeds of the 2018C Bonds, along with a School District cash contribution, will be used to pay the costs of planning, designing, acquiring, constructing, furnishing and equipping additions and improvements to the School District’s Uwchlan Hills Elementary School and, to the extent of remaining funds, other buildings and facilities of the School District, and pay the costs of issuing the 2018C Bonds.

The Bonds are an authorized investment for fiduciaries in the Commonwealth of Pennsylvania pursuant to the Pennsylvania Probate, Estates and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508, as amended and supplemented.

MATURITY DATES AND AMOUNTS, INTEREST RATES, INITIAL OFFERING PRICES AND CUSIPS

See Inside Front Cover

The Bonds are offered when, as and if issued, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Lamb McErlane PC, of West Chester, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain other legal matters will be passed upon for the School District by Lamb McErlane PC, of West Chester, Pennsylvania, School District Solicitor and for the Underwriter by McNees Wallace & Nurick LLC, of Lancaster, Pennsylvania, Limited Scope Underwriter’s Counsel. PFM Financial Advisors LLC, Harrisburg, Pennsylvania, will act as Financial Advisor to the School District in connection with the Bonds. It is expected that the Bonds will be available for delivery through DTC on or about December 18, 2018.



RBC Capital Markets

\$73,910,000
Downingtown Area School District
Chester County, Pennsylvania
Consisting of:

\$14,635,000 General Obligation Bonds, Series A of 2018

Dated: Date of Issue

Principal Due: Initially on February 1, 2019;
thereafter on August 1, as shown below

Interest Due: February 1 and August 1

First Interest Payment: February 1, 2019

BOND MATURITY SCHEDULE:

Maturity Date (February 1) Year	Principal Amounts	Interest Rates	Initial Offering Prices	CUSIP Numbers⁽¹⁾
2019	\$955,000	2.000%	100.018%	261097XE4

Maturity Date (August 1) Year	Principal Amounts	Interest Rates	Initial Offering Prices	CUSIP Numbers⁽¹⁾
2019	\$825,000	3.000%	100.666%	261097XF1
2020	850,000	4.000	102.959	261097XG9
2021	885,000	4.000	104.529	261097XH7
2022	1,165,000	4.000	105.940	261097XJ3
2023	1,170,000	4.000	107.226	261097XK0
2024	1,235,000	4.000	108.252	261097XL8
2025	1,300,000	5.000	115.162	261097XM6
2026	1,385,000	5.000	116.489	261097XN4
2027	1,505,000	5.000	115.815*	261097XP9
2028	1,640,000	5.000	115.146*	261097XQ7
2029	1,720,000	5.000	114.407*	261097XR5

⁽¹⁾The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriters have agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

*Priced to Optional Redemption Date of August 1, 2026.

\$32,620,000 General Obligation Bonds, Series B of 2018

Dated: Date of Issue

Principal Due: Initially on February 1, 2019;
thereafter on August 1, as shown below

Interest Due: February 1 and August 1

First Interest Payment: February 1, 2019

BOND MATURITY SCHEDULE:

Maturity Date (February 1) Year	Principal Amounts	Interest Rates	Initial Offering Prices	CUSIP Numbers⁽¹⁾
2019	\$80,000	2.000%	100.018%	261097XS3

Maturity Date (August 1) Year	Principal Amounts	Interest Rates	Initial Offering Prices	CUSIP Numbers⁽¹⁾
2019	\$7,685,000	4.000%	101.279%	261097XT1
2020	2,500,000	3.000	101.376	261097XU8
2020	5,510,000	4.000	102.959	261097XV6
2021	3,530,000	3.000	101.998	261097XX2
2021	4,820,000	5.000	107.060	261097XW4
2022	1,780,000	3.000	102.486	261097XZ7
2022	6,715,000	5.000	109.395	261097XY0

\$26,655,000 General Obligation Bonds, Series C of 2018

Dated: Date of Issue

Principal Due: August 1, as shown below

Interest Due: February 1 and August 1

First Interest Payment: February 1, 2019

BOND MATURITY SCHEDULE:

Maturity Date (August 1) Year	Principal Amounts	Interest Rates	Initial Offering Prices	CUSIP Numbers⁽¹⁾
2019	\$185,000	2.000%	100.054%	261097YA1
2020	195,000	2.500	100.584	261097YB9
2021	195,000	2.500	100.732	261097YC7
2022	215,000	2.500	100.758	261097YD5
2023	5,000	2.500	100.651	261097YE3
2024	5,000	2.500	100.364	261097YF0
2025	5,000	3.000	102.846	261097YG8
2026	5,000	3.000	102.398	261097YH6
2028**	1,720,000	5.000	115.146*	261097YK9
2029	1,830,000	4.000	106.974*	261097YL7
2030	7,065,000	5.000	113.748*	261097YM5
2031	7,425,000	5.000	113.238*	261097YN3
2032	7,805,000	5.000	112.875*	261097YP8

⁽¹⁾The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriters have agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

*Priced to Optional Redemption Date of August 1, 2026.

**Term Bonds.

DOWNINGTOWN AREA SCHOOL DISTRICT

Chester County, Pennsylvania

BOARD OF SCHOOL DIRECTORS

Jane Bertone	President
Carl Croft	Vice-President
Vacant	Member
Rebecca Britton	Member
Colleen Cranney	Member
David Kring	Member
Jamie Mehler	Member
Ted Rauth	Member
Lee Wisdom	Member

SUPERINTENDENT

EMILIE M. LONARDI, Ph.D.

CHIEF FINANCIAL OFFICER

RICHARD A. FAZIO

SCHOOL DISTRICT SOLICITOR

LAMB MCERLANE PC
West Chester, Pennsylvania

SCHOOL DISTRICT BOND COUNSEL

LAMB MCERLANE PC
West Chester, Pennsylvania

FINANCIAL ADVISOR

PFM FINANCIAL ADVISORS LLC
Harrisburg, Pennsylvania

PAYING AGENT

FULTON BANK, NATIONAL ASSOCIATION
Lancaster, Pennsylvania

UNDERWRITER

RBC CAPITAL MARKETS, LLC
Lancaster, Pennsylvania

LIMITED SCOPE UNDERWRITER'S COUNSEL

MCNEES, WALLACE & NURICK LLC
Lancaster, Pennsylvania

SCHOOL DISTRICT ADDRESS

540 Trestle Place
Downingtown, PA 19335

No dealer, broker, salesman or other person has been authorized by the School District to give information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the School District and from other sources which are believed to be reliable but the School District does not guarantee the accuracy or completeness of information from sources other than the School District. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT PURSUANT TO ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS OR THE RESOLUTION IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF CERTAIN STATES, IF ANY, IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

\$73,910,000

Downingtown Area School District

Chester County, Pennsylvania

\$14,635,000 General Obligation Bonds, Series A of 2018

\$32,620,000 General Obligation Bonds, Series B of 2018

\$26,655,000 General Obligation Bonds, Series C of 2018

INTRODUCTION

This Official Statement, including the cover page and inside cover page hereof, is furnished by Downingtown Area School District, Chester County, Pennsylvania (the "School District"), in connection with the offering of \$73,910,000 combined aggregate principal amount of general obligation bonds consisting of the \$14,635,000 General Obligation Bonds, Series A of 2018 (the "2018A Bonds"), the \$32,620,000 General Obligation Bonds, Series B of 2018 (the "2018B Bonds") and the \$26,655,000 General Obligation Bonds, Series C of 2018 (the "2018C Bonds") (the 2018A Bonds, the 2018B Bonds and the 2018C Bonds are collectively referred to as the "Bonds"). The Bonds are dated as of their Date of Issue and are being issued pursuant to a Resolution of the Board of School Directors of the School District adopted on October 10, 2018 (the "Resolution"), and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania (the "Commonwealth"), 53 Pa. C.S. § 8001 et seq., as amended (the "Act").

PURPOSE OF THE ISSUE

Proceeds of the 2018A Bonds, along with a School District cash contribution, will be used to refund the School District's General Obligation Bonds, Series of 2010, currently outstanding in the principal amount of \$16,115,000 (the "2010 Bonds") and pay the costs and expenses related to the issuance of the 2018A Bonds.

Proceeds of the 2018B Bonds, along with a School District cash contribution, will be used to refund the School District's General Obligation Notes, Series A of 2006, currently outstanding in the principal amount of \$18,800,000 (the "2006A Notes"), refund the School District's General Obligation Notes, Series C of 2006, currently outstanding in the principal amount of \$15,200,000 (the "2006C Notes") and pay the costs and expenses related to the issuance of the 2018B Bonds.

Proceeds of the 2018C Bonds, along with a School District cash contribution, will be used to pay the costs of planning, designing, acquiring, constructing, furnishing and equipping additions and improvements to the School District's Uwchlan Hills Elementary School and, to the extent of remaining funds, other buildings and facilities of the School District, and pay the costs of issuing the 2018C Bonds.

The Refunding Program

Upon issuance of the 2018A Bonds, a portion of the proceeds will be deposited with Fulton Bank, National Association, as paying agent for the 2010 Bonds, in an amount sufficient to redeem the 2010 Bonds at a redemption price of 100% on or about December 18, 2018.

Upon issuance of the 2018B Bonds, a portion of the proceeds will be deposited with The Bank of New York Mellon Trust Company, N.A., as trustee for the 2006A Notes and 2006C Notes, in an amount sufficient to redeem the 2006A Notes and 2006C Notes at a redemption price of 100% on or about January 2, 2019.

Sources and Uses of Bond Proceeds

The following is a summary of the sources and uses of the proceeds of the Bonds.

	2018A Bonds	2018B Bonds	2018C Bonds	Total
<u>SOURCE OF FUNDS</u>				
Bond Proceeds.....	\$14,635,000.00	\$32,620,000.00	\$26,655,000.00	\$73,910,000.00
School District Cash Contribution.....	176,977.49	260,759.99	254,007.52	691,745.00
Net Original Issue Premium/(Discount)	1,486,246.15	1,381,692.90	3,351,855.60	6,219,794.65
Total Source of Funds	<u>\$16,298,223.64</u>	<u>\$34,262,452.89</u>	<u>\$30,260,863.12</u>	<u>\$80,821,539.65</u>
<u>USE OF FUNDS</u>				
Redemption Requirements	\$16,115,000.00	\$34,000,000.00	\$0.00	\$50,115,000.00
Available for Capital Projects.....	0.00	0.00	30,000,000.00	30,000,000.00
Cost of Issuance ⁽¹⁾	183,223.64	262,452.89	260,863.12	706,539.65
Total Use of Funds	<u>\$16,298,223.64</u>	<u>\$34,262,452.89</u>	<u>\$30,260,863.12</u>	<u>\$80,821,539.65</u>

⁽¹⁾Includes legal, financial advisor, printing, ratings, underwriting, CUSIP, paying agent, and miscellaneous costs.

THE BONDS

Description

The Bonds will be issued in fully registered form in denominations of \$5,000 and integral multiples thereof and will be in the aggregate principal amount of \$73,910,000. The Bonds will be dated the Date of Issue, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside front cover of this Official Statement. Interest on the Bonds will be payable initially on February 1, 2019, and thereafter semiannually on February 1 and August 1 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for.

When issued, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers of the Bonds (the "Beneficial Owners") will not receive any physical delivery of bond certificates, and beneficial ownership of the Bonds will be evidenced only by book entries. See "BOOK-ENTRY ONLY SYSTEM" herein.

Payment of Principal and Interest

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of principal or redemption price of and interest on the Bonds, when due, are to be made to DTC and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the School District with respect to, and to the extent of, principal, redemption price, and interest so paid.

If the use of the Book-Entry Only System for the Bonds is discontinued for any reason, bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal, redemption price and interest on the Bonds shall be made as described in the following paragraphs.

The principal of the Bonds, when due upon maturity or upon any earlier redemption, will be paid to the registered owners of the Bonds, or registered assigns, upon surrender of the Bonds to Fulton Bank, National Association (the "Paying Agent"), acting as paying agent and sinking fund depository for the Bonds, at its corporate trust office in Lancaster, Pennsylvania (or to any successor paying agent at its designated office(s)).

Interest is payable to the registered owner of a Bond from the interest payment date next preceding the date of authentication of the Bond, unless: (a) such Bond is authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is authenticated after a Regular Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such succeeding interest payment date, or (c) such Bond is authenticated prior to the February 1, 2019, in which event such Bond shall bear interest from the Date of Issue of the Bonds, or (d) as shown by the records of the Paying Agent, interest on such Bond shall be in default, in which event such Bonds shall bear interest from the date to which interest was last paid on such Bond. Interest shall be paid initially on February 1, 2019 and thereafter semiannually on February 1 and August 1 of each year, until the principal sum is paid. Interest on each Bond will be payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth calendar day (whether or not a day on which the Paying Agent is open for business) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the Bond subsequent to such Regular Record Date and prior to such interest payment date, unless the School District shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date (which shall be a business day) for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of such Bonds at least ten days preceding such special record date but not more than fifteen days prior to the payment date of such defaulted interest.

If the date for payment of the principal of or interest on any Bonds shall be a Saturday, Sunday, legal holiday, a day on which banking institutions in the Commonwealth are authorized by law or executive order to close, or a day on which the New York Stock Exchange is closed, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, a day on which such banking institutions are authorized to close, or a day on which the New York Stock Exchange is closed and payment on such date shall have the same force and effect as if made on the nominal date established for such payment.

Transfer, Exchange and Registration of Bonds

Subject to the provisions described under “BOOK-ENTRY ONLY SYSTEM” herein, Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent at its designated office in Lancaster, Pennsylvania, accompanied by a written instrument or instruments in form, with instructions, and with guaranty of signature satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter any transfer of ownership of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees, a new fully registered bond or bonds of authorized denominations of the same maturity and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the School District and the Paying Agent shall not be affected by any notice to the contrary.

Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate.

SECURITY FOR THE BONDS

General Obligation Pledge

The Bonds will be general obligations of the School District, payable from its tax and other general revenues. The School District has covenanted that it will to the fullest extent authorized under applicable law provide in its budget for each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year, and will duly and punctually pay or cause to be paid from its Sinking Fund, as hereinafter defined, or any other of its revenues or funds, the principal of each of the Bonds and the interest thereon at the dates and place and in the manner stated on the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and taxing power, which taxing power includes the power to levy ad valorem taxes on all taxable property within the School District within the limits provided by law (see “Taxing Powers of the School District” herein). The Act presently provides for enforcement of debt service payments as hereinafter described (see “Defaults and Remedies” herein), and the Public School Code presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see “Commonwealth Enforcement of Debt Service Payments” herein).

Commonwealth Enforcement of Debt Service Payments

Section 633 of the Pennsylvania Public School Code of 1949, as amended by Act 154 of 1998 (the “Public School Code”), presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory redemption or on any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date or on any sinking fund deposit date, in accordance with the schedule under which the Bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any state appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, or sinking fund deposit due by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such bond issue. These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers’ salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors’ rights generally. But see “**Pennsylvania Budget Adoption**”.

Pennsylvania Budget Adoption

Over the past several years the Commonwealth of Pennsylvania has, from time to time, started its fiscal year without a fully adopted state budget. In the state’s 2015-16 fiscal year, a final budget was not enacted until 270 days following the beginning of the fiscal year on March 27, 2016 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on March 17, 2016.

For the 2016-17 fiscal year, the state budget became law, known as Act 16A of 2016, on July 12, 2016 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on July 1, 2016. On July 13, 2016, the General Assembly adopted and Governor signed into law additional tax and revenue package, known as Act 85 of 2016, which was needed to balance the 2016-17 state budget.

For the 2017-18 fiscal year, the state budget became law, known as Act 1A of 2017, on July 11, 2017 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on June 30, 2017. Act 1A of 2017 did not have any accompanying legislation regarding the potential revenue that would be needed to fund the balance of the 2017-18 Budget at the time of its enactment. On October 25, 2017, the General Assembly adopted House Bill 542 which contained the necessary revenue to fund the balance of the previously adopted Act 1A of 2017. On October 30, 2017 the Governor approved and signed House Bill 542 and it became known as Act 43 of 2017. The budget for the 2018-19 fiscal year was adopted on a timely basis.

During a state budget impasse, school districts in Pennsylvania cannot be certain when state subsidies and revenues owed them from the Commonwealth will become available. This includes many of the major state subsidies, and overall revenues, that a Pennsylvania school district receives including basic education funding, special education funding, PlanCon reimbursements, and certain block grants, among many others. **Future budget impasses may affect the timeliness or amount of payments by the Commonwealth under the withholding provisions of Section 633 of the Public School Code, however recent legislation included in Act 85 of 2016 has attempted to address the timeliness of the withholding provisions of Section 633 of the Public School Code during any future budget impasses. See “Act 85 of 2016” hereinafter.**

Act 85 of 2016

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) (“Act 85 of 2016”), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code (“Fiscal Code”). Act 85 of 2016 adds to the Fiscal Code Article XVII-E.4, entitled “School District Intercepts for the Payment of Debt Service During Budget Impasse”, which provides for intercept of subsidy payments by the Pennsylvania Department of Education (“PDE”) to a school district subject to an intercept statute or an intercept agreement in the event of a Commonwealth budget impasse in any fiscal year.

Act 85 of 2016 includes in the definition of “intercept statutes” Section 633 of the Public School Code. The School District's general obligation bonds, including the Bonds, are subject to Section 633 of the Public School Code.

Act 85 of 2016 provides that the amounts that may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement “shall be appropriated” to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year:

- (1) annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due;
- (2) the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and
- (3) the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated and paid to the paying agent on the day the scheduled payment for principal and interest is due on the expiration of the tenth day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

The total of all intercept payments under Article XVII-E.4 for a school district may not exceed 50% of the total nonfederal general fund subsidy payments made to that school district in the prior fiscal year.

Act 85 of 2016 requires that each school district with bonds or notes subject to an intercept statute or intercept agreement must deliver to PDE, in such format as PDE may direct, a copy of the final Official Statement for the relevant bonds or notes or the loan documents relating to the obligations, within thirty days of receipt of the proceeds of the obligations. The School District intends on submitting this information with respect to the Bonds to PDE within the prescribed timeframe following the issuance of the Bonds. Act 85 of 2016 provides that any obligation for which PDE does not receive the required documents shall not be subject to the applicable intercept statute or intercept agreement.

The provisions of Act 85 of 2016 are not part of any contract with the holders of the Bonds and may be amended or repealed by future legislation.

Sinking Funds

Sinking funds for the payment of debt service on the Bonds, designated “Sinking Fund, General Obligation Bonds, Series A of 2018”, “Sinking Fund, General Obligation Bonds, Series B of 2018” and “Sinking Fund, General Obligation Bonds, Series C of 2018” (the “Sinking Funds”), has been created under the Resolution and is maintained by the Paying Agent, as sinking fund depository. The School District shall deposit in the Sinking Funds a sufficient sum not later than the date when interest or principal is to become due on the Bonds so that on each payment date the Sinking Funds will contain an amount which, together with any other funds available therein, is sufficient to pay, in full, interest and principal then due on the Bonds.

The Sinking Funds shall be held by the Paying Agent, as sinking fund depository, and invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Funds.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the Sinking Funds the principal of and interest on the Bonds, as and when due and payable.

REDEMPTION OF BONDS

Mandatory Redemption – 2018C Bonds

In the manner and upon the terms and conditions provided in the Resolution, the 2018C Bonds stated to mature on August 1, 2028 are subject to mandatory sinking fund redemption prior to maturity in direct order of maturity pursuant to operation of the Sinking Fund in the manner set forth in the Resolution at a redemption price equal to one-hundred percent (100%) of the principal amount thereof, together with accrued interest on August 1 of the following years in the following principals amounts, as drawn by lot by the Paying Agent.

<u>Term Bonds Due August 1, 2028:</u>	
<u>Year</u>	<u>Amount</u>
2027	\$5,000
2028	1,715,000*

* At maturity.

Optional Redemption

2018A Bonds

The 2018A Bonds stated to mature on or after August 1, 2027, shall be subject to redemption prior to maturity, at the option of the School District, as a whole, on August 1, 2026, or on any date thereafter, or from time to time, in part (and if in part, in any order of maturity as selected by the School District and within a maturity by lot), in either case upon payment of a redemption price of 100% of the principal amount of such Bonds, together with accrued interest to the redemption date.

2018B Bonds

The 2018B Bonds are not subject to redemption prior to maturity.

2018C Bonds

The 2018C Bonds stated to mature on or after August 1, 2028, shall be subject to redemption prior to maturity, at the option of the School District, as a whole, on August 1, 2026, or on any date thereafter, or from time to time, in part (and if in part, in any order of maturity as selected by the School District and within a maturity by lot), in either case upon payment of a redemption price of 100% of the principal amount of such Bonds, together with accrued interest to the redemption date.

Notice of Redemption

Notice of any redemption shall be given by depositing a copy of the redemption notice by first class mail not less than thirty nor more than sixty days prior to the date fixed for redemption addressed to each of the registered owners of Bonds to be redeemed, in whole or in part, at the addresses shown on the registration books; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal and accrued interest being held by the Paying Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect to such Bonds, except to receive payment of the principal of and accrued interest on such Bonds to the date fixed for redemption.

Manner of Redemption

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing that number of Bonds which is obtained by dividing the principal amount thereof by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday, a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, or a day on which the New York Stock Exchange is closed, then the date for payment of the principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, or a day on which the New York Stock Exchange is closed, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

If at the time of mailing of any notice of redemption the School District shall not have deposited with the Paying Agent funds sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional, that is, subject to the deposit of redemption monies with the Paying Agent no later than the redemption date, and that such notice will be of no effect unless such moneys are so deposited.

BOOK-ENTRY ONLY SYSTEM

The information in this section has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information, and such information is not to be construed as a representation of the School District or the Underwriter.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The Ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

NEITHER THE SCHOOL DISTRICT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The Issuer and the Paying Agent cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

THE SCHOOL DISTRICT

The School District is located in central Chester County and covers an area of 81 square miles. The School District is located in the Chester Valley which runs east and west through the area. Geographically the area encompassed by the School District is in the shape of a figure eight, 25 miles west of Philadelphia, 35 miles east of Lancaster, Pennsylvania and 20 miles north of Wilmington, Delaware. Many well-known unincorporated communities are located within the School District and these include: Marshallton in West Bradford Township, Lionville in Uwchlan Township, Whitford in East Caln Township, Lyndell and Guthriesville in East Brandywine Township, Glenmoore in Wallace Township, Eagle in Upper Uwchlan Township and Chester Springs in West Pikeland Township.

The School District is characterized by rolling hills and valleys flanking the east branch of the Brandywine Creek and its tributaries. Economically, the northern portion of the School District is residential and agricultural in nature with many large estates. Located in this section of the School District is the Pickering Hunt Club, one of the oldest fox hunting clubs in the United States. The School District has experienced substantial residential and moderate industrial growth in the last twenty years.

Residential growth has taken place mainly in East Caln, Uwchlan, Upper Uwchlan and West Bradford Townships and is due chiefly to the location of these Townships in relation to the more urban centers of Downingtown, King of Prussia, West Chester, Malvern, Great Valley, Philadelphia, Valley Forge, and Wilmington, Delaware. These Townships are on the fringe of urban influence but still possess the advantage of a country environment.

Industrial growth within the School District has been influenced by two factors: first, the main line of Norfolk Southern passes through the Borough of Downingtown and East Caln Township and second, the Downingtown Interchange of the Pennsylvania Turnpike, a major access interchange for the western suburbs of Philadelphia is located in Uwchlan Township.

Administration

The governing body of the School District is a board of nine school directors who are elected on a staggered basis. The daily operations and management of the School District are carried out by the administrative staff of the School District headed by the Superintendent of Schools. The Chief Financial Officer is responsible for the budget and financial operations. Both of these officials are appointed by the Board of School Directors.

School Facilities

The School District presently operates ten elementary schools, a 6th grade center, two middle schools, a STEM Academy and two senior high schools, all as described below.

**TABLE 1
DOWNTOWN AREA SCHOOL DISTRICT
SCHOOL FACILITIES**

Building	Original Construction Date	Most Recent Renovation Date	Grades	Rated Pupil Capacity	2018-19 Enrollment
<u>Elementary:</u>					
Beaver Creek	1960	2004	K-5	525	447
Bradford Heights	1990	---	K-5	550	597
Brandywine Wallace.....	1960	2008	K-5	550	529
East Ward	1968	1997	K-5	650	544
Lionville	1960	1997	K-5	600	648
Pickering Valley	2006	---	K-5	650	454
Shamona Creek.....	1990	2006	K-5	675	604
Uwchlan Hills	1972	2003	K-5	575	477
West Bradford	1966	2006	K-5	575	610
Springton Manor.....	2008	---	K-5	650	566
Marsh Creek 6 th Grade Center	2014	---	6	1,200	
<u>Secondary:</u>					1,051
Lionville Middle School	1997	2006	7-8	1,350	1,070
Downtown Middle School.....	1997	2006	7-8	1,350	1,119
STEM Academy	1932	2011	9-12	800	819
Downtown Senior High East	1968	2000	9-12	1,700	1,752
Downtown Senior High West....	1959	2002	9-12	1,800	1,646

Source: School District Officials.

Enrollment Trends

Table 2 presents recent trends in school enrollment and projections of enrollment for the next 5 years, as prepared by the School District's administrative officials.

**TABLE 2
DOWNTOWN AREA SCHOOL DISTRICT
ENROLLMENT TRENDS**

Actual Enrollment				Projected Enrollment			
Year	Elementary	Secondary	Total	Year	Elementary	Secondary	Total
2014-15	6,213	5,870	12,083	2019-20	6,595	6,811	13,406
2015-16	6,248	6,042	12,290	2020-21	6,656	6,981	13,637
2016-17	6,492	6,176	12,668	2021-22	6,644	7,138	13,782
2017-18	6,538	6,266	12,804	2022-23	6,579	7,291	13,870
2018-19	6,527	6,406	12,933	2023-24	6,568	7,282	13,850

Source: School District estimates. Enrollments include Vo-Tech students.

SCHOOL DISTRICT FINANCES

Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Superintendent and Chief Financial Officer and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

Financial Reporting

The School District has organized its accounts on the basis of funds or groups of funds, each of which is a separate accounting entity. It maintains a General Fund for instructional, operational and administrative expenses, a Food Services Fund, a Capital Reserve Fund for Capital Improvements, Capital Project Funds for Construction Projects as needed and various school activity funds. Federal funds are appropriated by the School Board during the fiscal year after grant commitments and project approvals are received. The School District keeps the books and prepares the financial reports for the General Fund according to a modified accrual basis of accounting. Major accrual items are payrolls, payroll taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units. Taxes are credited when received. The School District financial statements are audited annually by a firm of independent certified public accountants, as required by Commonwealth law.

The School District expects the Auditor to complete the audit of their financial statements for the year ended June 30, 2018 by the end of December 2018, and the Board of School Directors will approve the audit soon thereafter to be posted on EMMA. The School District anticipates the audit to be in-line with the unaudited information presented in the Official Statement and does not expect that the audit will contain any information that would materially or adversely affect the School District's financial condition.

Budgeting Process in School Districts under the Taxpayer Relief Act

In General. School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by school district administrative officials on a uniform form furnished by such Department and submitted to the board of school directors for approval prior to the beginning of the fiscal year on July 1.

Procedures for Adoption of the Annual Budget. Under the Taxpayer Relief Act, all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days' public notice of its intent to adopt the final budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (*see "The Taxpayer Relief Act (Act 1)"* herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under The Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (*see "The Taxpayer Relief Act (Act 1)"* herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

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Summary of Financial Results

A summary of the General Fund balance sheet and changes in fund balances is presented in Tables 3 and 4. Table 5 shows revenues and expenditures for the past 4 years, 2017-18 estimated and the 2018-19 budget.

TABLE 3
DOWNINGTOWN AREA SCHOOL DISTRICT
SUMMARY OF GENERAL FUND
BALANCE SHEET
(Years Ending June 30)

<u>ASSETS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cash and Cash Equivalents	\$54,237,124	\$23,063,561	\$15,905,774	\$23,033,626
Investments	39,548,041	39,107,674	44,485,641	47,007,753
Taxes Receivable (net)	458,337	4,255,955	4,137,166	3,973,951
Intergovernmental Receivable	3,707,833	4,630,967	6,149,615	6,040,702
Prepaid Expenses	1,126	38,145	2,400	0
Due from Other Funds	0	0	0	8,163
Other Receivables	366,674	330,191	461,403	1,555,323
Interest Receivables	43,152	78,382	0	0
<i>TOTAL ASSETS</i>	<u>\$102,487,328</u>	<u>\$71,504,875</u>	<u>\$71,141,999</u>	<u>\$81,619,518</u>
<u>LIABILITIES</u>				
Interfund & Intergovernmental Payables	\$51,588,324	\$19,625,909	\$13,135,849	\$25,804,108
Accounts Payable	5,037,952	5,895,798	6,820,798	6,566,711
Accrued Salaries and Benefits	15,713,592	17,026,920	19,808,603	21,830,235
Unearned Revenue	135,573	1,324,897	3,369,484	305,729
<i>TOTAL LIABILITIES</i>	<u>\$72,475,441</u>	<u>\$43,873,524</u>	<u>\$43,134,734</u>	<u>\$54,506,783</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable Revenue - Property Taxes	\$3,903,961	\$3,357,401	\$3,395,905	\$9,771,135
<u>FUND BALANCES</u>				
Non-spendable	\$1,126	\$38,145	\$2,400	\$0
Assigned	10,000,000	7,651,563	7,720,000	0
Unassigned	16,106,800	16,584,242	16,888,960	17,341,600
<i>TOTAL FUND BALANCES</i>	<u>\$26,107,926</u>	<u>\$24,273,950</u>	<u>\$24,611,360</u>	<u>\$17,341,600</u>
<i>TOTAL LIABILITIES</i> <i>AND FUND BALANCES</i>	<u>\$102,487,328</u>	<u>\$71,504,875</u>	<u>\$71,141,999</u>	<u>\$81,619,518</u>

Source: School District Annual Financial Reports.

TABLE 4
DOWNINGTOWN AREA SCHOOL DISTRICT GENERAL FUND
SUMMARY OF CHANGES IN FUND BALANCE*
(Years Ending June 30)

	<u>Actual</u>				<u>Estimated</u>	<u>Budget</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018⁽¹⁾</u>	<u>2019</u>
Beginning Fund Balance	\$29,598,477	\$26,107,927	\$24,273,951	\$24,611,361	\$17,341,601	\$17,694,454
Revenues over (under) Expenditure	(3,490,550)	(1,833,976)	337,410	(7,269,760)	352,853	0
Ending Fund Balance	<u>\$26,107,927</u>	<u>\$24,273,951</u>	<u>\$24,611,361</u>	<u>\$17,341,601</u>	<u>\$17,694,454</u>	<u>\$17,694,454</u>

*Totals may not add due to rounding.

⁽¹⁾ Estimated, subject to change and final audit.

Source: School District Annual Financial Reports and Officials.

General Fund Revenue and Expenditures

The School District received General Fund revenue of \$222,898,371 (estimated) in 2017-18. Local sources have contributed a decreasing share of revenue in the past five years, from 79.1% in 2013-14 to an estimated 76.2% in 2017-18. Revenue from State sources increased as a share of the total from 19.4% to an estimated 22.5% over this period. Federal and other revenue decreased slightly over this period.

The budget for 2018-19, as adopted June 18, 2018, has revenue and expenditures of \$220,629,805.

TABLE 5
DOWNINGTOWN AREA SCHOOL DISTRICT
SUMMARY OF SCHOOL DISTRICT GENERAL FUND
REVENUES AND EXPENDITURES*
(Years Ending June 30)

Revenues	Actual				Estimated	Budget
	2014	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽²⁾
Local Sources:						
Real Estate Taxes	\$136,592,238	\$138,540,730	\$142,003,943	\$143,229,217	\$137,897,085	\$143,675,667
Realty Transfer Tax	2,443,816	2,514,756	3,348,454	2,937,027	2,999,767	2,850,000
Earned Income Taxes	15,098,451	16,076,800	15,700,345	16,440,768	16,475,316	16,300,000
Other Taxes	390,647	395,626	391,994	409,494	6,188,891	406,000
Earnings from Investments	309,237	381,737	475,958	732,214	1,380,428	1,200,000
Other Local Revenues	3,227,725	3,438,068	3,878,208	4,270,498	4,810,119	4,337,672
State Sources	38,795,263	40,489,476	43,445,079	50,415,422	50,224,146	50,500,466
Federal Sources	3,057,783	2,758,810	2,724,944	2,973,257	2,922,619	1,270,000
TOTAL REVENUES	\$199,915,160	\$204,596,003	\$211,968,925	\$221,407,897	\$222,898,371	\$220,539,805
Expenditures						
Instruction	\$107,576,872	\$114,337,036	\$122,852,991	\$126,339,494	\$130,407,874	\$129,840,281
Support Services	50,494,222	54,859,555	58,164,456	60,692,658	60,274,070	63,051,894
Non-Instructional Services	3,418,070	3,742,258	3,781,391	3,952,347	4,152,501	3,863,780
Capital Outlay	300,250	187,621	311,756	353,018	331,257	310,000
Debt Service	16,801,219	13,887,128	13,361,677	11,831,039	11,833,005	10,050,000
Budgetary Reserve	0	0	0	0	0	5,563,850
TOTAL EXPENDITURES	\$178,590,633	\$187,013,598	\$198,472,271	\$203,168,556	\$206,998,707	\$212,679,805
EXCESS (DEFICIENCY) OF REVENUES						
OVER EXPENDITURES	\$21,324,527	\$17,582,405	\$13,496,654	\$18,239,341	\$15,899,664	\$7,860,000
Other Financing Sources (Uses):						
Interfund Transfers Out (Reimbursement)	(6,888,420)	(4,087,689)	(6,653,673)	(8,786,414)	(9,363,011)	0
Interfund Transfers Out (Non-Reimbursement)	(18,182,834)	(15,484,955)	(6,474,081)	(16,974,370)	(6,463,058)	(7,950,000)
Sale of Capital Assets and Other Sources	17,064	37,165	45,414	182,098	279,258	90,000
Refunds of Prior Years Expenses	244,587	121,572	64,835	88,522	0	0
Refunds of Prior Years Revenues	(5,474)	(2,474)	(141,739)	(18,937)	0	0
TOTAL OTHER FINANCING SOURCES (USES)	(\$24,815,077)	(\$19,416,381)	(\$13,159,244)	(\$25,509,101)	(\$15,546,811)	(\$7,860,000)
NET CHANGE IN FUND BALANCES	(\$3,490,550)	(\$1,833,976)	\$337,410	(\$7,269,760)	\$352,853	\$0
FUND BALANCES - JULY 1	\$29,598,477	\$26,107,927	\$24,273,951	\$24,611,361	\$17,341,601	\$17,694,454
FUND BALANCES - JUNE 30	\$26,107,927	\$24,273,951	\$24,611,361	\$17,341,601	\$17,694,454	\$17,694,454

*Totals may not add due to rounding.

⁽¹⁾ Estimated, subject to change and final audit.

⁽²⁾ Budget as adopted June 18, 2018.

Source: School District Audit Reports and Budget.

TAXES AND TAXING POWERS OF THE SCHOOL DISTRICT

In General

Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006, as amended (see “The Taxpayer Relief Act (Act 1)” herein), the School District is empowered by the School Code and other statutes to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
 - a. for minimum salaries and increments of the teaching and supervisory staff;
 - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
 - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
 - d. to pay for the amortization of a bond or note issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not less than \$1.00 and not more than \$10.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (“The Local Tax Enabling Act”). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – “STEB”) multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

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The Taxpayer Relief Act (Act 1)

Under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (“The Taxpayer Tax Relief Act” or “Act 1”), a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the Pennsylvania Department of Education (PDE):

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees’ Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by PDE. If a school district’s petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

The Act 1 Index applicable to the School District in the current and prior fiscal years are as follows:

<u>Fiscal Year</u>	<u>Index %</u>
2013-14	1.7
2014-15	2.1
2015-16	1.9
2016-17	2.4
2017-18	2.5
2018-19	2.4

Source: Pennsylvania Department of Education website.

In accordance with Act 1, the School District put a referendum question on the ballot at the May 15, 2007, primary election seeking voter approval to levy (or increase the rate of) an earned income and net profits tax (“EIT”) or a personal income tax (“PIT”) and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was **NOT** approved by the voters.

A board of school directors may submit, but is not required to submit, a referendum question to the voters at a municipal election seeking approval to levy or increase the rate of an EIT or impose PIT for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law.

As noted with respect to item 1 above, one of the exceptions to the tax limitation and backend referendum requirement is for debt incurred prior to the effective date of the Taxpayer Relief Act, or in the case of districts which opted into Act 72 of 2004, the effective date of which was September 4, 2004. The School District did not opt into Act 72 so the operative date for the “grandfathering” of its debt is June 27, 2006.

The 2010 Bonds were authorized and incurred by a resolution adopted September 1, 2004, and the 2006A and 2006C Notes that was originally authorized and incurred by a resolution adopted June 1, 2006. **Because the 2018A Bonds and the 2018B Bonds represent debt authorized and “incurred” by resolution adopted before June 27, 2006, the School District believes that the exception to the referendum requirement in Section 333(f)(2)(iii) is available to the School District with respect to debt service on the 2018A Bonds and the 2018B Bonds and therefore the 2018A Bonds and 2018B Bonds will be excepted from the tax limitation and backend referendum requirements of the Taxpayer Relief Act.** However, if the School District desires to increase taxes under this exception, Section 333(f)(2)(iii) requires that the School District first apply for the approval of the Pennsylvania Department of Education (the “Department of Education”).

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF THE TAXPAYER RELIEF ACT. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF THE TAXPAYER RELIEF ACT NOR A LEGAL INTERPRETATION OF ANY PROVISION OF THE TAXPAYER RELIEF ACT AND A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF THE TAXPAYER RELIEF ACT AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Act 130 of 2008

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

The School District currently does not levy an occupation tax.

Act 48 of 2003 – Limitation on School District Fund Balance

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes unless the school district has adopted a budget for such school year that includes an estimated ending unreserved and undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<u>Total Budgeted Expenditures</u>	<u>Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures</u>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%*

“Estimated ending unreserved fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriate for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district’s budget was adopted and held in the general fund accounts of the school district.

Set forth above is a summary of relevant portions of Act 48. This summary is not intended to be an exhaustive discussion of the provisions of Act 48 nor a legal interpretation of any provisions of Act 48. A prospective purchaser of the Bonds should review the full text of Act 48 as a part of any decision to purchase the Bonds.

*Applicable to the School District.

Tax Levy Trends

Table 6 shows the recent trend of tax rates levied by the School District. Table 7 shows the comparative trend of real property tax rates for the School District, Downingtown Borough and the seven townships comprising the School District and Chester County.

**TABLE 6
DOWNTOWNTOWN AREA SCHOOL DISTRICT
TAX RATES**

Fiscal Year	Real Estate Millage (mills)	Real Estate Transfer (%)	Wage and Income (%)	Local Services (\$)
2014-15	27.1820	0.5	0.5	5.00
2015-16	27.1820	0.5	0.5	5.00
2016-17	27.1820	0.5	0.5	5.00
2017-18	27.1820	0.5	0.5	5.00
2018-19	27.1820	0.5	0.5	5.00

Source: School District Officials.

**TABLE 7
DOWNTOWNTOWN AREA SCHOOL DISTRICT
REAL PROPERTY TAX RATES
(Mills on Assessed Value)**

Fiscal Year	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
<i>School District</i>	27.182	27.182	27.182	27.182	27.182
Municipalities and County Calendar Year	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Downingtown Borough.....	7.650	7.650	7.650	7.650	7.650
East Brandywine Township	2.750	2.600	2.500	2.915	2.865
East Caln Township	1.250	1.250	1.250	1.250	1.250
Upper Uwchlan Township	1.034	1.034	1.034	1.034	1.034
Uwchlan Township	0.120	0.120	0.085	0.085	0.085
Wallace Township	0.000	0.000	0.000	0.000	0.000
West Bradford Township	0.000	0.000	0.000	0.000	0.000
West Pikeland Township	0.500	0.800	0.800	0.800	0.800
<i>Chester County</i>	4.163	4.163	4.163	4.369	4.369

Source: Department of Community and Economic Development – Municipal Statistics.

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Real Property Tax

The real property tax including interim collections (excluding delinquent collections) produced an estimated \$137,897,085 in 2017-18 or 61.9 percent of total revenue. The tax is levied on July 1 of each year. Taxpayers who remit within 60 days receive a 2 percent discount and those who remit subsequent to 120 days after July 1 are assessed a 10 percent penalty.

The following tables summarize recent trends of assessed and market valuations of real property and real property tax collection data. The assessment policy is to assess all real property at 100% of market value.

TABLE 8
DOWNINGTOWN AREA SCHOOL DISTRICT
REAL PROPERTY ASSESSMENT DATA

Fiscal Year	Market Value	Assessed Value	Ratio
2013-14	\$7,358,118,045	\$5,126,314,457	69.67%
2014-15	7,680,438,708	5,190,088,061	67.58%
2015-16	7,784,393,500	5,263,370,845	67.61%
2016-17	8,142,234,462	5,351,210,899	65.72%
2017-18	8,256,563,166	5,418,882,149	65.63%

Source: PA State Tax Equalization Board (STEB)/Tax Equalization Division (TED)

TABLE 9
DOWNINGTOWN AREA SCHOOL DISTRICT
REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY

	2016 Market Value	2016 Assessed Value	2017 Market Value	2017 Assessed Value
<i>Downingtown Area School District.....</i>	\$8,142,234,462	\$5,351,210,899	\$8,256,563,166	\$5,418,882,149
Downingtown Borough.....	560,365,105	356,897,450	562,906,450	358,107,440
East Brandywine Township	867,848,939	611,101,264	886,335,749	623,336,674
East Caln Township.....	725,269,034	462,252,295	737,707,352	471,231,290
Upper Uwchlan Township	1,416,176,260	941,729,498	1,426,824,276	947,861,978
Uwchlan Township.....	2,405,617,444	1,503,809,608	2,463,848,612	1,536,059,927
Wallace Township	379,536,133	266,386,398	378,818,058	265,895,718
West Bradford Township.....	1,181,994,998	820,174,446	1,195,210,828	827,890,202
West Pikeland Township	605,426,549	388,859,940	604,911,840	388,498,920
Chester County	58,267,118,050	37,272,173,519	58,830,683,735	37,595,989,177

Source: PA State Tax Equalization Board (STEB)/Tax Equalization Division (TED)

TABLE 10
DOWNINGTOWN AREA SCHOOL DISTRICT
ASSESSMENT BY LAND USE

	2013	2014	2015	2016	2017
Residential.....	\$4,156,701,678	\$4,219,408,242	\$4,276,354,740	4,312,935,260	4,337,684,220
Lots	44,758,383	43,912,090	37,482,619	28,767,480	25,507,748
Industrial	53,267,670	53,267,670	53,324,290	55,224,920	55,224,920
Commercial	777,991,149	792,660,419	815,036,169	887,091,813	933,346,235
Agriculture	49,832,820	49,259,880	49,003,950	48,665,390	48,238,520
Trailers	11,683,300	11,852,800	11,891,470	11,889,740	11,970,220
Land	32,079,457	19,726,960	20,277,607	6,636,296	6,910,286
Total.....	\$5,126,314,457	\$5,190,088,061	\$5,263,370,845	\$5,351,210,899	\$5,418,882,149

Source: PA State Tax Equalization Board (STEB)/Tax Equalization Division (TED)

TABLE 11
DOWNINGTOWN AREA SCHOOL DISTRICT
REAL PROPERTY TAX COLLECTION DATA

Fiscal Year	Assessed Valuation	Total Adjusted Flat Billing⁽¹⁾	Current Year Collections (July-June)	Current Collections as Percent of Total Adjusted Flat Billing	Total Current Plus Delinquent Collections⁽²⁾	Total Collections as Percent of Total Flat Billing
2013-14	\$5,165,841,057	\$133,177,129	\$130,277,236	97.82%	\$134,231,555	100.79%
2014-15	5,244,804,987	134,786,258	132,009,040	97.94%	135,364,294	100.43%
2015-16	5,303,352,509	137,115,870	134,549,959	98.13%	137,882,742	100.56%
2016-17	5,374,998,255	139,070,878	136,816,786	98.38%	139,780,800	100.51%
2017-18 (est.)	5,430,876,807	140,011,277	137,897,085	98.49%	141,417,930	101.00%

⁽¹⁾Flat billing plus penalties, less discounts and exonerations and Homestead exclusions.

⁽²⁾Includes real property assessments plus delinquent collections.

Source: School District Officials.

The ten largest real property taxpayers, together with their assessed values are shown in Table 12. The aggregate assessed value of these ten taxpayers totals approximately 4.3 percent of total assessed value. All major real property tax accounts are current.

TABLE 12
DOWNINGTOWN AREA SCHOOL DISTRICT
TEN LARGEST REAL PROPERTY TAXPAYERS

Owner	2018-19 Assessed Values
Brandywine Square LLC	\$62,316,000
BRE DDR IVA Ashbridge PA LLC	31,906,000
Marchwood Associates ⁽¹⁾	28,171,897
Cornerstone Terrace Venture LP ⁽²⁾	22,750,000
Claremont Apartments LP	21,830,000
Meridian at Eagleview LP	14,900,180
West Pharmaceutical Services Inc.	13,551,370
Kensley Nash Corp.	12,706,500
Severgn Apartments	12,161,150
505 Eagleview Blvd. Assoc.	11,342,000
Total	<u>\$231,635,097</u>

⁽¹⁾In 2013 the School District appealed the property's assessment of \$17,250,290 to the Court of Common Pleas which appeal was granted by the Court for an increase in assessment to \$28,171,897 beginning in 2013. The property owners attempted to appeal the Court's Decision in that case to the Commonwealth Court however its attempt was quashed for untimeliness, a Decision that was ultimately appealed to the PA Supreme Court, which declined to accept the appeal. In 2015, the property owner filed a complaint in the Court of Common Pleas which was dismissed on preliminary objections. The complaint alleged that the increased assessment of the property was "void ab initio" and should be reduced to the pre-appeal amount. An appeal of the Order dismissing the complaint is currently pending in the Commonwealth Court at Marchwood. v. DASD, No. 972 CD 2016. In addition, Marchwood has filed a tax assessment appeal for the 2018 tax year which is currently pending before the Court of Common Pleas. In that appeal Marchwood also alleges that the increased assessment of the property was "void ab initio" and should be reduced to its pre-appeal amount.

⁽²⁾In 2013 the School District appealed the property's assessment of \$13,991,490 to the Court of Common Pleas and settled the appeal for an increase in assessment to \$22,750,000 beginning in 2013. In 2017 Cornerstone appealed its assessment for tax year 2018 alleging that the assessment should be reduced to \$17,313,750. The School District is currently in settlement with the property owner for an agreed upon assessment.

Source: School District Officials.

Other Taxes

Under Act 511, the School District received an estimated \$19,695,197 in taxes in 2017-18. Among the taxes authorized by Act 511, the Earned Income Tax, Real Estate Transfer Tax and Local Services Tax are levied by the School District. Its limit under Act 511, equal to 12 mills on the market value of real property, was approximately \$99,078,758

Earned Income Tax. The School District levies a tax of 0.5% on the earned income of residents. For 2017-18 the School District received an estimated \$16,475,316 or 7.4 percent of total revenue.

Local Services Tax. A tax of \$5.00 is levied on each person with an occupation. In 2017-18 the collected portion of this tax yielded an estimated \$220,294 or less than one percent of total revenue.

Real Estate Transfer Tax. A tax of 0.5% of the value of real estate transfers. In 2017-18 the School District received an estimated \$2,999,767 or 1.4 percent of total revenue.

COMMONWEALTH AID TO SCHOOL DISTRICT

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

The largest subsidy, the basic instructional subsidy, is allocated to all school districts based on (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; and (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth. School districts also receive subsidies for special education, pupil transportation; vocational education, health service and debt service are also received by the school district.

Current Status of PlanCon Reimbursement

Commonwealth law presently provides that the School District will receive, subject to state legislative appropriation, reimbursement from the Commonwealth for a portion of debt service paid on the Bonds following final approval by PDE. Commonwealth reimbursement is calculated based on the "Reimbursable Percentage" assigned to the Bonds by the PDE and the School District's permanent Capital Account Reimbursement Fraction ("CARF") 35.81% or the wealth based Market Value Aid Ratio ("MVAR") currently (38.43%), whichever is higher. The Reimbursable Percentage is determined through a process known as the "Planning and Construction Workbook" or "PlanCon".

Based on the current PlanCon program, School District officials have estimated that the Reimbursable Percentage of the 2018A Bonds will be 9.99%, the 2018B Bonds will be 21.97% and the 2018C Bonds will be 10.00% (there has been no determination by the PDE). The School District's MVAR (which is higher than the CARF) is 38.43%. The product of these two factors is 3.84% for the 2018A Bonds, 8.44% for the 2018B Bonds and 3.84% for the 2018C Bonds, which is the estimated percentage of debt service which may be reimbursed by the Commonwealth, subject to annual appropriation. In future years, this percentage may change as the School District's MVAR changes, or as a result of future legislation regarding changes to, or even elimination of, the PlanCon program.

In May of 2016, the Commonwealth enacted appropriation legislation known as Act 25 ("Act 25"), which contains authorization for the Commonwealth Finance Authority ("CFA") to issue up to \$2.5 billion of debt to fund PlanCon reimbursements to school districts. Act 25 also instituted a moratorium on new projects entering the PlanCon process while an advisory committee established under Act 25 considers amendments to the PlanCon reimbursement program. This new moratorium went into effect on May 15, 2016 and expired on June 30, 2017. On November 6, 2017, House Bill 178 became law without the signature of the Governor and became known as Act 55 of 2017. Contained in Act 55 of 2017 was an extension of the PlanCon moratorium through the end of the 2017-18 fiscal year.

To date, the CFA has issued \$1,170,705,000, to provide for PlanCon reimbursements owed to school districts, including the issuance of its Revenue Bonds, Series A of 2016 (Federally Taxable) in the principal amount of \$758,185,000 issued on October 31, 2016, as well as its Revenue Bonds, Series A of 2018 (Federally Taxable) in the total amount of \$412,520,000 issued on January 18, 2018. It is expected that proceeds of these issues have been and will continue to be used to provide PlanCon reimbursement that is owed to the School District for past and current fiscal years. However, the School District cannot be certain that any future PlanCon reimbursement will be received by PDE as the ability for CFA to issue additional bonds in the future to fund future PlanCon reimbursements owed to school districts may impact the availability of PlanCon reimbursements payable to the School District. Any failure by the Commonwealth to adopt a timely budget and enact necessary spending authorizations could have a material adverse effect upon the School District's anticipated receipt of PlanCon reimbursements.

There can be no assurances that the School District will be able to successfully apply for, be awarded, and receive sufficient PlanCon reimbursement for the costs of any current or future projects of the School District. A failure by the School District to receive such reimbursement could force the School District to apply other available funds, if any, toward the completion costs of the Project and may have a material adverse effect on the financial resources of the School District to fund other obligations, including payment of debt service on the Bonds.

Legislation has been introduced from time to time in the Pennsylvania legislature containing language that would revise or even abolish the debt service reimbursement program for Pennsylvania school districts. As of the date hereof, and except as described above, none of these proposals have been signed into law. To the extent that any future legislation contains material changes to the PlanCon program as it is structured currently, the amount of PlanCon reimbursement to the School District may be positively or negatively affected, which could materially impact the amount of local funds needed to be raised by the School District to pay debt service on its debt obligations.

DEBT AND DEBT LIMITS

Debt Statement

Table 13 which follows shows the debt of the Downingtown Area School District following the issuance of the Bonds.

TABLE 13
DOWNINGTOWN AREA SCHOOL DISTRICT
DEBT STATEMENT*
(As of November 14, 2018)

	Gross Outstanding
NET NONELECTORAL DEBT	
General Obligation Bonds, Series A of 2018 (last maturity 2029)	\$14,635,000
General Obligation Bonds, Series B of 2018 (last maturity 2022)	32,620,000
General Obligation Bonds, Series C of 2018 (last maturity 2033)	26,655,000
General Obligation Bonds, Series of 2017 (last maturity 2029)	16,225,000
General Obligation Note, Series C of 2011 (SPSBA - QSCB)	8,082,250
General Obligation Note, Series A of 2010 (SPSBA - QSCB)	14,983,941
TOTAL NONELECTORAL DEBT	\$113,201,191
LEASE RENTAL DEBT	
NET LEASE RENTAL DEBT	\$0
TOTAL NET NONELECTORAL AND LEASE RENTAL DEBT	\$113,201,191

*Includes the Bonds offered through this Official Statement. Excludes the School Districts authorized debt not yet issued and the 2010 Bonds, 2006A Notes and 2006C Notes being refunded herein.

Source: School District and the Department of Community and Economic Development.

Table 14 presents the overlapping indebtedness and debt ratios of the School District. After issuance of the Bonds, the principal of direct debt of the School District will total \$113,201,191 and after adjustment for available funds and estimated Commonwealth aid, the local effort of direct debt will total \$105,477,002.

TABLE 14
DOWNINGTOWN AREA SCHOOL DISTRICT
BONDED INDEBTEDNESS AND DEBT RATIOS*

	Gross Outstanding	Local Effort or Net of Available Funds and Estimated Commonwealth Aid⁽¹⁾
DIRECT DEBT		
Nonelectoral Debt	\$113,201,191	\$105,477,002
Lease Rental Debt	-	-
TOTAL DIRECT DEBT	<u>\$113,201,191</u>	<u>\$105,477,002</u>
OVERLAPPING DEBT		
Chester County, General Obligation ⁽²⁾	\$74,932,036	\$74,932,036
Municipal Debt	60,424,254	60,424,254
TOTAL OVERLAPPING DEBT	<u>\$135,356,290</u>	<u>\$135,356,290</u>
TOTAL DIRECT AND OVERLAPPING DEBT	<u><u>\$248,557,481</u></u>	<u><u>\$240,833,293</u></u>
DEBT RATIOS		
Per Capita.....	\$3,629.05	\$3,516.28
Percent 2017-18 Assessed Value	4.59%	4.44%
Percent 2017-18 Market Value	3.01%	2.92%

* Includes the Bonds offered through this Official Statement. Excludes the School District's authorized debt not yet issued and the 2010 Bonds, 2006A Notes and 2006C Notes being refunded herein.

⁽¹⁾ Gives effect to current appropriations for payment of debt service and expected future Commonwealth Reimbursement of School District sinking fund payments based on current CARF. See **"TAXING POWERS OF THE SCHOOL DISTRICT – Commonwealth Aid to School Districts"**. The School District may, at any time, claim a credit against the gross principal of debt outstanding.

⁽²⁾ Pro rata 14.03 percent share of \$533,915,000 principal outstanding.

Source: School District and the Department of Community and Economic Development.

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Debt Limit and Remaining Borrowing Capacity

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present Borrowing Base and borrowing capacity as follows:

Total Revenues for 2015-16	\$211,441,054
Total Revenues for 2016-17	216,648,880
Total Revenues for 2017-18 (est.)	221,267,382
Total	\$649,357,316
Annual Arithmetic average (Borrowing Base)	\$216,452,439

Under the Act as presently in effect, no school district shall incur any nonelectoral debt or lease rental debt, if the aggregate net principal amount of such new debt together with any other net nonelectoral debt and lease rental debt then outstanding, would cause the net nonelectoral debt plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

	<u>Legal Limit</u>	<u>Net Debt Outstanding*</u>	<u>Remaining Borrowing Capacity</u>
Net Nonelectoral Debt:			
225% of Borrowing Base.....	\$487,017,987	\$113,201,191	\$373,816,796

*Includes the Bonds offered through this Official Statement; excludes the credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by Commonwealth aid and the School District's authorized and incurred debt, but not yet issued.

The Swaps - Related Interest Rate Swap Agreements

The following related interest rate swap agreements were terminated on November 14, 2018, therefore at settlement the School District will have no outstanding interest rate swaps.

Swap 1 -

The School District entered into an interest rate swap agreement with Royal Bank of Canada, the parent company of RBC Capital Markets, LLC, based in Toronto, Ontario, relating to its 2006A and 2006C Bonds (the "Swap Agreement 1"), effective February 1, 2007. The outstanding notional amount of Swap Agreement 1 is \$34,000,000 and reduces annually. Pursuant to the terms of the Swap Agreement 1 and the amended date of January 14, 2011, the School District pays interest at a fixed rate of 3.523% on the notional amount for the Swap Agreement 1 in exchange for the counterparty's agreement to pay interest at a floating interest rate equal to 70% of 3-month London Interbank Offered Rate ("LIBOR") on the notional amount. The Swap Agreement 1 has a term ending August 1, 2022, but is subject to earlier termination by the School District.

Note: The School District amended the Swap Agreement 1 on January 14, 2011. Prior to the passage of the amendment, the School District paid interest at a rate of 3.9266% and received interest at a floating interest rate equal to Securities Industry and Financial Markets Association ("SIFMA") index from the counterparty.

Swap 2 -

The School District entered into an interest rate swap agreement with Royal Bank of Canada, the parent company of RBC Capital Market, LLC, based in Toronto, Ontario, relating to the 2010 Bonds (the "Swap Agreement 2"), effective January 1, 2010. The outstanding notional amount of Swap Agreement 2 is \$16,115,000 and reduces annually. Pursuant to the terms of the Swap Agreement 2 and the amended date of November 12, 2010, the School District will pay interest at a fixed rate of 3.6949% on the notional amount for the Swap Agreement 2 in exchange for the counterparty's agreement to pay interest at a floating interest rate equal to 70% of 3-month LIBOR on the notional amount. The Swap Agreement 2 has a term ending May 1, 2030, but is subject to earlier termination by the School District.

Note: The School District amended the Swap Agreement 2 on November 12, 2010. Prior to the passage of the amendment, the School District paid interest at a rate of 4.0949% and received interest at a floating interest rate equal to SIFMA index from the counterparty.

Debt Service Requirements

Table 15 presents the debt service requirements on the School District's estimated outstanding general obligation indebtedness including debt service on the Bonds.

The School District has never defaulted on the payment of debt service.

TABLE 15
DOWNINGTOWN AREA SCHOOL DISTRICT
DEBT SERVICE REQUIREMENTS*

Year	Estimated Other General Obligation Debt	Series A of 2018			Series B of 2018		
		Principal	Interest	Subtotal	Principal	Interest	Subtotal
2018-19	\$12,719,397	\$955,000	\$75,674	\$1,030,674	\$80,000	\$160,109	\$240,109
2019-20	3,200,570	825,000	602,075	1,427,075	7,685,000	1,185,150	8,870,150
2020-21	3,179,252	850,000	572,700	1,422,700	8,010,000	883,750	8,893,750
2021-22	3,158,070	885,000	538,000	1,423,000	8,350,000	562,600	8,912,600
2022-23	3,132,082	1,165,000	497,000	1,662,000	8,495,000	194,575	8,689,575
2023-24	5,104,072	1,170,000	450,300	1,620,300			
2024-25	5,086,847	1,235,000	402,200	1,637,200			
2025-26	5,078,697	1,300,000	345,000	1,645,000			
2026-27	5,058,572	1,385,000	277,875	1,662,875			
2027-28	5,010,990	1,505,000	205,625	1,710,625			
2028-29	3,291,950	1,640,000	127,000	1,767,000			
2029-30	3,259,250	1,720,000	43,000	1,763,000			
2030-31							
2031-32							
2032-33							
2033-34							
Total	\$ 55,050,683	\$14,635,000	\$4,136,449	\$18,771,449	\$32,620,000	\$2,986,184	\$35,606,184

Year	Series C of 2018			Total Requirements
	Principal	Interest	Subtotal	
2018-19	\$0	\$154,480	\$154,480	\$ 13,688,661
2019-20	185,000	1,291,475	1,476,475	14,974,270
2020-21	195,000	1,287,188	1,482,188	14,977,890
2021-22	195,000	1,282,313	1,477,313	14,970,982
2022-23	215,000	1,277,188	1,492,188	14,975,845
2023-24	5,000	1,274,438	1,279,438	8,003,810
2024-25	5,000	1,274,313	1,279,313	8,003,360
2025-26	5,000	1,274,175	1,279,175	8,002,872
2026-27	5,000	1,274,025	1,279,025	8,000,472
2027-28	5,000	1,273,825	1,278,825	8,000,440
2028-29	1,715,000	1,230,825	2,945,825	8,004,775
2029-30	1,830,000	1,151,350	2,981,350	8,003,600
2030-31	7,065,000	938,125	8,003,125	8,003,125
2031-32	7,425,000	575,875	8,000,875	8,000,875
2032-33	7,805,000	195,125	8,000,125	8,000,125
2033-34				
Total	\$26,655,000	\$15,754,718	\$42,409,718	\$153,611,103

*Totals may not add due to rounding.

Table 16 presents data on the extent to which Commonwealth Aid provides coverage for debt service and lease rental requirements.

TABLE 16
DOWNINGTOWN AREA SCHOOL DISTRICT
COVERAGE OF DEBT SERVICE AND LEASE RENTAL
REQUIREMENTS BY COMMONWEALTH AID*

2017-18 (est.) Commonwealth Aid Received	\$50,224,146
2017-18 (est.) Debt Service Requirements	\$11,833,005
Maximum Future Debt Service Requirements after Issuance of the Bonds.....	\$14,977,890
Coverage of 2017-18 (est.) Debt Service Requirements	4.24 times
Coverage of Maximum Future Debt Service Requirements after Issuance of the Bonds	3.35 times

*Assumes current Commonwealth Aid Ratio. See “COMMONWEALTH AID TO SCHOOL DISTRICTS.”

LABOR RELATIONS

School District Employees

There are presently 1,608 employees of which 911 are full-time teachers in the School District.

The School District's teachers are represented by the Downingtown Area Education Association, which is affiliated with the Pennsylvania State Education Association covering the professional employees of the School District other than administrators, under a contract which expires August 31, 2020. The School District's support staff are represented by Teamsters 384, under a contract which expires June 30, 2021.

Pension Program

Currently, all Pennsylvania school districts and intermediate units participate in a pension program administrated by the Commonwealth. The program is formally known as the Public School Employees' Retirement System (“PSERS”), and a percentage of each eligible employee's salary is contributed by the employee, the School District and the Commonwealth. All full-time employees, part-time employees salaried over eighty days per year and hourly employees with over five hundred hours per year participate in the program.

Contributions are required by active members, School Districts, and the Commonwealth of Pennsylvania as established by the Public School Employees' Retirement Code. Members who enrolled prior to January 1, 2002 range from 5.28% to 7.5% of compensation, depending upon the date of commencement of employment and elections made by each employee member. Members who enrolled in the pension plan on or after January 1, 2002 and before July 1, 2011 is 7.5% of compensation. The contribution rate for PSERS members who enrolled on or after July 1, 2011 is 7.5% or 10.3%, depending upon elections made by each employee member. The PSERS Board of Trustees certified an annual employer contribution rate of 33.43% for the fiscal year 2018-19. Current financial projections indicate the possibility of increases in the contribution rate in the next five years.

The Commonwealth will reimburse the School District at the rate of 50% of its total contributions with respect to all employees who were hired prior to July 1, 1994. With respect to employees hired after July 1, 1994, and who were not previously employed by another public school system in the Commonwealth, the School District will be reimbursed by the Commonwealth at the rate of the higher of 50% of contributions made by the School District or the current Market Value/Personal Income Aid Ratio. The School District is reimbursed on a quarterly basis.

Under Act 5 of 2017 (“Act 5”) PSERS will transition from a traditional defined benefit system and begin to offer defined contribution plans as well. Beginning July 1, 2019, in addition to other transaction rules and options based on members' classifications, certain classes of active members may choose to switch from the current defined benefit plan to one of three new retirement benefit plan options which will be available. Additionally, all active members newly hired on or after July 1, 2019 will be required to select one of those three new retirement benefit plan options and will not be eligible to participate in the current defined benefit plan. The three new plans consist of two hybrid plans, with defined benefit and defined contribution components, along with a stand-alone defined contribution plan.

In addition to its comprehensive change in available plans for active members, Act 5 also made certain changes to the PSERS Board of Trustees and administrative protocols and created the Public Pension Management and Asset Investment Review Commission to study and make recommendations to the General Assembly and the Governor regarding investment performance and strategies.

According to the Independent Fiscal Office, Act 5 is not expected to reduce school district and state contributions to PSERS over the first fifteen years. However, beginning in fiscal 2034-35 through fiscal 2049-50, employer contribution rates are expected to begin to decline due to the lower long-term employer costs of the new benefit plans and will be lower, in the aggregate, over the study period.

Annual School District contributions have been as follows:

2012-13	\$8,394,119
2013-14	\$12,157,082
2014-15	\$16,574,407
2015-16	\$20,865,761
2016-17	\$25,160,320
2017-18	\$31,862,095
2018-19 (budgeted)	\$33,684,505

At June 30, 2017, the School District reported a liability of \$324,448,546 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 PSERS total pension liability as of June 30, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing its one-year reported covered payroll as it relates to the total one-year reported covered payroll of all school districts. At June 30, 2016, the School District's proportion as 0.6547% which was an increase of 0.0137% from its proportion measured as of June 30, 2015.

As of June 30, 2016, the PSERS plan was 57.3% funded, with an unfunded actuarial accrued liability of approximately \$42.7 billion. PSERS' rate of return for fiscal year ended June 30, 2017 was 10.14%. The Fund had plan net assets of \$53.5 billion at June 30, 2017. For more information, visit the PSERS website at www.psers.pa.gov, which is not incorporated by specific reference into this Official Statement.

Source: School District Administrative Officials and PSERS.

Other Post-Employment Benefits

Plan Description:

The School District provides health benefits, which includes medical, prescription, dental and vision benefits, as a post-employment benefit to those retirees and their spouses who meet the qualifying criteria. The health insurance plan is a single employer, defined benefit OPEB plan. Life insurance is also provided to specific groups.

The School District has the following groups of employees: teachers, administrators, confidential, and support staff, both union and non-union. The eligibility and duration of post-retirement benefits for these groups are defined in either a Collective Bargaining Agreement or Compensation Agreement. Otherwise, they may still qualify for benefits subject to Acts 110 and 43.

The medical, prescription drug, dental and vision benefits are self-insured. Medical benefits are administered by Independence Blue Cross. Prescription is administered by Express Scripts. The dental benefit is through Delta Dental of Pennsylvania. Vision Benefits of America provides the vision benefit. The term life insurance is purchased from Reliance Standard Life Insurance Company.

Funding Policy

A retiree may elect to continue his/her current benefit coverage. The amount that the retiree must pay towards health benefits is defined in either a Collective Bargaining Agreement or Compensation Agreement. The School District is responsible for funding the balance of the benefits.

As of June 30, 2017, the School District has no segregated assets to fund this liability. It is the intention of the School District to pay claims as they are incurred.

Funding Process

As of July 1, 2016, the date of the most recent actuarial report, the actuarial accrued liability for benefits was \$12,002,202, all of which is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$83,688,223 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14.34%.

The actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made into the future. The schedule of fund progress, presented as required supplemental information following the notes to the financial statement, presents information about the actuarial value of the plan assets. In subsequent years, this schedule will present multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short term volatility in actuarial accrued liabilities and the actual value of assets, consistent with the long term perspective of the calculations. In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.50%, decreasing 0.50% per year to an ultimate rate of 5.50% in 2018 and later. The UAAL is being amortized based on the level dollar, 7 year closed period.

Annual OPEB Cost and Net OPEB Obligations:

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

Annual required contribution	\$2,861,457
Interest on net OPEB obligation	304,146
Adjustment to annual required contribution	<u>(1,146,977)</u>
Annual OPEB cost (expense)	2,018,626
Contributions made	<u>(915,163)</u>
Increase in net OPEB obligation	1,103,463
Net OPEB obligation – Beginning of year	<u>6,758,791</u>
Net OPEB obligation – end of year (June 30, 2017)	<u>\$7,862,254</u>

Source: Audit Report

LITIGATION

At the time of settlement, the School Board and the Solicitor will deliver a certificate stating that there is no litigation pending with respect to the Bonds, the Resolution or the right of the School District to issue the Bonds.

DEFAULTS AND REMEDIES

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the County. The Act provides that any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

TAX MATTERS

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the School District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The School District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, and purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Certain Bonds are offered at a discount ("original issue discount") equal generally to the difference between their public offering price and their principal amount. For federal income tax purposes, original issue discount on a Bond accrues periodically over the term of the Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of

original issue discount increases the holder's tax basis in the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders should consult their tax advisers for an explanation of the accrual rules.

Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania.

The opinions expressed by Bond Counsel above are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Legislative and regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the School District (being an "obligated person" with respect to the Bonds, within the meaning of the Rule), will execute a Continuing Disclosure Agreement. See Appendix C for the proposed form of Continuing Disclosure Agreement.

With respect to the filing of annual financial and operating information, the School District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the School District or its operations or financial reporting, but the School District will agree that any such modification will be done in a manner consistent with the Rule.

The School District acknowledges that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holders and beneficial owners of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the School District's continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the School District to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The School District's obligations with respect to continuing disclosure described herein shall terminate upon the prior redemption or payment in full of all of the Bonds or if and when the School District is no longer an "obligated person" with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other "obligated persons" with respect to municipal securities issues) are made available through the MSRB's Electronic Municipal Market Access ("EMMA") System, which may be accessed on the internet at <http://www.emma.msrb.org>.

Some operating data of the School District may be inherently included in the annual filings of audited financial statements, the summary of the budget, contents of Official Statements prepared by the School District for bond issues as well as other publically available information. In connection with the Continuing Disclosure Agreement associated with the Bonds, the School District may not be filing this information separately, but it may be available in the other annual filings of the School District or publically available elsewhere.

Continuing Disclosure Filing History

Under certain of the School District's existing annual disclosure requirements ("Prior Undertakings") in connection with the outstanding bonds and other indebtedness of the School District, the School District has agreed to provide updates to certain audited financial statements and financial and other operational information relating to the School District. The School District failed to file certain of its financial and other operational information for fiscal year ending June 30, 2013. This information was subsequently filed to EMMA on March 14, 2016. While the information was filed, it was not timely filed.

The School District filed a Failure to Provide Annual Financial Information in a Timely Manner Notice with EMMA on March 14, 2016. While this notice was filed, it was not timely filed.

The School District is also an Obligor under certain Bonds issued by the State Public School Building Authority ("SPSBA") and under this obligation is required to provide annual disclosure requirements under the Rule. The School District agreed to provide updates to its audited financial statements and certain financial and operational information relating to the School District. The School District and/or its dissemination agent failed to timely file some of its disclosure requirements over the past five (5) years.

The School District subsequently linked CUSIP 85732PBZ2 for the State Public School Building Authority, Federally Taxable Revenue Bonds, Series A of 2010 (Qualified School Construction Bonds – Direct Subsidy) and CUSIP 85732PCE8 for the State Public School Building Authority, Federally Taxable Revenue Bonds, Series C of 2011 (Qualified School Construction Bonds – Direct Subsidy) & Series D of 2011 (Qualified Zone Academy Bonds – Direct Subsidy) on EMMA with its other general obligation bond issues under their 6-based CUSIP 261097, where all relative financial statements and financial and other operational data can be found for the past five (5) years.

The School District has also filed a Failure to Provide Annual Financial Information in a Timely Manner Notice with EMMA to both SPSBA CUSIP's referenced above on March 14, 2016. While this notice was filed, it was not timely filed.

The School District has procedures in place to ensure that future filings of the required annual information and event notices will be accomplished within all required time periods.

UNDERWRITING

RBC Capital Markets, LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the School District, subject to certain conditions precedent, and will purchase all of the Bonds if any of such Bonds are purchased.

The Bonds will be purchased by the Underwriter for a purchase price of \$79,681,999.65, equal to the par value of the Bonds less an underwriter's discount of \$447,795.00 plus a net original issue premium of \$6,219,794.65.

The Underwriter has provided the following information for inclusion in this Official Statement: The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Issuer. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Issuer. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

BOND RATINGS

Moody's has assigned its underlying rating of "Aaa" (Stable Outlook) to the School District. Such rating reflects only the view of such organizations. Any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that the credit rating will be maintained for any given period of time, or that it may not be lowered or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such credit rating may have an adverse effect on the market price of the Bonds.

S&P Global Ratings has assigned its underlying bond rating of "AAA" (Stable Outlook) to the Bonds. Such ratings reflect only the view of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: 55 Water Street, 38th Floor, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LEGAL OPINION

The Bonds are offered when, as and if issued, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Lamb McErlane PC, of West Chester, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain legal matters will be passed upon for the School District by Lamb McErlane PC, West Chester, Pennsylvania, School District Solicitor and for the Underwriter by McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, Limited Scope Underwriter's Counsel.

FINANCIAL ADVISOR

The School District has retained PFM Financial Advisors LLC, Harrisburg, Pennsylvania, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

MISCELLANEOUS

This Official Statement has been prepared under the direction of the School District by PFM Financial Advisors LLC, Harrisburg, Pennsylvania, in its capacity as Financial Advisor to the School District. The information set forth in this Official Statement has been obtained from the School District and from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representation of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Resolution, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents, copies of which will be furnished by the School District or the Financial Advisor upon request. The information assembled in this Official Statement is not to be construed as a contract with holders of the Bonds.

The School District has authorized the distribution of this Official Statement.

DOWNINGTOWN AREA SCHOOL DISTRICT
Chester County, Pennsylvania

By: /s/ Jane Bertone
President, Board of School Directors

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APPENDIX A
DEMOGRAPHIC AND ECONOMIC INFORMATION RELATING TO THE DOWNINGTOWN AREA SCHOOL DISTRICT

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Population

Table A-1 shows recent population trends for the School District, Chester County and the Commonwealth of Pennsylvania. The School District's population base has been growing at a moderate rate for the last ten years and the elements for continued growth have been provided by its location relative to urban areas while maintaining a country atmosphere. Shown in Table A-2 is Age Composition and average household size for the County and the Commonwealth.

TABLE A-1
DOWNINGTOWN AREA SCHOOL DISTRICT
RECENT POPULATION TRENDS

Area	2000	2010	Compound Average Annual Percentage Change 2000-2010
School District	57,260	68,491	2.01%
Chester County	433,501	498,886	1.57%
Pennsylvania	12,281,054	12,702,379	0.38%

Source: Census Bureau 2000 & 2010.

TABLE A-2
AGE COMPOSITION

Area	0-17 Years	18-64 Years	65+ Years	Average Household Size
Chester County.....	26.2%	62.1%	11.7%	2.7
Pennsylvania.....	23.8%	60.6%	15.6%	2.5

Source: Pennsylvania State Data Center, 2000 General Population and Housing Characteristics: Pennsylvania.

Employment

Overall employment data are not compiled for the County, but such data are compiled for the Montgomery-Bucks-Chester, PA Metropolitan Division (an area which includes the County) as shown on Table A-3.

TABLE A-3
DISTRIBUTION OF EMPLOYMENT BY INDUSTRY
MONTGOMERY-BUCKS-CHESTER, PA METROPOLITAN DIVISION
June 2018
NONFARM JOBS - NOT SEASONALLY ADJUSTED

Establishment Data	Industry Employment				Net Change From:	
	Jun 2018	May 2018	Apr 2018	Jun 2017	May 2018	Jun 2017
TOTAL NONFARM	1,087,100	1,082,000	1,073,200	1,078,000	5,100	9,100
TOTAL PRIVATE	1,003,000	997,200	988,000	995,200	5,800	7,800
GOODS PRODUCING	144,700	143,500	139,700	146,300	1,200	-1,600
Construction, Natural Resources, and Mining	53,800	53,200	50,300	54,400	600	-600
Manufacturing	90,900	90,300	89,400	91,900	600	-1,000
Durable Goods	46,400	46,000	45,400	47,200	400	-800
Non-Durable Goods	44,500	44,300	44,000	44,700	200	-200
Chemical Manufacturing	19,600	19,500	19,400	19,600	100	0
SERVICE-PROVIDING	942,400	938,500	933,500	931,700	3,900	10,700
PRIVATE SERVICE-PROVIDING	858,300	853,700	848,300	848,900	4,600	9,400
Trade, Transportation, and Utilities	204,300	202,400	201,700	204,000	1,900	300
Wholesale Trade	57,500	56,500	57,000	56,700	1,000	800
Retail Trade	118,200	117,500	117,100	119,100	700	-900
General merchandise stores	17,900	17,900	17,700	17,900	0	0
Transportation, Warehousing, and Utilities	28,600	28,400	27,600	28,200	200	400
Information	20,400	20,400	20,400	21,700	0	-1,300
Financial Activities	84,100	83,800	82,900	82,800	300	1,300
Finance and insurance	68,800	68,800	68,200	67,700	0	1,100
Credit Intermediation and Related Activities	16,600	16,500	16,500	16,600	100	0
Depository Credit Intermediation	9,500	9,400	9,400	9,500	100	0
Insurance carriers and related activities	28,000	27,700	27,600	27,700	300	300
Real estate and rental and leasing	15,300	15,000	14,700	15,100	300	200
Professional and Business Services	210,600	211,400	209,700	205,300	-800	5,300
Professional and technical services	110,200	109,900	109,400	108,800	300	1,400
Scientific research and development services	18,000	17,800	17,600	17,100	200	900
Management of companies and enterprises	28,200	27,900	27,800	27,000	300	1,200
Administrative and waste services	72,200	73,600	72,500	69,500	-1,400	2,700
Education and Health Services	196,000	198,300	199,500	191,300	-2,300	4,700
Educational services	25,600	28,200	30,500	24,900	-2,600	700
Health care and social assistance	170,400	170,100	169,000	166,400	300	4,000
Ambulatory health care services	63,200	63,300	62,900	61,100	-100	2,100
Hospitals	32,200	32,000	31,900	32,300	200	-100
Nursing and residential care facilities	38,300	38,300	38,000	38,200	0	100
Social assistance	36,700	36,500	36,200	34,800	200	1,900
Leisure and Hospitality	94,700	89,500	86,800	94,700	5,200	0
Accommodation and food services	72,300	70,400	69,800	72,700	1,900	-400
Other Services	48,200	47,900	47,300	49,100	300	-900
Government	84,100	84,800	85,200	82,800	-700	1,300
Federal Government	5,900	5,900	6,000	6,100	0	-200
State Government	10,000	9,800	10,000	8,800	200	1,200
Local Government	68,200	69,100	69,200	67,900	-900	300
Local Government educational services	47,000	48,600	48,900	45,900	-1,600	1,100
Local Government excluding educational services	21,200	20,500	20,300	22,000	700	-800
Data benchmarked to March 2017	***Data changes of 100 may be due to rounding***					

Source: Pennsylvania Department of Labor & Industry, Center for Workforce Information & Analysis.

Table A-4 shows trends in labor force, employment and unemployment for the County and the Commonwealth.

TABLE A-4
TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
NOT SEASONALLY ADJUSTED

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018⁽¹⁾</u>	Compound Average Annual % Rate
Chester County							
Civilian Labor Force (000)	273.5	272.3	276.4	281.1	281.1	285.6	0.87%
Employment (000)	258.9	261.0	266.2	270.1	271.1	276.2	1.30%
Unemployment (000)	14.5	11.2	10.2	11.0	10.1	9.4	-8.30%
Unemployment Rate	5.30%	4.10%	3.70%	3.90%	3.60%	3.30%	
Pennsylvania							
Civilian Labor Force (000)	6,460.0	6,378.0	6,424.0	6,472.0	6,427.0	6,448.0	-0.10%
Employment (000)	5,982.0	6,009.0	6,094.0	6,120.0	6,112.0	6,165.0	0.43%
Unemployment (000)	478.0	370.0	330.0	352.0	316.0	283.0	-7.94%
Unemployment Rate	7.40%	5.80%	5.10%	5.40%	4.90%	4.40%	

⁽¹⁾As of June 2018.

Source: Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis website.

Largest County Employers

**Chester County
Top 25 Employers
4th Quarter 2017
Initial Data**

Federal and State Government Entities Aggregated

1. Vanguard Group Inc
2. QVC Network Inc
3. County of Chester
4. Federal Government
5. The Chester County Hospital
6. Main Line Hospitals Inc
7. Giant Food Stores LLC
8. PA State System of Higher Education
9. The Devereux Foundation
10. United Parcel Service Inc
11. Downingtown Area School District
12. YMCA of Greater Brandywine Valley
13. Chester County Intermediate
14. West Chester Area School District
15. Janssen Research & Development LLC
16. Cerner Health Services Inc
17. Wawa Inc
18. Comcast Cablevision Corp (PA)
19. Communications Test Design Inc
20. State Government
21. George Krapf Jr & Sons Inc
22. Wal-Mart Associates Inc
23. Wegmans Food Markets Inc
24. ACME Markets Inc
25. Sweet Home Primary Care LLC

*State Government includes all state employment except Pennsylvania State University, SEPTA, System of Higher Education, PA College of Technology, and PHEAA.

Source: Center for Workforce Information & Analysis

Income

The data in Table A-5 show recent trends in per capita income for the School District, the County and the Commonwealth over the 2000-2010 period. Per capita income in the School District is higher than per capita income in the County and in the Commonwealth. Per capita income for the School District increased at a faster rate over this period than per capita income for the County and the Commonwealth.

TABLE A-5
RECENT TRENDS IN PER CAPITA INCOME*

	<u>2000</u>	<u>2010</u>	Compound Annual Average Percentage Change <u>2000-2010</u>
School District.....	\$32,899	\$43,868	2.92%
Chester County	31,267	42,042	3.01%
Pennsylvania	20,880	27,824	2.91%

*Income is defined by the Bureau of the Census as the sum of wage and salary income, non-farm self-employment income, net self-employment income, Social Security and Railroad retirement income, public assistance income, interest, dividends, pensions, etc. before deductions for personal income taxes, Social Security, etc. School District income is the population-weighted average for political subdivisions.

Source: Census Bureau 2000 & 2010.

Commercial Activity

Commercial activity within the School District tends to be centered in the Borough of Downingtown and East Caln Township and in various shopping centers along State Routes 100 and 113, located in Uwchlan Township. Brandywine Square and Ashbridge Square are shopping malls which are located in East Caln Township at the junction of Business Route 30 and the Route 30 Bypass, adjacent to each other and contain many major anchor stores.

The Borough of Downingtown was the first community in Chester County to start and complete an Urban Renewal Project in its downtown business district. Jefferson Center, located on a ten acre site in the center of the Borough, is a shopping and business center within easy walking distance to all areas of the Borough. The project was constructed by a private developer in conjunction with the Chester County Redevelopment Authority and the Borough of Downingtown.

The data in Table A-6 shows retail sales for the 2013-2017 period for the County, the PMSA and the Commonwealth.

TABLE A-6
TOTAL RETAIL SALES
(000)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Chester County.....	\$ 8,705,297	\$ 12,708,571	\$ 12,869,709	\$ 11,499,691	\$ 13,969,322
PMSA.....	89,309,764	91,259,939	92,944,956	96,525,422	105,082,759
Pennsylvania	187,412,600	199,975,258	198,215,135	207,887,941	213,005,475

Source: The Nielsen Company.

Housing and Building Permits

The median assessment value of a residential property in the County for 2015 is \$166,410. The value of the County's single family housing units is significantly greater than those of Pennsylvania and the United States. The average assessment value is \$188,218. The median home sales price in 2014 was \$315,000 for the County, an increase of 5.7 percent from 2013. 6,293 homes were sold in Chester County during 2014. During 2014, 613 new housing units were sold at a median sales price of \$386,000. This represents a decrease of 14 percent in the number of units sold and a 2.7 percent increase in the sales price.

In 2014, 1,377 new housing units were added to the housing supply in Chester County. This is an increase of 4 percent from 2013. 47 percent of all new housing units were single-family detached houses. Single-family attached units, which include twins, townhouses, and condominiums, accounted for 23 percent of the new units. The multi-family category, which includes units in structures with two or more units, accounted for 30 percent of the new housing units. Between 2000 and 2014, there have been 37,443 new housing units added in Chester County.

Source: Chester County Assessment Office, Planning Commission

Medical Facilities

Four hospitals serve residents of the area: Phoenixville Hospital, Paoli Hospital, Brandywine Hospital and Chester County Hospital. None of these hospitals is located in the School District.

Utilities

Sewer

Residents of Uwchlan Township, East Caln Township and Downingtown Borough are served by the Downingtown Regional Wastewater Treatment System. All other townships are served by on-site systems or developer-owned systems except for the Marsh Creek State Park which has a sewer service agreement with the Borough of Downingtown.

Water

The Downingtown Municipal Water Authority maintains its own water system which serves all areas of the Borough and certain sections of East Caln, East Brandywine and Uwchlan Townships. Aqua America Water Company supplies water to all other developed portions of Uwchlan, Upper Uwchlan and East Caln Townships. Other private water companies supply water service to developed portions of the other Townships. Other residents of the area are served by on-site wells.

Electricity and Gas

PECO Energy Company provides both electricity and natural gas to users within the School District.

Municipal Services

All Townships and the Borough have police protection from either the state police or local police departments. The Embreeville State Police barracks is located in the School District. All communities support local volunteer fire companies.

Transportation

The School District's economic position has been bolstered by a fine network of federal and state highways. The School District is served by the Downingtown Interchange of the Pennsylvania Turnpike which is the major interchange for access to the western suburbs of the Philadelphia metropolitan area. The Pennsylvania Turnpike (US 76) serves as a link to Pittsburgh, Philadelphia and the New Jersey Turnpike. Other U.S. highways serving the School District include: U.S. 30 bypass which crosses the area in an east-west direction, connecting the area with Lancaster via Coatesville to the west and Philadelphia via Exton and Paoli to the east, U.S. 322 which crosses in northwest-southeast direction and connects the area with Wilmington, Delaware via West Chester to the southeast. State routes #82, #100, #113, #282 and #401 also cross the School District.

Passenger railroad services are provided by AMTRAK in conjunction with the Southeastern Pennsylvania Transportation Authority. Freight services are provided by two lines of Norfolk Southern which interconnect in the Borough of Downingtown.

Motor freight service is supplied to the area by numerous interstate and intrastate carriers.

Bus service is provided by the Southeastern Pennsylvania Transportation Authority and by the Greyhound Bus System.

Recreation and Tourism

School District residents have access to a variety of recreational facilities through public, private and quasi-public agencies.

Marsh Creek State Park, located in Upper Uwchlan Township, approximately five miles north of the Borough of Downingtown, is maintained by the Commonwealth of Pennsylvania. The park consists of a 535 acre lake and 1,712 acres of land and provides such facilities as boating, fishing, picnic groves, hiking trails, stables and a swimming pool.

The Borough of Downingtown, Uwchlan Township and other municipalities provide recreational parks. Whitford Country Club, a private club partially located in East Caln Township, maintains an 18-hole golf course, platform tennis and swimming facilities for its members. Pennypacker Swim Club in Uwchlan Township provides tennis and swim facilities for its members, and St. Anthony's Lodge in the Borough of Downingtown provides swimming facilities for its members. The Western Lionville YMCA is located in Uwchlan Township.

APPENDIX B
PROPOSED TEXT OF BOND COUNSEL OPINION

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[Proposed Bond Counsel Opinion]

[Closing Date]

**Re: Downingtown Area School District
 \$73,910,000 General Obligation Bonds, Series A, Series B and Series C of 2018**

You have requested our opinion as to the legality of the above general obligation bonds (the "Bonds"). The Bonds are issued by the Downingtown Area School District, Chester County, Pennsylvania (the "School District"), under the provisions of the Pennsylvania Local Government Unit Debt Act, as amended (the "Act"), and pursuant to a Resolution adopted by the Board of Directors of the School District on October 10, 2018 (the "Resolution"). The Bonds are being issued in three series: Series A, in the aggregate principal amount of \$14,635,000 (the "2018A Bonds"), Series B, in the aggregate principal amount of \$32,620,000 (the "2018B Bonds") and Series C, in the aggregate principal amount of \$26,655,000 (the "2018C Bonds").

The 2018A Bonds are being issued for the purpose of providing funds to, together with a cash contribution from the School District, refund all of the School District's outstanding General Obligation Bonds, Series of 2010 and pay the costs of issuing the 2018A Bonds. The 2018B Bonds are being issued for the purpose of providing funds to, together with a cash contribution from the School District, refund the School District's outstanding General Obligation Notes, Series A of 2006 and Series C of 2006 and pay the costs of issuing the 2018B Bonds. The 2018C Bonds are being issued for the purpose of, together with a cash contribution from the School District, funding certain specified capital projects and paying the costs of issuing the 2018C Bonds.

The School District has covenanted in the Resolution (i) to include the amount of debt service for the Bonds for each fiscal year in which such sums are due and payable in its budget for that year, (ii) to appropriate such amounts from its general revenues for the payment of such debt service, and (iii) to duly and punctually pay, or cause to be paid, from its sinking fund or any other of its revenues or funds, the principal or redemption price of, and interest on, the Bonds at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof. For such budgeting, appropriation and payment, School District has pledged its full faith, credit and taxing power in the Resolution.

As Bond Counsel for the School District, we have examined the relevant provisions of the Constitution of the Commonwealth of Pennsylvania; the Acts of Assembly pursuant to which the Bonds are authorized, issued and sold; the transcript of proceedings filed with the Pennsylvania Department of Community and Economic Development (the "Department"); and certain statements, affidavits and other documents which we have considered pertinent.

In rendering this opinion we have examined and relied upon (i) the accuracy of the statements and representations and the performance of the covenants of the School District set forth in the Resolution and (ii) the School District's Tax Certificate and Agreement delivered on this date in connection with the issuance of the Bonds.

Based on the foregoing, we are of the opinion that:

1. The School District is authorized under the provisions of the Constitution and laws of the Commonwealth of Pennsylvania to issue the Bonds for the purposes above set forth, and the School District has authorized the issuance thereof.

2. As indicated in the School District's debt statement filed with the Department in connection with the issuance of the Bonds, outstanding debt of the School District, including debt represented by the Bonds, is within the debt limitations of the Act.

3. The Bonds are the valid and binding general obligations of the School District payable from the revenues of the School District from whatever source derived, which revenues, at the time of the issuance and sale of the Bonds, include *ad valorem* taxes levied upon all the taxable property within the School District within the limits prescribed by law.

4. Under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in this paragraph is subject to the condition that the School District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The School District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The initial public offering price of Bonds of certain maturities (the "Discount Bonds") is less than the amount payable at maturity. An amount not less than the difference between the initial public offering price of the Discount Bonds and the amount payable at maturity constitutes original issue discount. We are of the opinion that the appropriate portion of such original issue discount allocable to the original and each subsequent holder of a Discount Bond will, upon sale, exchange, redemption or payment at maturity of such Discount Bond, be treated as interest and excluded from gross income for federal income tax purposes to the same extent as the stated interest on the Discount Bonds.

In providing this opinion, we advise you as follows:

(a) Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of

any collateral tax consequences of owning the Bonds, which may include original issue premium and purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

(b) The enforceability (but not the validity) of the documents mentioned herein may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter enacted by any state or the federal government affecting the enforcement of creditors' rights generally, and "enforceable in accordance with its (their) terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

(c) We express no opinion herein with respect to the adequacy of the security or sources of payment for the Bonds or the accuracy or adequacy of any description of the School District or its facilities contained in any offering document used in connection with the sale of the Bonds.

Lamb McErlane PC

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APPENDIX C
CONTINUING DISCLOSURE AGREEMENT

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DOWNINGTOWN AREA SCHOOL DISTRICT
Chester County, Pennsylvania

\$14,635,000 General Obligation Bonds, Series A of 2018
\$32,620,000 General Obligation Bonds, Series B of 2018
\$26,655,000 General Obligation Bonds, Series C of 2018

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Downingtown Area School District, Chester County, Pennsylvania (the "Issuer") in connection with the issuance of its \$14,635,000 aggregate principal General Obligation Bonds, Series A of 2018, \$32,620,000 aggregate principal General Obligation Bonds, Series B of 2018 and \$26,655,000 aggregate principal General Obligation Bonds, Series C of 2018 (Series A, B and C of 2018, collectively, the "Bonds"). The Bonds are being issued pursuant to a resolution duly adopted by the Board of School Directors on October 10, 2018 (the "Resolution").

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

“Owner” shall mean a registered owner of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Issuer’s fiscal year, commencing with the report for the 2017-2018 Fiscal Year, provide to the MSRB through the EMMA System an Annual Report, which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package; and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to that effect to the MSRB through the EMMA System.

(c) The Dissemination Agent shall:

(1) Determine each year prior to the date for providing the Annual Report the current electronic format of the MSRB for such filing; and

(2) if the Dissemination Agent is other than the Issuer, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements

contained in the final Remarketing Memorandum, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

- (b) The additional items listed in Exhibit A hereto.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (7) modifications to rights of Owners or Beneficial Owners of the Bonds, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;

- (12) bankruptcy, insolvency, receivership or similar event of the School District;
- (13) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(b) The Issuer shall in a timely manner, not in excess of ten days after the occurrence of the event, file a notice of such occurrence with the MSRB through the EMMA System. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement.

SECTION 8. Amendment, Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waivers would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (1) is approved by the Owners or Beneficial Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners, or (2) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Notwithstanding any other provisions of this Disclosure Agreement, any filing required by this Disclosure Agreement may be made with such repositories and using such electronic filing systems as may be approved by the Securities and Exchange Commission and/or the MSRB.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The

obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters, Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated as of _____, 2018.

DOWNTOWN AREA SCHOOL DISTRICT

BY: _____

President

Attest:

Secretary

(SEAL)

EXHIBIT A

Additional Items for Annual Report

- A copy (or summary of) the budget for the current fiscal year.
- The total assessed value and market value of all taxable real estate for the current fiscal year.
- The taxes and millage rates imposed for the current fiscal year.
- The real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year's levy and as an aggregate dollar amount), and (3) the total amount of real estate taxes collected (expressed both as a percentage of the current year's levy and as an aggregate dollar amount).
- A list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the current fiscal year.

APPENDIX D
AUDITED FINANCIAL STATEMENT

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**Downingtown Area
School District
Downingtown, Pennsylvania
Chester County**

Financial Statements
Year Ended June 30, 2017



1835 Market Street, 26th Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

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DOWNINGTOWN AREA SCHOOL DISTRICT

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DOWNINGTOWN AREA SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Downingtown Area School District
Downingtown, Pennsylvania**

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Downingtown Area School District, Downingtown, Pennsylvania as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the other post-employment benefits schedule of funding progress and the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 12 and 47 through 50 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 Downingtown Area School District's basic financial statements. The combining and individual fund financial statements, the borrowing base calculation and the comparative General Fund schedules, 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 and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining and individual fund financial statements and the schedule of expenditures of federal awards and certain state grants are the responsibility of management and were 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 combining and individual fund financial statements and the schedule of expenditures of federal awards and certain state grants are fairly stated in all material respects in relation to the basic financial statements as a whole.

The borrowing base calculation and the comparative General Fund schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express any opinion or provide an assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017, on our consideration of Downingtown Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Downingtown Area School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
December 5, 2017**

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The discussion and analysis of Downingtown Area School District's (the "**District**") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements, notes to the financial statements, and supplemental information in this report.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business-type activities, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources of the District resulting in net position at the close of the 2016-2017 fiscal year of \$70,516,991. During the 2016-2017 fiscal year the District had a decrease in total net position of \$2,085,129. The net position of governmental activities decreased by \$2,246,499 and the net position of the business-type activities increased by \$161,370.
- As of June 30, 2017, the District's governmental funds reported a combined fund balance of \$183,169,099, which is an increase of \$11,127,534 from the prior year.
- The General Fund reported an excess of revenue over expenditures of \$18,239,341, and other net financing uses of \$25,509,101 primarily for a transfer to the Capital Projects Fund. This resulted in a decrease in fund balance of \$7,269,760 bringing the cumulative balance to \$17,341,600 at the conclusion of the 2016-2017 fiscal year.
- General Fund revenues from local sources increased \$2,220,316 over the prior year primarily due to a:
 - Net increase in real estate taxes of \$813,848 driven by a \$2,266,828 increase from assessment growth offset by a \$1,452,980 decrease in interim, transfer, and delinquent real estate tax revenue. The real estate tax rate of 27.182 mills remained unchanged for the fourth consecutive year.
 - Net \$1,426,457 increase in all other local source revenues that includes a \$740,423 increase in earned income tax revenue and a \$686,034 increase in other local revenue including IDEA grant funding and interest income.
- General Fund revenue from state sources increased \$6,970,343 over the prior year primarily due to a:
 - \$4,251,135 increase in debt service reimbursement due to a lump sum payment for prior year debt retirement, and a catch-up of prior year payments owed to the District that were delayed as a result of the state Plancon program funding suspension.
 - \$2,089,906 increase in the retirement subsidy, caused by an increase in the Public School Employees' Retirement System of Pennsylvania ("**PSERS**") contribution rate.
 - \$637,678 increase in the basic and special education subsidies.
- General Fund revenue from federal sources increased \$248,313 primarily due to higher Title I revenue, funding from the Federal Emergency Management Agency ("**FEMA**"), and increased Medical Access revenue.
- General Fund expenditures, excluding other financing uses, had a net increase of \$4,696,285 over the prior year primarily due to the following changes:
 - \$3,964,016 net increase in employee costs driven by a \$4,198,968 increase in PSERS expense due to a higher employer contribution rate. This was offset by a net decrease of \$234,952 that includes a \$2,403,055 decrease in benefits including healthcare, offset by a \$2,168,103 increase in salaries.
 - \$2,262,907 increase in other expenditures that includes increases in special education, student transportation, and professional services costs.
 - \$1,530,638 decrease in debt service primarily due to a portion of the District's debt service being paid out of the Debt Service Fund.

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

- During 2016-2017 the Capital Projects Fund had \$8,786,414 in expenditures, and transferred \$7,000,000 to the Debt Service Fund as a cash contribution to fund debt retirement in 2017-2018.
- During 2016-2017 the Debt Service Fund subsidized \$1,741,289 of the District's debt service.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

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

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

Fund Financial Statements

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

- Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

- **Proprietary Funds** - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, or where there is a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the government-wide statements.
- **Fiduciary Funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. These assets are not reflected in the government-wide financial statements because the District cannot use these assets to finance its operations.
- **Notes to the Financial Statements** – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.
- **Other Information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and the District's pension contributions, as well as additional analysis which consists of combining and individual fund financial statements and comparative General Fund schedules.

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2016-2017 fiscal year the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$70,516,991. The following table presents condensed information for the Statement of Net Position of the District at June 30, 2017 and 2016.

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
ASSETS						
Current assets	\$222,856,278	\$ 208,774,882	\$1,604,699	\$1,477,105	\$224,460,977	\$ 210,251,987
Capital assets	284,921,048	289,445,972	1,001,485	1,010,841	285,922,533	290,456,813
TOTAL ASSETS	<u>507,777,326</u>	<u>498,220,854</u>	<u>2,606,184</u>	<u>2,487,946</u>	<u>510,383,510</u>	<u>500,708,800</u>
DEFERRED OUTFLOWS OF RESOURCES						
	<u>72,070,643</u>	<u>38,878,641</u>	<u>76,587</u>	<u>43,253</u>	<u>72,147,230</u>	<u>38,921,894</u>
LIABILITIES						
Current liabilities	37,016,781	37,802,992	361,651	371,931	37,378,432	38,174,923
Noncurrent liabilities	464,869,871	423,807,361	398,190	398,374	465,268,061	424,205,735
TOTAL LIABILITIES	<u>501,886,652</u>	<u>461,610,353</u>	<u>759,841</u>	<u>770,305</u>	<u>502,646,493</u>	<u>462,380,658</u>
DEFERRED INFLOWS OF RESOURCES						
	<u>9,364,139</u>	<u>4,645,465</u>	<u>3,117</u>	<u>2,451</u>	<u>9,367,256</u>	<u>4,647,916</u>
NET POSITION						
Invested in capital assets, net of related debt	154,606,090	162,982,124	1,001,485	1,010,841	155,607,575	163,992,965
Restricted for debt service	12,656,169	11,148,172	-	-	12,656,169	11,148,172
Unrestricted (deficit)	(98,665,081)	(103,286,619)	918,328	747,602	(97,746,753)	(102,539,017)
TOTAL NET POSITION	<u>\$ 68,597,178</u>	<u>\$ 70,843,677</u>	<u>\$1,919,813</u>	<u>\$1,758,443</u>	<u>\$ 70,516,991</u>	<u>\$ 72,602,120</u>

The District's total assets as of June 30, 2017 were \$510,383,510 of which \$193,200,010 or 37.85% consisted of unrestricted cash and investments and \$285,922,533 or 56.02% consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2017 were \$502,646,493 of which \$130,314,958 or 25.93% consisted of general obligation debt used to acquire and construct capital assets and \$324,448,546 or 64.55% consisted of the actuarially determined net pension liability.

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The District had a deficit in unrestricted net position of \$97,746,753 at June 30, 2017. The District's unrestricted net position increased by \$4,792,264 during 2016-2017 primarily due to the results of current year operations.

A portion of the District's net position reflects its restricted net position which totaled \$12,656,169 as of June 30, 2017. All of the District's restricted net position related to amounts restricted for debt service.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2017, the District's net investment in capital assets, decreased by \$8,385,390 because the capital assets are being depreciated faster than debt used to acquire the capital assets is being repaid.

The following table presents condensed information for the Statement of Activities of the District for 2017 and 2016:

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
REVENUES						
Program services						
Charges for services	\$ 2,236,746	\$ 1,797,427	\$ 3,649,446	\$ 3,586,708	\$ 5,886,192	\$ 5,384,135
Operating grants and contributions	37,063,037	30,460,671	694,948	649,124	37,757,985	31,109,795
Capital grants and contributions	-	-	29,795	-	29,795	-
General revenues						
Property taxes	142,939,832	142,042,447	-	-	142,939,832	142,042,447
Other taxes	19,787,289	19,440,793	-	-	19,787,289	19,440,793
Grants, subsidies and contributions not restricted	18,253,470	17,679,551	-	197,397	18,253,470	17,876,948
Investment earnings	1,355,551	670,923	7,513	3,263	1,363,064	674,186
Miscellaneous revenue	316,753	440,872	-	-	316,753	440,872
Gain on sale of capital assets	182,098	235,891	-	-	182,098	235,891
TOTAL REVENUES	<u>222,134,776</u>	<u>212,768,575</u>	<u>4,381,702</u>	<u>4,436,492</u>	<u>226,516,478</u>	<u>217,205,067</u>
EXPENSES						
Instruction	135,715,157	127,560,288	-	-	135,715,157	127,560,288
Instructional student support	17,831,148	15,751,170	-	-	17,831,148	15,751,170
Administrative and financial support	20,238,728	17,832,691	-	-	20,238,728	17,832,691
Operation and maintenance of plant services	14,704,676	15,118,176	-	-	14,704,676	15,118,176
Pupil transportation	11,290,771	11,391,545	-	-	11,290,771	11,391,545
Student activities	4,381,823	3,837,347	-	-	4,381,823	3,837,347
Community services	85,412	78,785	-	-	85,412	78,785
Interest and amortization expense related to noncurrent liabilities	6,691,964	5,243,395	-	-	6,691,964	5,243,395
Unallocated depreciation expense	13,441,596	12,596,659	-	-	13,441,596	12,596,659
Food services	-	-	4,220,332	4,147,391	4,220,332	4,147,391
TOTAL EXPENSES	<u>224,381,275</u>	<u>209,410,056</u>	<u>4,220,332</u>	<u>4,147,391</u>	<u>228,601,607</u>	<u>213,557,447</u>
CHANGE IN NET POSITION	<u>\$ (2,246,499)</u>	<u>\$ 3,358,519</u>	<u>\$ 161,370</u>	<u>\$ 289,101</u>	<u>\$ (2,085,129)</u>	<u>\$ 3,647,620</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The following table presents condensed financial information from the Statement of Activities above on the expenses of the governmental activities of the District by function. The table illustrates both the total and net costs of services. The net amounts are calculated by subtracting restricted operating grants and contributions revenue, and charges for services from the total costs of services. Revenues from unrestricted grants, subsidies and contributions are deducted from the net cost of services to reflect the amount needed to be funded by local revenue sources such as property taxes.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Expenses - Governmental Activities				
Instruction	\$ 135,715,157	\$ 127,560,288	\$ 114,091,611	\$ 107,729,052
Instructional student support	17,831,148	15,751,170	15,896,008	14,013,165
Administrative and financial support	20,238,728	17,832,691	18,647,016	16,502,966
Operation and maintenance of plant services	14,704,676	15,118,176	13,184,115	13,676,255
Pupil transportation	11,290,771	11,391,545	7,409,137	7,340,831
Student activities	4,381,823	3,837,347	2,319,154	2,391,564
Community services	85,412	78,785	74,520	76,634
Interest and amortization expense related to noncurrent liabilities	6,691,964	5,243,395	18,335	2,824,832
Unallocated depreciation expense	13,441,596	12,596,659	13,441,596	12,596,659
TOTAL EXPENSES	\$ 224,381,275	\$ 209,410,056	185,081,492	177,151,958
Less: Grants, subsidies and contributions not restricted			(18,253,470)	(17,679,551)
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			\$ 166,828,022	\$ 159,472,407

The following table reflects condensed financial activities of the food service program, the only business-type activity of the District. The negative net cost of services reflects the amount that total revenues exceeded total expenses.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Expenses - Business-Type Activities				
Food Services	<u>\$4,220,332</u>	<u>\$4,147,391</u>	<u>\$(153,857)</u>	<u>\$ (88,441)</u>

FINANCIAL ANALYSIS OF THE DISTRICT – GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2016-2017 fiscal year, the General Fund fund balance was \$17,341,600 representing a decrease of \$7,269,760 in relation to the prior year. The decrease in the District's General Fund fund balance is a result of revenue over expenditures of \$18,239,341, offset by other net financing uses of \$25,509,101 primarily for transfers to the Capital Projects Fund totaling \$25,760,784. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2016-2017 fiscal year.

At June 30, 2017, the District reported an unassigned fund balance of \$ 17,341,600. The unassigned fund balance represents 8% of the 2017-2018 General Fund budgeted expenditures which is in accordance with guidelines prescribed by the Pennsylvania Department of Education.

DOWNINGTOWN AREA SCHOOL DISTRICT

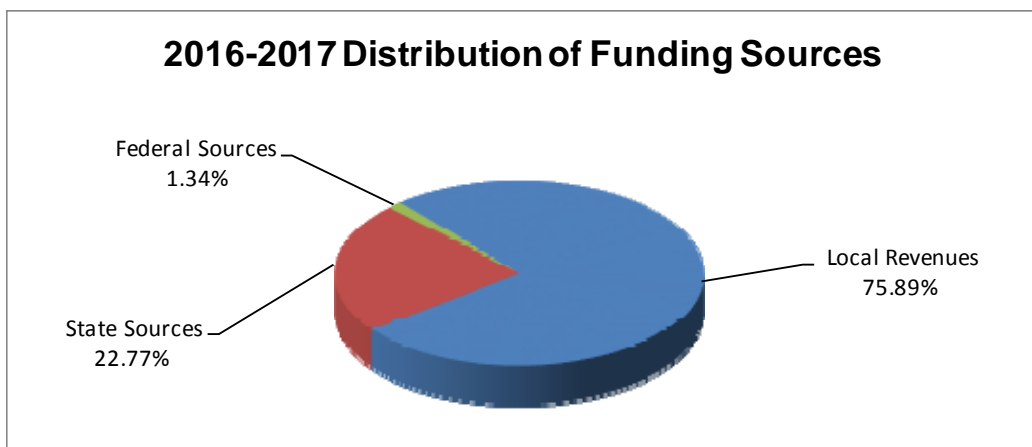
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

General Fund Revenues

General Fund revenues, which totaled \$221,407,897, increased \$9,438,972 or 4.45% over prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues and 2016-2017 budgeted amounts as follows:

	<u>Revenue 2017</u>	<u>% of Total</u>	<u>Increase (Decrease) From 2016</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Local revenues	\$ 168,019,218	75.89%	\$ 2,220,316	\$4,273,996
State sources	50,415,422	22.77%	6,970,343	4,216,644
Federal sources	<u>2,973,257</u>	<u>1.34%</u>	<u>248,313</u>	<u>(25,782)</u>
TOTAL REVENUES	<u>\$ 221,407,897</u>	<u>100.00%</u>	<u>\$ 9,438,972</u>	<u>\$8,464,858</u>



Revenue from local sources primarily includes revenue from real estate taxes levied by the District. The increase over prior year is primarily driven by current real estate taxes as a result of assessment growth. State source revenue had a net increase of \$6,970,343 compared to 2015-2016 primarily due to a \$4,251,135 increase in debt service reimbursement due to a lump sum payment for prior year debt retirement, and a catch-up of prior year payments owed to the District that were delayed in the Plancon funding suspension. In addition, a \$2,089,906 increase in the retirement subsidy, caused by an increase in the PSERS contribution rate, and an increase in the basic instruction and special education subsidies of \$637,678 contributed to the increase in state source revenue. General Fund revenue from federal sources increased primarily due to an increase in funding related to Title I, Medical Access and FEMA disaster relief.

The final positive budget variance in local revenue was due to the current real estate tax collection rate being higher than budgeted, and settlements of assessed values appealed by the District. Also contributing to the variance were earned income tax and real estate transfer taxes being higher than budgeted. In addition, interest income was higher than budget due to increased interest rates and the IDEA appropriation was higher than anticipated. The positive budget variance in state source revenue was primarily due to a lump sum payment for prior year debt retirement, and a catch-up of prior year payments owed to the District that were delayed in the Plancon funding suspension. These were unbudgeted due to the uncertainty of when and if the state would be funding these payments.

DOWNINGTOWN AREA SCHOOL DISTRICT

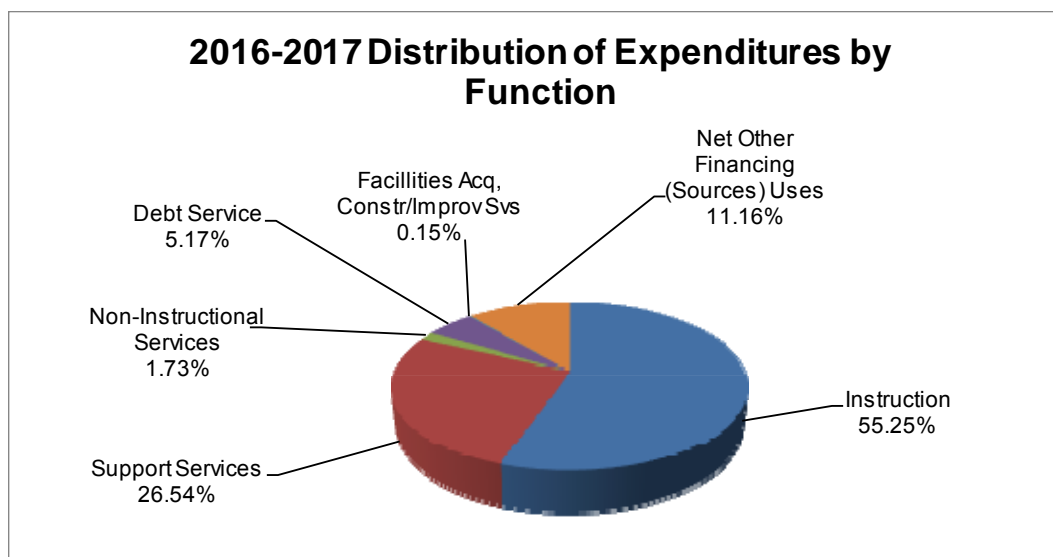
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

General Fund Expenditures and Other Financing Uses

General Fund expenditures and net other financing uses, which total \$228,677,657, increased \$17,046,142 over the 2015-2016 expenditures, and were a net \$15,734,618 over final budget after transfers to the Capital Projects Fund totaling \$25,760,784 which is included in net other financing uses below. The expenditures are segregated into various programs depending on the functions of the activity. These programs and the costs associated with each are compared to the prior year expenditures and other financing uses, and the final 2016-2017 budgeted amounts as follows:

	<u>Expenditures 2017</u>	<u>% of Total</u>	<u>Increase (Decrease) From 2016</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Instruction	\$ 126,339,494	55.25%	\$ 3,486,503	\$ 7,781,937
Support services	60,692,658	26.54%	2,528,202	1,642,728
Non-instructional services	3,952,347	1.73%	170,956	16,700
Facilities acq, construct/improv scvs	353,018	0.15%	41,262	982
Debt service	11,831,039	5.17%	(1,530,638)	-
Net other financing uses	25,509,101	11.16%	12,349,857	(25,176,965)
TOTAL EXPENDITURES	<u>\$ 228,677,657</u>	<u>100.00%</u>	<u>\$ 17,046,142</u>	<u>\$ (15,734,618)</u>



The increase in the instruction, support services, and non-instructional expenses is primarily due to increases in employee benefit costs (including PSERS contribution increase), salaries, special education costs, and student transportation costs. The decrease in debt service is primarily due to a portion of the District's debt service being subsidized by the Debt Service Fund. The increase in net other financing uses compared to the prior year is primarily due to an increase in the amount transferred out of the General Fund into the Capital Projects Fund including the transfer of \$7,269,760 of assigned General Fund fund balance as of June 30, 2016.

The positive final budget variances for instruction, support services, and non-instructional services expenses were due primarily to lower salary and benefit costs than budgeted. Contributing to the salary variance was the replacement of budgeted salaries with lower actual salaries for staff replacing retired and terminated employees. Benefit costs were under budget primarily due to lower healthcare claims than anticipated. The net other financing uses variance with final budget variance was caused by the unbudgeted amount transferred to the Capital Projects Fund from the General Fund in the amount of \$25,760,784.

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. As of June 30, 2017, there were no unspent bond proceeds in the Capital Projects Fund. At June 30, 2017, the District reported a fund balance of \$113,116,972, which is an increase over the prior year of \$10,728,608. The change was primarily due to a \$25,760,784 transfer in from the General Fund. This transfer was offset by a \$7,000,000 out to the Debt Service Fund and \$8,786,414 in capital expenditures. The remaining fund balance of \$113,116,972 as of June 30, 2017 is committed for future capital expenditures.

DEBT SERVICE FUND

The Debt Service Fund accounts for financial resources committed for the payment of long-term debt principal interest and other related costs. During 2016-2017, the Debt Service Fund fund balance increased by \$7,668,686. The increase was primarily due to a one time \$7,000,000 from the Capital Projects Fund to subsidize a 2017-2018 bond refunding. At June 30, 2017, the Debt Service Fund reported a fund balance of \$52,710,527.

In 2010 and 2011, the District borrowed \$40,069,000 under the Qualified School Construction Bonds program. Pursuant to loan agreements with the State Public School Building Authority under its Qualified School Construction Bonds program, the District is required to make deposits annually into a debt sinking fund with a third party trustee. These deposits are invested in U.S. Treasury securities, and shown as an asset on the District's financial statements as of June 30, 2017 and is included as a prior period fund balance adjustment as more fully described in Note 15 of the financial statements. The deposits and investment earnings on the deposits are available for payment of maturities under the loan agreement, and totaled \$12,656,169 at June 30, 2017.

CAPITAL ASSETS

The District's net investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to \$285,922,533 net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements, furniture and equipment and vehicles. The total decrease in the District's net investment in capital assets for the current fiscal year was \$4,534,280 or 1.56%. The increase was the result of current year depreciation in excess of current year capital additions.

Current year capital additions were \$9,015,353 and depreciation expense was \$13,549,633.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

LONG-TERM DEBT AND NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$130,314,958 consisting of \$53,300,000 in bonds payable, \$34,200,000 in notes payable, \$40,069,000 in qualified school construction bonds and net deferred credits of \$2,745,958. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$5,952,804 or 4.37% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$473,889,275 which exceeds the District's outstanding general obligation debt as of June 30, 2017.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$324,448,546 as of June 30, 2017. The District's net pension liability increased by \$46,797,546 or 16.85% during the fiscal year.

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The District maintains an AAA rating from Moody's and Standard and Poors.

Other noncurrent liabilities consist of the District's liabilities for compensated absences and its net obligation for post-employment benefits, which totaled \$10,976,563 as of June 30, 2017. These liabilities increased by \$1,458,523 or 15.32% during the fiscal year.

The District uses swap contracts that have fixed interest payments made in exchange for variable interest payments received based on an underlying interest rate index. These interest payments received are meant to offset the variable interest cost of the hedged bond. These are considered hedging derivatives instruments, and are used to reduce financial risks, such as offsetting increases in interest rate costs. The District has two interest rate swaps relating to its general obligation notes, Series of 2006A and 2006C, and general obligation bonds, Series of 2010.

More detailed information about the District's long-term debt and noncurrent liabilities is presented in the notes to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has identified the following factors related to the District's future:

- The District's student enrollment at the beginning of 2017-2018 was 12,804 and is projected to increase 1% to 2% each year over the next few years.
- The District is evaluating options for managing enrollment growth that include the possible renovation of existing schools and / or the construction of new schools.
- The District adopted a balanced 2017-2018 budget totaling \$216,770,000 without a tax increase for the fifth consecutive year.
- In 2006 Pennsylvania passed Act 1 which provides property tax relief for property owners. As part of this legislation, a limit is placed on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. The percentage limit is known as the Act 1 index. The Act 1 index for 2017-2018 is 2.5%, and 2.4% for 2018-2019.
- Increases in the level of state funding that the District will receive in future years is uncertain, as the political decisions influencing the state budgets and level of funding to the District are unpredictable.
- The District's contributions to the Public School Employee's Retirement System ("**PSERS**") will continue to be significant over the next several years. PSERS projects the following future percentages of employee salaries that the District will need to fund:

2017-2018	32.57%
2018-2019	34.18%
2019-2020	35.62%
2020-2021	36.13%
2021-2022	36.56%

The state is expected to continue to reimburse the District for half of these contributions.

- The District is well positioned to handle any future fiscal challenges due to its strong fund balances, and it will continue to practice prudent fiscal management practices to ensure sufficient funding for its operations and capital spending.

DOWNINGTOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard Fazio, Chief Financial Officer, or Michael DeAngelis, Assistant Director of Finance, Downingtown Area School District, 540 Trestle Place, Downingtown, PA 19335.

DOWNINGTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash	\$ 34,422,885	\$ 740,467	\$ 35,163,352
Investments	157,236,658	800,000	158,036,658
Restricted assets			
Cash held by fiscal agent	487	-	487
Investments held by fiscal agent	12,655,682	-	12,655,682
Taxes receivable	3,973,951	-	3,973,951
Due from other governments	6,040,702	13,588	6,054,290
Internal balances	(29,410)	29,410	-
Other receivables	1,555,323	8,576.00	1,563,899
Prepaid expenses	7,000,000	-	7,000,000
Inventories	-	12,658	12,658
Total current assets	222,856,278	1,604,699	224,460,977
NONCURRENT ASSETS			
Capital assets, net	284,921,048	1,001,485	285,922,533
Total assets	507,777,326	2,606,184	510,383,510
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	5,735,798	-	5,735,798
Deferred charges on proportionate share of pension	66,334,845	76,587	66,411,432
Total deferred outflows	72,070,643	76,587	72,147,230
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	7,780,080	228,081	8,008,161
Accrued salaries, payroll withholdings and benefits	21,830,235	-	21,830,235
Accrued interest payable	892,933	-	892,933
Bonds and notes payable - due within one year	6,207,804	-	6,207,804
Unearned revenue	305,729	133,570	439,299
Total current liabilities	37,016,781	361,651	37,378,432
NONCURRENT LIABILITIES			
Bonds and notes payable - due in more than one year	124,107,154	-	124,107,154
Derivative instrument liability - interest rate swap	5,735,798	-	5,735,798
Compensated absences	3,090,279	24,030	3,114,309
Other post-employment benefits	7,862,254	-	7,862,254
Net pension liability	324,074,386	374,160	324,448,546
Total noncurrent liabilities	464,869,871	398,190	465,268,061
Total liabilities	501,886,652	759,841	502,646,493
DEFERRED INFLOWS OF RESOURCES			
Property taxes received in advance	6,664,615	-	6,664,615
Deferred credits on proportionate share of pension	2,699,524	3,117	2,702,641
Total deferred inflows	9,364,139	3,117	9,367,256
NET POSITION			
Net investment in capital assets	154,606,090	1,001,485	155,607,575
Restricted	12,656,169	-	12,656,169
Unrestricted (deficit)	(98,665,081)	918,328	(97,746,753)
Total net position	\$ 68,597,178	\$ 1,919,813	\$ 70,516,991

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Net (Expense) Revenue and						
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 135,715,157	\$ 38,956	\$ 21,584,590	\$ -	\$ (15,896,008)	\$ -	\$ (114,091,611)
Instructional student support	17,831,148	-	1,935,140	-	(15,896,008)	-	(15,896,008)
Administrative and financial support services	20,238,728	-	1,591,712	-	(18,647,016)	-	(18,647,016)
Operation and maintenance of plant services	14,704,676	490,503	1,030,058	-	(13,184,115)	-	(13,184,115)
Pupil transportation	11,290,771	-	3,881,634	-	(7,409,137)	-	(7,409,137)
Student activities	4,381,823	1,707,287	355,382	-	(2,319,154)	-	(2,319,154)
Community services	85,412	-	10,892	-	(74,520)	-	(74,520)
Interest and amortization expense related to noncurrent liabilities	6,691,964	-	6,673,629	-	(18,335)	-	(18,335)
Unallocated depreciation	13,441,596	-	-	-	(13,441,596)	-	(13,441,596)
Total governmental activities	<u>224,381,275</u>	<u>2,236,746</u>	<u>37,063,037</u>				
BUSINESS-TYPE ACTIVITIES							
Food service	<u>4,220,332</u>	<u>3,649,446</u>	<u>694,948</u>	<u>29,795</u>	<u>-</u>	<u>153,857</u>	<u>153,857</u>
Total primary government	<u>\$ 228,601,607</u>	<u>\$</u>	<u>\$ -</u>	<u>\$ 29,795</u>	<u>(185,081,492)</u>	<u>153,857</u>	<u>(184,927,635)</u>
GENERAL REVENUES							
Property taxes levied for general purposes			-		142,939,832	-	142,939,832
Other taxes levied for general purposes					19,787,289	-	19,787,289
Grants and entitlements not restricted to specific programs	5,886,192	37,757,985			18,253,470	-	18,253,470
Investment earnings					1,355,551	7,513	1,363,064
Miscellaneous income					316,753	-	316,753
Gain on sale of capital assets					182,098	-	182,098
Total general revenues					<u>182,834,993</u>	<u>7,513</u>	<u>182,842,506</u>
CHANGE IN NET POSITION					(2,246,499)	161,370	(2,085,129)
NET POSITION							
Beginning of year					<u>70,843,677</u>	<u>1,758,443</u>	<u>72,602,120</u>
End of year					<u>\$ 68,597,178</u>	<u>\$ 1,919,813</u>	<u>\$</u>

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
ASSETS				
Cash	\$ 23,033,626	\$ 10,599,846	\$ 789,413	\$ 34,422,885
Investments	47,007,753	77,963,960	32,264,945	157,236,658
Restricted assets:				
Cash held by fiscal agent	-	-	487	487
Investments held by fiscal agent	-	-	12,655,682	12,655,682
Taxes receivable	3,973,951	-	-	3,973,951
Due from other funds	8,163	25,766,535	-	25,774,698
Due from other governments	6,040,702	-	-	6,040,702
Other receivables	1,555,323	-	-	1,555,323
Prepaid expenditures	-	-	7,000,000	7,000,000
Total assets	<u>\$ 81,619,518</u>	<u>\$ 114,330,341</u>	<u>\$ 52,710,527</u>	<u>\$ 248,660,386</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,566,711	\$ 1,213,369	\$ -	\$ 7,780,080
Due to other funds	25,804,108	-	-	25,804,108
Accrued salaries, payroll withholdings and benefits	21,830,235	-	-	21,830,235
Unearned revenue	305,729	-	-	305,729
Total liabilities	<u>54,506,783</u>	<u>1,213,369</u>	<u>-</u>	<u>55,720,152</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes received in advance	6,664,615	-	-	6,664,615
Unavailable revenues - property taxes	3,106,520	-	-	3,106,520
Total deferred inflows	<u>9,771,135</u>	<u>-</u>	<u>-</u>	<u>9,771,135</u>
FUND BALANCES				
Nonspendable				
Prepaid expenditures	-	-	7,000,000	7,000,000
Restricted for				
Debt service	-	-	12,656,169	12,656,169
Committed to				
Capital projects	-	113,116,972	-	113,116,972
Debt service	-	-	33,054,358	33,054,358
Unassigned	17,341,600	-	-	17,341,600
Total fund balances	<u>17,341,600</u>	<u>113,116,972</u>	<u>52,710,527</u>	<u>183,169,099</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 81,619,518</u>	<u>\$ 114,330,341</u>	<u>\$ 52,710,527</u>	<u>\$ 248,660,386</u>

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

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

June 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES	\$ 183,169,099
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.

Capital assets	\$ 423,804,698	
Accumulated depreciation	<u>(138,883,650)</u>	284,921,048

Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.

Deferred outflows of resources - pension	66,334,845	
Deferred inflows of resources - pension	<u>(2,699,524)</u>	63,635,321

Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred inflows of resources on the governmental funds balance sheet.

3,106,520

Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.

Bonds and notes payable	(130,314,958)	
Compensated absences	(3,090,279)	
Other post-employment benefits	(7,862,254)	
Net pension liability	<u>(324,074,386)</u>	(465,341,877)

Accrued interest payable on long-term liabilities is included in the statement of net position, but is excluded from the governmental funds balance sheet until due and payable.

(892,933)

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 68,597,178</u>
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DOWNINGTOWN AREA SCHOOL DISTRICT

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

Year ended June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
REVENUES				
Local sources	\$ 168,019,218	\$ 612,995	\$ 2,409,975	\$ 171,042,188
State sources	50,415,422	-	-	50,415,422
Federal sources	2,973,257	-	-	2,973,257
Total revenues	<u>221,407,897</u>	<u>612,995</u>	<u>2,409,975</u>	<u>224,430,867</u>
EXPENDITURES				
Current				
Instruction	126,339,494	3,773,352	-	130,112,846
Support services	60,692,658	680,104	-	61,372,762
Operation of noninstructional services	3,952,347	277,889	-	4,230,236
Facilities acquisition, construction and improvement services	353,018	4,055,069	-	4,408,087
Debt service	11,831,039	-	1,741,289	13,572,328
Total expenditures	<u>203,168,556</u>	<u>8,786,414</u>	<u>1,741,289</u>	<u>213,696,259</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,239,341</u>	<u>(8,173,419)</u>	<u>668,686</u>	<u>10,734,608</u>
OTHER FINANCING SOURCES (USES)				
Sale of/compensation for capital assets	182,098	-	-	182,098
Refund of prior year expenditures	88,522	141,243	-	229,765
Refund of prior year revenues	(18,937)	-	-	(18,937)
Transfers in (reimbursement)	-	8,786,414	7,000,000	15,786,414
Transfers in (non-reimbursement)	-	16,974,370	-	16,974,370
Transfers out (reimbursement)	(8,786,414)	(7,000,000)	-	(15,786,414)
Transfers out (non-reimbursement)	(16,974,370)	-	-	(16,974,370)
Total other financing sources (uses)	<u>(25,509,101)</u>	<u>18,902,027</u>	<u>7,000,000</u>	<u>392,926</u>
NET CHANGE IN FUND BALANCES	<u>(7,269,760)</u>	<u>10,728,608</u>	<u>7,668,686</u>	<u>11,127,534</u>
FUND BALANCES				
Beginning of year	<u>24,611,360</u>	<u>102,388,364</u>	<u>45,041,841</u>	<u>172,041,565</u>
End of year	<u>\$ 17,341,600</u>	<u>\$ 113,116,972</u>	<u>\$ 52,710,527</u>	<u>\$ 183,169,099</u>

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

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

Year ended June 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 11,127,534
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay expenditures	\$ 8,916,672	
Depreciation expense	<u>(13,441,596)</u>	(4,524,924)

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

Deferred inflows of resources June 30, 2016	(3,395,905)	
Deferred inflows of resources June 30, 2017	<u>3,106,520</u>	(289,385)

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

Repayment of bonds payable	5,585,000	
Amortization of bond premiums and discounts	<u>367,804</u>	5,952,804

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

Current year change in accrued interest payable	(509,507)	
Current year change in investment derivative instrument	(962,565)	
Change in net pension liability and related deferred inflows and outflows	(11,583,395)	
Current year change in compensated absences	(353,598)	
Current year change in net post-employment benefit (OPEB) obligation	<u>(1,103,463)</u>	<u>(14,512,528)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (2,246,499)</u>
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DOWNINGTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2017

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES	
CURRENT ASSETS	
Cash	\$ 740,467
Investments	800,000
Due from other funds	37,573
Due from other governments	13,588
Other receivables	8,576
Inventories	<u>12,658</u>
Total current assets	<u>1,612,862</u>
NONCURRENT ASSETS	
Capital assets, net	<u>1,001,485</u>
Total assets	<u>2,614,347</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred charges on proportionate share of pension	<u>76,587</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	
LIABILITIES	
Accounts payable	228,081
Due to other funds	8,163
Unearned revenue	<u>133,570</u>
Total current liabilities	<u>369,814</u>
NONCURRENT LIABILITIES	
Accrued compensated absences	24,030
Net pension liability	<u>374,160</u>
Total noncurrent liabilities	<u>398,190</u>
Total liabilities	<u>768,004</u>
DEFERRED INFLOW OF RESOURCES	
Deferred credits on proportionate share of pension	<u>3,117</u>
NET POSITION	
Net investment in capital assets	1,001,485
Unrestricted	<u>918,328</u>
Total net position	<u>\$ 1,919,813</u>

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

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

Year ended June 30, 2017

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>
OPERATING REVENUES	
Charges for services	<u>\$ 3,649,446</u>
OPERATING EXPENSES	
Salaries	101,866
Employee benefits	31,133
Purchased services - food management	2,221,280
Purchased property services	87,423
Other purchased services	11,239
Supplies - food costs	1,577,552
Depreciation	108,037
Other	<u>81,802</u>
Total operating expenses	<u>4,220,332</u>
Operating loss	<u>(570,886)</u>
NONOPERATING REVENUES	
Earnings on investments	7,513
State sources	76,165
Federal sources	<u>618,783</u>
Total nonoperating revenues	<u>702,461</u>
Change in net position before capital contribution	131,575
Capital contribution	<u>29,795</u>
CHANGE IN NET POSITION	161,370
NET POSITION	
Beginning of year	<u>1,758,443</u>
End of year	<u>\$ 1,919,813</u>

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2017

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from charges for services	\$ 3,667,540
Cash payments to employees for services	(188,419)
Cash payments to suppliers for goods and services	(3,773,739)
Cash payments for other operating expenses	(81,802)
Net cash used for operating activities	<u>(376,420)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	77,610
Federal sources	472,796
Net cash provided by noncapital financing activities	<u>550,406</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	<u>(68,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>7,513</u>
Net increase in cash	112,613
CASH	
Beginning of year	<u>627,854</u>
Ending of year	<u>\$ 740,467</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:	
Operating loss	\$ (570,886)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities	
Depreciation	108,037
Donated commodities used	150,163
(Increase) decrease in	
Due from other funds	(18,937)
Other receivables	487
Inventories	1,040
Deferred outflows - pension	(33,334)
Increase (decrease) in	
Accounts payable	(5,319)
Due to other funds	(3,192)
Accrued compensated absences	1,462
Unearned revenue	17,607
Net pension liability	(24,214)
Deferred inflows - pension	666
Net cash used for operating activities	<u>\$ (376,420)</u>
SUPPLEMENTAL DISCLOSURE	
Noncash noncapital financing activity	
USDA donated commodities	<u>\$ 150,163</u>
Noncash capital and related financing activity	
Capital contribution	<u>\$ 29,795</u>

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2017

	Private Purpose Trust	Agency
ASSETS		
Cash	\$ 27,948	\$ 542,615
LIABILITIES		
Due to student groups	-	\$ 540,973
Accounts payable	-	1,642
Total liabilities	-	<u>\$ 542,615</u>
NET POSITION		
Net position held in trust for scholarships	<u>\$ 27,948</u>	

See accompanying notes

DOWNINGTOWN AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year ended June 30, 2017

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Local contributions	6,390
DEDUCTIONS	
Scholarships awarded and fees paid	<u>13,140</u>
CHANGE IN NET POSITION	(6,750)
NET POSITION	
Beginning of year	<u>34,698</u>
End of year	<u><u>\$ 27,948</u></u>

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Downingtown Area School District (the "***District***") operates ten elementary schools, three middle schools and three high schools to provide education and related services to the residents of the Borough of Downingtown and the Townships of East Brandywine, East Cain, Upper Uwchlan, Uwchlan, Wallace, West Bradford and West Pikeland. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "***School Board***").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("***GAAP***") as applied to governmental units. The Governmental Accounting Standards Board ("***GASB***") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

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

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

The government-wide statement of net position presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

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

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

The Debt Service Fund is used to account for financial resources committed or restricted for the payment of long-term debt principal, interest and other related costs.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

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

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges for services. Operating expenses for the District's proprietary fund include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

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

Property Taxes

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

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

The County Board of Assessments determines assessed valuations of property and the District's taxes are billed and collected by a third party tax collector. The tax on real estate for public school purposes for fiscal 2016-2017 was 27.182 mills (\$27.182 for \$1,000 of assessed valuation) for Chester County. The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

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

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

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

Prepaid Items and Inventories

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

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

Unearned Revenues

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 15-50 years, land improvements – 15-40 years and furniture and equipment – 5-20 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2017.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the Governmental Funds financial statements only to the extent they have matured, for example, as a result of employee resignation and retirements.

Sick Leave

Employees that retire under the Pennsylvania School Employees Retirement System ("**PSERS**") are paid at per diem rates ranging from \$40 to \$55 for each unused sick leave day.

Accrued Severance

Administrative personnel that retire under PSERS are eligible to receive a lump sum severance payment at retirement. The payment is based on a formula as follows: 1.5% multiplied by years of service multiplied by highest salary.

Vacation and Personal Days

District employees that work on a twelve month scheduled are credited with vacation and personal days at rates which vary with length of service and job classification.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

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

Unassigned

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

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Use of Estimates

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

Implementation of New Accounting Pronouncements

Effective July 1, 2016, the District adopted the provisions of GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*, GASB Statement No. 74 *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, GASB Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, GASB Statement No. 77, *"Tax Abatement Disclosures"*; GASB Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"* and GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants"*.

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of GASB Statement No. 77 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 78 amends the scope and applicability of GASB No. Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. The implementation of GASB Statement No. 78 had no impact on the financial statements of the District for the year ended June 30, 2017.

The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The implementation of GASB Statement No. 79 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 73 establishes requirement for defined benefit pensions that are not within the scope of GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *"Financial Reporting for Pension Plans"*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 replaces GASB Statements No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, as amended, and GASB Statement No. 57, *"OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"*, as amended, GASB Statement No. 43, and GASB Statement No. 50, *"Pension Disclosures"*.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

New Accounting Pronouncements

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 *"Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*.

GASB Statement No. 81 *"Irrevocable Split-Interest Agreements"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 82 *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to make available for public inspection within 20 days of final adoption the proposed budget. Public notice of the intent to adopt the final budget is required to be done 10 days prior to the adoption date.

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

(3) DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2017, the carrying amount of the District's deposits was \$35,349,768 and the bank balance was \$36,722,915. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$1,000,487 was covered by federal depository insurance, and \$33,439,597 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, and is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2017, PSDLAF was rated as AAA by a nationally recognized statistical rating agency.

Investments

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>11 – 15</u>
Certificates of deposit	\$158,036,658	\$151,715,493	\$6,321,165	\$ -	\$ -
U.S. Treasury strips	<u>12,655,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,655,682</u>
	<u>\$170,692,340</u>	<u>\$151,715,493</u>	<u>\$6,321,165</u>	<u>\$ -</u>	<u>\$12,655,682</u>

U.S. Treasury strips were valued using Level 2 inputs.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral that is in the possession of an outside party. The collateral for all of the District's investments are held by the pledging bank's agent in the District's name. The District had no investments subject to custodial credit risk as of June 30, 2017.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Interest Rate Risk

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

Credit Risk

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

Restricted Deposits and Investments

The District maintains restricted cash and investment balances held by fiscal agents, which are restricted for the repayment of Qualified School Construction Bonds (**See Note 6**). The total carrying amounts and related bank balances of these cash and investment accounts are \$12,656,169 as of June 30, 2017, which are invested in U.S. Treasury securities.

(4) PROPERTY TAXES

Taxes receivable consisted of the following as of June 30, 2017:

Real estate taxes	\$3,452,653
Real estate transfer taxes	337,410
Earned income taxes	182,503
Local services tax	<u>1,385</u>
	<u>\$3,973,951</u>

A detailed analysis of current year property tax revenues for the year ended June 30, 2017 are as follows:

Assessed value, July 1, 2016	\$5,374,998,255
Millage rate	<u>0.027182</u>
Gross property tax levy	146,103,203
Add:	
Penalties paid	207,646
Less:	
Discounts	(2,580,053)
Assessment changes and exonerations	(752,970)
Property tax relief allocation	(3,906,948)
Taxes uncollected at December 31, 2016 and liened	<u>(2,254,092)</u>
	<u>\$ 136,816,786</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

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

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$25,766,535	General Fund	\$25,766,535
Food Service Fund	37,573	General Fund	37,573
General Fund	<u>8,163</u>	Food Service Fund	<u>8,163</u>
	<u>\$25,812,271</u>		<u>\$25,812,271</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund (non-reimbursement)	\$16,974,370	General Fund (non-reimbursement)	\$16,974,370
Capital Projects Fund (reimbursement for technology)	4,324,061	General Fund (reimbursement for technology)	4,324,061
Capital Projects Fund (reimbursement for facilities)	3,800,007	General Fund (reimbursement for facilities)	3,800,007
Capital Projects Fund (reimbursement for curriculum/ other)	662,346	General Fund (reimbursement for curriculum/ other)	662,346
Debt Service Fund (reimbursement)	<u>7,000,000</u>	Capital Projects Fund (reimbursement)	<u>7,000,000</u>
	<u>\$32,760,784</u>		<u>\$32,760,784</u>

Transfers from General Fund and Capital Projects Fund represents transfers to subsidize costs associated with the acquisition of capital assets and debt service requirements.

(6) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Construction in progress	\$ 5,813,788	\$ 8,792,164	\$11,346,324	\$ 3,259,628
Land	<u>41,367,984</u>	<u>-</u>	<u>-</u>	<u>41,367,984</u>
Total capital assets not being depreciated	<u>47,181,772</u>	<u>8,792,164</u>	<u>11,346,324</u>	<u>44,627,612</u>
Capital assets being depreciated				
Land improvements	18,790,244	1,080,294	-	19,870,538
Buildings and improvements	324,450,460	4,555,851	-	329,006,311
Furniture and equipment	<u>27,930,950</u>	<u>5,834,687</u>	<u>3,465,400</u>	<u>30,300,237</u>
Total capital assets being depreciated	<u>371,171,654</u>	<u>11,470,832</u>	<u>3,465,400</u>	<u>379,177,086</u>
Less accumulated depreciation for				
Buildings and improvements	(101,769,874)	(7,675,923)	-	(109,445,797)
Land improvements	(12,313,743)	(1,032,786)	-	(13,346,529)
Furniture and equipment	<u>(14,823,837)</u>	<u>(4,732,887)</u>	<u>(3,465,400)</u>	<u>(16,091,324)</u>
Total accumulated depreciation	<u>(128,907,454)</u>	<u>(13,441,596)</u>	<u>(3,465,400)</u>	<u>(138,883,650)</u>
Total capital assets being depreciated, net	<u>242,264,200</u>	<u>(1,970,764)</u>	<u>-</u>	<u>240,293,436</u>
Governmental activities, net	<u>\$ 289,445,972</u>	<u>\$ 6,821,400</u>	<u>\$11,346,324</u>	<u>\$ 284,921,048</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Machinery and equipment	\$ 3,018,317	\$ 98,681	\$ 52,845	\$ 3,064,153
Less accumulated depreciation	<u>(2,007,476)</u>	<u>(108,037)</u>	<u>(52,845)</u>	<u>(2,062,668)</u>
Business-type activities, net	<u>\$ 1,010,841</u>	<u>\$ (9,356)</u>	<u>\$ -</u>	<u>\$ 1,001,485</u>

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

Governmental activities	
Unallocated	<u>\$13,441,596</u>
Business-type activities	
Food service	<u>\$ 108,037</u>

As of June 30, 2017, the District had outstanding construction commitments totaling \$781,392 for various renovations to District buildings.

(7) LONG-TERM DEBT

General Obligation Debt

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

General obligation debt outstanding as of June 30, 2017 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2009AA	2.00% - 5.00%	\$67,070,000	11/01/2029	\$ 36,190,000
Series of 2010	Variable	\$23,680,000	05/01/2030	<u>17,110,000</u>
Total general obligation bonds				<u>53,300,000</u>
General obligation note				
Series of 2006A	Variable	\$19,900,000	08/01/2021	19,000,000
Series of 2006C	Variable	\$15,200,000	08/01/2022	<u>15,200,000</u>
				<u>34,200,000</u>
Qualified school construction bonds				
Series of 2010A	5.00%	\$28,303,000	09/01/2027	28,303,000
Series of 2011C	5.088%	\$11,766,000	09/01/2029	<u>11,766,000</u>
Total qualified school construction bonds				<u>40,069,000</u>
Total general obligation debt				<u>\$127,569,000</u>

Variable rate debt bears interest at a rate that is adjusted weekly based upon rates published by the Securities Industry and Financial Markets Association.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Qualified School Construction Bonds

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The QSCB program was created by the American Recovery and Reinvestment Act ("**ARRA**") and allows schools to borrow at nominal or zero percent to fund new construction, renovation and rehabilitation of schools as well as the purchase of land and equipment. The SPSBA issues the bonds through the QSCB program and provides loans to schools for qualified projects. Under the QSCB program SPSBA receives direct interest subsidy payments from the United States Treasury which are then transferred to the borrowers as reimbursement of the interest portion of their loan payments. On October 6, 2010, the District borrowed \$28,303,000 from the SPSBA under the QSCB program. The District is required to deposit \$1,664,882 annually into a sinking fund through the maturity date of September 1, 2027. On November 1, 2011, the District borrowed \$11,766,000 from the SPSBA under the QSCB program. The District is required to deposit \$734,750 annually into a sinking fund through the maturity date of September 1, 2029. Sinking fund deposits are included as restricted assets held by fiscal agent in the accompanying financial statements.

The following summarizes the changes in general obligation debt for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Amount Due Within One Year</u>
Governmental activities					
General obligation debt					
Series of 2009AA	\$ 40,720,000	\$ -	\$4,530,000	\$ 36,190,000	\$4,745,000
Series of 2010	18,065,000	-	955,000	17,110,000	995,000
General obligation notes					
Series of 2006A	19,100,000	-	100,000	19,000,000	100,000
Series of 2006C	15,200,000	-	-	15,200,000	-
Qualified school construction bonds					
Series of 2010A	28,303,000	-	-	28,303,000	-
Series of 2011C	11,766,000	-	-	11,766,000	-
Subtotal	133,154,000	-	5,585,000	127,569,000	5,840,000
Bond premiums	3,228,606	-	376,767	2,851,839	376,767
Bond discounts	(114,844)	-	(8,963)	(105,881)	(8,963)
Total general obligation debt	<u>\$136,267,762</u>	<u>\$ -</u>	<u>\$5,952,804</u>	<u>\$130,314,958</u>	<u>\$6,207,804</u>

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

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Debt Sinking Fund</u>	<u>Total</u>
2018	\$ 5,840,000	\$ 3,909,537	\$ 2,399,632	\$ 12,149,169
2019	9,880,000	3,549,855	2,399,632	15,829,487
2020	10,195,000	3,067,306	2,399,632	15,661,938
2021	10,605,000	2,607,747	2,399,632	15,612,379
2022	12,325,000	2,093,979	2,399,632	16,818,611
2023-2027	26,665,000	5,427,157	11,998,160	44,090,317
2028-2030	52,059,000	1,010,766	(36,199,868)	16,869,898
	<u>\$127,569,000</u>	<u>\$21,666,347</u>	<u>\$(12,203,548)</u>	<u>\$137,031,799</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Interest maturities presented are net of the direct interest subsidy payments from the United States Treasury to reimburse interest expense on the District's Series of 2010A and 2011C QSCB bonds. The amount of the subsidy is \$1,965,689 each year through 2022, \$9,828,445 from 2023-2027 and \$2,180,152 from 2028-2030.

In-Substance Defeasance

The District has defeased a portion of its general obligation bonds, Series of 2011, by creating a separate irrevocable trust fund. District cash or new debt proceeds have been used to purchase U.S. Government securities that were placed in the trust fund. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2017, the amount of defeased outstanding debt was as follows:

<u>Description</u>	<u>Call Date</u>	<u>Interest Rates</u>	<u>Principal Outstanding</u>
General obligation bonds Series of 2011	04/01/2018	0.62% - 2.85%	\$3,495,000

(8) DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

The District uses swap contracts that have fixed interest payments made in exchange for variable interest payments received based on an underlying interest rate index. Hedging derivatives instruments are used to reduce financial risks, such as offsetting increases in variable interest rate costs of the hedged item. These derivative instruments are evaluated to determine if they are effective in significantly reducing the identified financial risk at year end. If the derivative is determined to be an effective hedge, its fair value is an asset or liability with a corresponding offset to deferred outflows or inflows of resources on the statement of net position. Deferred outflows or inflows of resources constitute changes in fair values of effectively-hedged derivative instruments. If the derivative instruments are determined to be ineffective, they are considered investment derivatives in which their fair values are recognized against investment income in the statement of activities.

At June 30, 2017, the District had the following derivative financial instruments outstanding:

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2017</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental Activities					
Cash flow hedges					
Pay fixed interest	Deferred outflows				
rate swaps	of resources	\$3,040,335	Debt	\$(5,735,798)	\$51,310,000

The District currently has two interest rate swap agreements. The District utilized a regression method analysis to evaluate the hedge effectiveness for their interest rate swap portfolio. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the interest rate swap and the item it is hedged against. The analysis confirmed that the changes in cash flows of the interest rate swap instrument substantially offsets the changes in cash flows of the item hedged against and met within reason all required criteria.

Fair Value

The fair value of the interest rate swaps were derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions. The interest rate swaps were valued based upon Level 2 inputs.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Objective and Terms of Hedging Derivative Instruments

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay fixed interest rate swaps	Hedge changes in cash flows on the GOB Series of 2006A and 2006C	\$34,200,000	02/01/2011	08/01/2022	Pay 3.5230%; receives 70% of 3-month LIBOR	AA/AA-
Pay fixed interest rate swaps	Hedge changes in cash flows on the GOB Series of 2010	\$17,110,000	11/01/2010	05/01/2030	Pay 3.6949%; receives 70% of 3-month LIBOR	AA/AA-

Credit Risk

As of June 30, 2017, the District was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and AA- by Standard & Poor's as of June 30, 2017.

Interest Rate Risk

The District is exposed to interest rate risk on its swap agreements. On the District's pay-fixed interest rate swaps, as the London Inter-Bank Offered Rate (LIBOR) decreases, the District's net payment on the swap increases.

Basis Risk

The District is exposed to basis risk on its pay-fixed interest rate swaps because the variable rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable rate debt, which is remarketed every week.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt

Using rates as of June 30, 2017, debt service requirements for the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

<u>Year ending June 30,</u>	<u>Variable Rate Bonds</u>		<u>Interest Rate Swaps, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2018	\$ 1,095,000	\$ 922,296	\$1,350,014	\$ 3,367,310
2019	1,140,000	899,044	1,319,685	3,358,729
2020	8,490,000	763,734	1,220,369	10,474,103
2021	8,835,000	612,676	993,818	10,441,494
2022	10,490,000	396,040	470,821	11,356,861
2023-2027	16,400,000	959,963	1,304,055	18,664,018
2028-2030	4,860,000	168,392	216,153	5,244,545
	<u>\$51,310,000</u>	<u>\$4,722,145</u>	<u>\$6,874,915</u>	<u>\$62,907,060</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(9) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>
Governmental activities				
Compensated absences	\$ 2,736,681	\$ 353,598	\$ -	\$ 3,090,279
OPEB obligation (<i>See Note 10</i>)	6,758,791	2,018,626	915,163	7,862,254
Net pension liability (<i>See Note 11</i>)	<u>277,252,626</u>	<u>46,821,760</u>	<u>-</u>	<u>324,074,386</u>
Total governmental activities	<u>286,748,098</u>	<u>49,193,984</u>	<u>915,163</u>	<u>335,026,919</u>
Business-type activities				
Compensated absences	22,568	1,462	-	24,030
Net pension liability (<i>See Note 11</i>)	<u>398,374</u>	<u>-</u>	<u>24,214</u>	<u>374,160</u>
Total business-type activities	<u>420,942</u>	<u>1,462</u>	<u>24,214</u>	<u>398,190</u>
Total noncurrent liabilities	<u>\$287,169,040</u>	<u>\$49,195,446</u>	<u>\$939,377</u>	<u>\$335,425,109</u>

(10) OTHER POST-EMPLOYMENT BENEFITS

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical, prescription, dental and vision benefits to certain eligible retirees and their spouses. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017, 2016 and 2015 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$2,018,626	45.34%	\$7,862,754
2016	\$1,549,674	54.75%	\$6,758,791
2015	\$1,624,561	50.21%	\$6,057,549

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Annual required contribution	\$ 2,861,457
Interest on net OPEB obligation	304,146
Adjustment to annual required contribution	<u>(1,146,977)</u>
Annual OPEB cost (expense)	2,018,626
Contributions made	<u>(915,163)</u>
Increase in net OPEB obligation	1,103,463
Net OPEB obligation – beginning of year	<u>6,758,791</u>
Net OPEB obligation – end of year	<u>\$ 7,862,254</u>

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$12,002,202, all of which was unfunded. The covered payroll (annual payroll of active employees receiving benefits) was \$83,688,223 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 14.34%.

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

Actuarial Methods and Assumptions

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

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.50%, decreasing 0.50% per year to an ultimate rate of 5.50% in 2018 and later. The UAAL is being amortized based on the level dollar, 7 year closed period.

(11) PENSION PLAN

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Contributions

Member Contributions

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

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

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 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 pension plan from the District were \$25,160,320 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 District reported a liability of \$324,448,546 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 District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.6547 percent, which was an increase of 0.0137 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$11,526,516. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$2,702,641
Changes in assumptions	11,711,892	-
Net difference between projected and actual investment earnings	18,083,272	-
Changes in proportions	11,455,948	-
Contributions subsequent to the measurement date	<u>25,160,320</u>	<u>-</u>
	<u>\$66,411,432</u>	<u>\$2,702,641</u>

\$25,160,320 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 9,011,249
2019	9,011,249
2020	12,521,047
2021	<u>8,004,926</u>
	<u>\$38,548,471</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Actuarial Assumptions

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

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 3.00% to 2.75%
- Salary growth changed from an effective average 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 modified from the RP-2000 combined healthy annuitant tables (male and female) with age set back 3 years for both males and females to the RP-2014 mortality tables for males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale. For disabled annuitants the RP-2000 combined disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

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

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

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

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	\$396,888,000	\$324,448,546	\$263,578,000

Pension Plan Fiduciary Net Position

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

(12) JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

Technical College High School Brandywine

The District and two other Chester County school districts participate in the Technical College High School Brandywine Campus ("**TCHS Brandywine**"). The TCHS Brandywine provides vocational-technical training and education to students of the participating school districts. The TCHS Brandywine is controlled by a joint Board comprised of representative school board members of the participating school districts. District oversight of the TCHS Brandywine operations is the responsibility of the joint board. The District's share of operating costs for the TCHS Brandywine fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2016-2017 was \$2,731,670.

The TCHS Brandywine prepares financial statements that are available to the public from their administrative offices.

Chester County Intermediate Unit

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

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(13) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

(14) RISK MANAGEMENT

Other Risks

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

Healthcare

The District administers a self-insurance program to provide healthcare and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the General Fund that includes an estimate for claims incurred but not reported through June 30, 2017 as estimated by the District's third party administrator and healthcare benefit consultant.

The following table presents the self-insurance healthcare claims liability and the related changes in the claims liability for the year ended June 30, 2017:

Insurance claims liability – beginning of year	\$ 2,174,302
Current year insurance claims and changes in estimates	15,807,278
Insurance claims paid	<u>(14,707,097)</u>
Insurance claims liability – end of year	<u>\$ 3,274,483</u>

Workers' Compensation

The District and other participating Pennsylvania school districts and educational agencies participate in the School District Insurance Consortium ("**SDIC**"), which is a voluntary trust. The District and the other participating members pay premiums to SDIC for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating members and pooling workers' compensation and occupational disease insurance risks, reserves claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of SDIC that the SDIC will utilize funds contributed by the participating members, which shall be held in trust by SDIC, to provide self-insurance and reimbursements to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2017, the District is not aware of any additional assessments relating to SDIC.

DOWNINGTOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(15) PRIOR PERIOD ADJUSTMENTS

During 2016-2017, the District made prior period adjustments to previously issued financial statements related to the accounting of its long-term debt associated with the State Public School Building Authority Qualified School Construction Bonds program. These prior period adjustments and their effect on net position at July 1, 2016 are summarized in the following table:

	Governmental Activities Net Position	Debt Service Fund Fund Balance
Net position/fund balance at January 1, 2016, as previously reported	\$69,499,422	\$33,893,669
Prior period adjustment to		
Record investments in debt sinking fund	11,148,172	11,148,172
Adjust principal of long-term debt for sinking fund payments improperly applied to principal	<u>(9,803,917)</u>	<u>-</u>
Net position/fund balance at January 1, 2016, as restated	<u>\$70,843,677</u>	<u>\$45,041,841</u>

(16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2017, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in the financial statements.

On July 27, 2017, the District issued \$16,910,000 of general obligation bonds, Series of 2017, the proceeds from which along with a cash contribution of \$7,000,000 were used to currently refund the District's general obligation bonds, Series of 2009AA, in the amount of \$24,215,000 and to pay for the costs of issuance

REQUIRED SUPPLEMENTARY INFORMATION

DOWNINGTOWN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 163,745,222	\$ 163,745,222	\$ 168,019,218	\$ 4,273,996
State sources	46,198,778	46,198,778	50,415,422	4,216,644
Federal sources	1,168,000	2,999,039	2,973,257	(25,782)
Total revenues	211,112,000	212,943,039	221,407,897	8,464,858
EXPENDITURES				
Instruction				
Regular programs	97,996,065	96,762,403	90,304,527	6,457,876
Special programs	29,791,057	29,695,057	28,905,873	789,184
Vocational programs	6,270,044	5,900,945	5,553,718	347,227
Other instructional programs	1,744,527	1,744,526	1,557,847	186,679
Non-public school programs	12,000	18,500	17,529	971
Total instruction	135,813,693	134,121,431	126,339,494	7,781,937
Support services				
Pupil support services	7,480,586	7,487,689	7,443,942	43,747
Instructional staff services	5,738,259	6,449,874	6,262,051	187,823
Administrative services	12,104,043	12,601,744	12,550,594	51,150
Pupil health	2,876,200	2,876,200	2,791,701	84,499
Business services	2,041,382	2,040,183	1,981,294	58,889
Operation and maintenance of plant services	14,851,685	14,895,965	14,116,920	779,045
Student transportation services	11,371,606	11,418,895	11,259,811	159,084
Support services - central	4,296,026	4,472,336	4,194,126	278,210
Other support services	91,500	92,500	92,219	281
Total support services	60,851,287	62,335,386	60,692,658	1,642,728
Operation of noninstructional services				
Student activities	3,493,302	3,886,329	3,874,670	11,659
Community services	83,718	82,718	77,677	5,041
Total operation of noninstructional services	3,577,020	3,969,047	3,952,347	16,700
Facilities acquisition, construction and improvement services	350,000	354,000	353,018	982
Debt service	10,000,000	11,831,039	11,831,039	-
Total expenditures	210,592,000	212,610,903	203,168,556	9,442,347
Excess (deficiency) of revenues over (under) expenditures	520,000	332,136	18,239,341	17,907,205
OTHER FINANCING SOURCES (USES)				
Sale of/compensation for capital assets	-	50,000	182,098	132,098
Refund of prior year expenditures	-	60,000	88,522	28,522
Refund of prior year revenues	(20,000)	(20,000)	(18,937)	1,063
Transfers out (reimbursement)	-	-	(8,786,414)	(8,786,414)
Transfers out (non-reimbursement)	-	-	(16,974,370)	(16,974,370)
Budgetary reserve	(500,000)	(422,136)	-	422,136
Total other financing sources (uses)	(520,000)	(332,136)	(25,509,101)	(25,176,965)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	(7,269,760)	\$ (7,269,760)
FUND BALANCE				
Beginning of year			24,611,360	
End of year			\$ 17,341,600	

DOWNINGTOWN AREA SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2017

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2016	\$ -	\$12,002,202	\$12,002,202	0.00%	\$83,688,223	14.34%
07/01/2014	\$ -	\$10,463,440	\$10,463,440	0.00%	\$80,223,242	13.04%
07/01/2012	\$ -	\$13,275,100	\$13,275,100	0.00%	\$76,701,280	17.31%
07/01/2010	\$ -	\$10,699,600	\$10,699,600	0.00%	\$78,873,496	13.57%

DOWNINGTOWN AREA SCHOOL DISTRICT

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

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.6547%	0.6410%	0.6259%
District's proportionate share of the net pension liability (asset)	\$324,448,546	\$277,651,000	\$247,735,000
District's covered-employee payroll	\$84,793,744	\$82,474,947	\$79,863,944
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	50%	50%	57%

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

DOWNINGTOWN AREA SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$20,829,000	\$16,551,000	\$12,468,000
Contributions in relation to the contractually required contribution	<u>(20,829,000)</u>	<u>(16,551,000)</u>	<u>(12,468,000)</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$84,793,744	\$82,474,947	\$79,863,944
Contributions as a percentage of covered-employee payroll	25%	20%	16%

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

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SUPPLEMENTARY INFORMATION

DOWNINGTOWN AREA SCHOOL DISTRICT**COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND****June 30, 2017**

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,997,180	\$ 8,602,666	\$ 10,599,846
Investments	23,355,119	54,608,841	77,963,960
Due from other funds	<u>-</u>	<u>25,766,535</u>	<u>25,766,535</u>
Total assets	<u>\$ 25,352,299</u>	<u>\$ 88,978,042</u>	<u>\$ 114,330,341</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	<u>\$ 826</u>	<u>\$ 1,212,543</u>	<u>\$ 1,213,369</u>
 FUND BALANCES			
Committed to			
Capital projects	<u>25,351,473</u>	<u>87,765,499</u>	<u>113,116,972</u>
Total fund balances	<u>25,351,473</u>	<u>87,765,499</u>	<u>113,116,972</u>
Total liabilities and fund balances	<u>\$ 25,352,299</u>	<u>\$ 88,978,042</u>	<u>\$ 114,330,341</u>

DOWNINGTOWN AREA SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUND**

Year ended June 30, 2017

	Capital Reserve Fund	Capital Projects Fund	Total
REVENUES			
Local sources	\$ 205,913	\$ 407,082	\$ 612,995
EXPENDITURES			
Current			
Instruction	-	3,773,352	3,773,352
Support services	-	680,104	680,104
Operation of noninstructional services	-	277,889	277,889
Facilities acquisition, construction and improvement services	-	4,055,069	4,055,069
Total expenditures	-	8,786,414	8,786,414
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	205,913	(8,379,332)	(8,173,419)
OTHER FINANCING SOURCES (USES)			
Refund of prior year expenditures	-	141,243	141,243
Transfers in (reimbursement)	-	8,786,414	8,786,414
Transfers in (non-reimbursement)	-	16,974,370	16,974,370
Transfers out (reimbursement)	-	(7,000,000)	(7,000,000)
Total other financing sources (uses)	-	18,902,027	18,902,027
NET CHANGE IN FUND BALANCES	205,913	10,522,695	10,728,608
FUND BALANCES			
Beginning of year	25,145,560	77,242,804	102,388,364
End of year	<u>\$ 25,351,473</u>	<u>\$ 87,765,499</u>	<u>\$ 113,116,972</u>

DOWNINGTOWN AREA SCHOOL DISTRICT**BORROWING BASE CALCULATION - GENERAL FUND**

Year ended June 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Gross revenues received - General Fund	<u>\$ 204,596,003</u>	<u>\$ 211,968,925</u>	<u>\$ 221,407,897</u>
Deductions pursuant to Section 102 (c)(16) of Act 185 of 1972;			
(i) Subsidy - rentals and sinking fund payments	782,427	591,455	4,746,576
(ii) Non-recurring receipts	<u>-</u>	<u>-</u>	<u>-</u>
Total deductions	<u>782,427</u>	<u>591,455</u>	<u>4,746,576</u>
 TOTAL REVENUES AS DEFINED IN SECTION (102)(c)(16) OF ACT 185 OF 1972	 <u>\$ 203,813,576</u>	 <u>\$ 211,377,470</u>	 <u>\$ 216,661,321</u>
 TOTAL REVENUES FOR PAST THREE YEARS	 <u>\$ 594,323,399</u>	 <u>\$ 613,214,077</u>	 <u>\$ 631,852,367</u>
 BORROWING BASE - AVERAGE ANNUAL REVENUES	 <u>\$ 198,107,800</u>	 <u>\$ 204,404,692</u>	 <u>\$ 210,617,456</u>
 DEBT LIMIT - 225% OF BORROWING BASE	 <u>\$ 445,742,549</u>	 <u>\$ 459,910,558</u>	 <u>\$ 473,889,275</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND

June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES										
Local sources	\$168,019,218	\$165,798,902	\$161,347,717	\$158,062,114	\$155,165,778	\$150,471,909	\$146,373,855	\$144,795,089	\$141,835,270	\$140,460,808
State sources	50,415,422	43,445,079	40,489,476	38,795,263	35,850,554	36,203,487	34,875,076	34,458,093	35,339,348	31,863,050
Federal sources	<u>2,973,257</u>	<u>2,724,944</u>	<u>2,758,810</u>	<u>3,057,783</u>	<u>3,012,007</u>	<u>3,140,124</u>	<u>5,757,006</u>	<u>3,925,070</u>	<u>919,583</u>	<u>926,430</u>
Total revenues	<u>221,407,897</u>	<u>211,968,925</u>	<u>204,596,003</u>	<u>199,915,160</u>	<u>194,028,339</u>	<u>189,815,520</u>	<u>187,005,937</u>	<u>183,178,252</u>	<u>178,094,201</u>	<u>173,250,288</u>
EXPENDITURES										
Instruction	126,339,494	122,852,991	114,337,036	107,576,872	102,566,445	100,946,540	101,266,153	99,285,913	94,539,968	90,819,066
Support services	60,692,658	58,164,456	54,859,555	50,494,222	47,672,427	46,149,161	48,032,336	45,981,821	45,689,080	42,808,857
Operation of noninstructional services	3,952,347	3,781,391	3,742,258	3,418,070	3,405,943	3,234,836	3,353,499	1,081,001	1,163,735	661,828
Facilities acquisition, construction and										
Debt service	353,018	311,756	187,621	300,250	1,558,131	3,000,000	-	-	-	-
Other services	<u>11,831,039</u>	<u>13,361,677</u>	<u>13,887,128</u>	<u>16,801,219</u>	<u>27,185,883</u>	<u>26,836,505</u>	<u>18,287,185</u>	<u>18,786,810</u>	<u>19,078,257</u>	<u>17,567,225</u>
Total expenditures	<u>203,168,556</u>	<u>198,472,271</u>	<u>187,013,598</u>	<u>178,590,633</u>	<u>182,388,829</u>	<u>180,167,042</u>	<u>170,939,173</u>	<u>165,135,545</u>	<u>160,471,040</u>	<u>151,856,976</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>18,239,341</u>	<u>13,496,654</u>	<u>17,582,405</u>	<u>21,324,527</u>	<u>11,639,510</u>	<u>9,648,478</u>	<u>16,066,764</u>	<u>18,042,707</u>	<u>17,623,161</u>	<u>21,393,312</u>
OTHER FINANCING SOURCES (USES)										
Transfers in	-	-	-	-	-	-	-	-	56,767	-
Transfers out	(25,760,784)	(13,127,754)	(19,572,644)	(25,071,254)	(20,745,138)	(21,931,206)	(6,374,284)	(16,367,662)	(17,294,983)	(18,027,119)
Sale of/compensation for capital assets	182,098	45,414	37,165	17,064	3,675	16,100	-	-	-	-
Proceeds from extended-term financing	-	-	-	-	-	-	713,040	-	-	-
Refunds of prior years expenditures (revenues)	<u>69,585</u>	<u>(76,904)</u>	<u>119,098</u>	<u>239,113</u>	<u>384</u>	<u>(10,642)</u>	<u>36,170</u>	<u>55,209</u>	<u>165,470</u>	<u>(230,295)</u>
Total other financing sources (uses)	<u>(25,509,101)</u>	<u>(13,159,244)</u>	<u>(19,416,381)</u>	<u>(24,815,077)</u>	<u>(20,741,079)</u>	<u>(21,925,748)</u>	<u>(5,625,074)</u>	<u>(16,312,453)</u>	<u>(17,072,746)</u>	<u>(18,257,414)</u>
NET CHANGE IN FUND BALANCE	<u>(7,269,760)</u>	<u>337,410</u>	<u>(1,833,976)</u>	<u>(3,490,550)</u>	<u>(9,101,569)</u>	<u>(12,277,270)</u>	<u>10,441,690</u>	<u>1,730,254</u>	<u>550,415</u>	<u>3,135,898</u>
FUND BALANCE										
Beginning of year	24,611,360	24,273,950	26,107,926	29,598,476	38,700,045	50,977,315	40,180,859	38,450,605	37,733,000	34,580,483
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,619</u>
Fund balance as restated	<u>24,611,360</u>	<u>24,273,950</u>	<u>26,107,926</u>	<u>29,598,476</u>	<u>38,700,045</u>	<u>50,977,315</u>	<u>40,535,625</u>	<u>38,450,605</u>	<u>37,900,190</u>	<u>34,597,102</u>
End of year	<u>\$ 17,341,600</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
	-	-	-	-	-	354,766	-	167,190	-	-
	24,611,360	24,273,950	26,107,926	29,598,476	38,700,045	50,977,315	40,180,859	38,450,605	37,733,000	

DOWNINGTOWN AREA SCHOOL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ORIGINAL BUDGET AND ACTUAL GENERAL FUND

June 30,

	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual
REVENUES										
Local sources	\$ 163,745,222	\$ 168,019,218	\$ 158,782,552	\$ 165,798,902	\$ 155,097,493	\$ 161,347,717	\$ 151,319,934	\$ 158,062,114	\$ 151,697,123	\$ 155,165,778
State sources	2014 46,198,778	50,415,422	2016 43,095,448	43,445,079	2015 40,717,507	40,489,476	2014 38,440,601	38,795,263	2013 36,648,877	35,850,554
Federal sources	1,168,000									
Total revenues	<u>211,112,000</u>	<u>221,407,897</u>	<u>202,803,000</u>	<u>211,968,925</u>	<u>196,835,000</u>	<u>204,596,003</u>	<u>191,180,000</u>	<u>199,915,160</u>	<u>189,804,000</u>	<u>194,028,339</u>
EXPENDITURES										
Regular programs	97,996,065	90,304,527	93,665,914	88,830,399	90,286,288	82,933,616	84,642,863	77,480,067	83,498,254	73,925,443
Special programs	29,791,057	28,905,873	27,732,544	26,945,686	25,849,778	24,485,681	24,118,246	22,947,710	24,799,582	21,085,193
Vocational programs	6,978,224	5,553,718	6,157,309	5,080,000	5,358,819	5,369,205	6,967,393	5,738,026	6,972,993	6,176,446
Other instructional programs	1,744,527	1,537,847	1,582,643	1,413,430	1,824,222	1,550,445	1,982,521	1,425,769	1,636,066	1,379,363
Nonpublic school programs	12,000	17,529	15,000	1,770	-	-	-	-	-	-
Pupil personnel services	7,480,586	7,443,942	7,022,511	7,033,625	6,646,435	6,644,737	6,099,362	6,045,437	5,706,891	5,728,429
Instructional staff services	5,738,259	6,262,051	5,521,646	5,525,255	5,608,033	5,159,824	5,463,142	4,420,735	5,085,592	4,460,467
Administrative services	12,104,043	12,550,594	11,449,044	11,436,417	10,821,188	10,594,845	10,170,156	9,479,748	9,173,297	8,826,275
Pupil health	2,876,200	2,791,701	2,846,521	2,583,197	3,010,261	2,569,803	2,829,823	2,600,594	2,738,077	2,633,840
Business services	2,041,382	1,981,294	1,895,079	1,692,735	1,563,524	1,687,424	1,411,977	1,375,160	1,263,848	1,298,612
Operation and maintenance of plant services	14,851,685	14,116,920	14,335,773	14,599,437	13,604,300	13,749,844	12,681,294	13,085,122	12,960,461	11,694,446
Student transportation services	11,371,606	11,259,811	11,084,751	11,378,180	11,118,147	10,926,856	10,048,899	10,031,148	10,223,581	9,572,089
Central and other support services	4,387,526	4,286,345	4,143,691	3,915,610	4,093,679	3,526,222	3,637,940	3,456,278	3,599,481	3,458,269
Student activities	3,493,302	3,874,670	3,299,563	3,706,256	3,244,593	3,675,858	3,114,404	3,400,821	3,209,497	3,377,064
Community services	83,718	77,677	44,000	75,135	52,250	66,400	51,000	17,249	64,600	28,879
Facilities acquisition, construction and improvement	350,000	353,018	485,000	311,756	1,468,255	187,621	300,000	300,250	-	1,558,131
Debt service	10,000,000									
Total expenditures	<u>210,592,000</u>	<u>203,168,556</u>	<u>206,783,000</u>	<u>198,472,271</u>	<u>200,775,000</u>	<u>187,013,598</u>	<u>188,440,000</u>	<u>178,590,633</u>	<u>187,031,000</u>	<u>182,388,829</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>520,000</u>	<u>18,239,341</u>	<u>(3,980,000)</u>	<u>13,496,654</u>	<u>(3,940,000)</u>	<u>17,582,405</u>	<u>2,740,000</u>	<u>21,324,527</u>	<u>2,773,000</u>	<u>11,639,510</u>
OTHER FINANCING SOURCES (USES)	11,831,039	15,500,000	13,361,677	16,190,000	13,887,128	15,586,000	16,801,219	16,500,000	27,185,883	
Sale of/compensation for capital assets	-	182,098	-	45,414	-	37,165	-	17,064	-	3,675
Proceeds from extended-term financing	-	-	-	-	-	-	-	-	-	-
Refund of prior year expenditures (revenues)	-	69,585	(20,000)	(76,904)	(60,000)	119,098	(60,000)	239,113	(80,000)	384
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	(25,760,784)	-	(13,127,754)	-	(19,572,644)	(6,000,000)	(25,071,254)	(5,980,000)	(20,745,138)
Budgetary reserve	(500,000)									
Total other financing sources (uses)	<u>(500,000)</u>	<u>(25,509,101)</u>	<u>(520,000)</u>	<u>(13,159,244)</u>	<u>(560,000)</u>	<u>(19,416,381)</u>	<u>(6,560,000)</u>	<u>(24,815,077)</u>	<u>(6,560,000)</u>	<u>(20,741,079)</u>
NET CHANGE IN FUND BALANCE	<u>20,000</u>	<u>(7,269,760)</u>	<u>(4,500,000)</u>	<u>337,410</u>	<u>(4,500,000)</u>	<u>(1,833,976)</u>	<u>(3,820,000)</u>	<u>(3,490,550)</u>	<u>(3,787,000)</u>	<u>(9,101,569)</u>
FUND BALANCE		(500,000)		(500,000)		(500,000)		(500,000)		
Beginning of year	24,500,000	24,611,360	26,500,000	24,273,950	56,606,800	26,107,926	51,820,000	29,598,476	23,950,000	38,700,045
Prior period adjustment	-									
Fund balance as restated	<u>24,500,000</u>	<u>24,611,360</u>	<u>26,500,000</u>	<u>24,273,950</u>	<u>56,606,800</u>	<u>26,107,926</u>	<u>51,820,000</u>	<u>29,598,476</u>	<u>23,950,000</u>	<u>38,700,045</u>
End of year	<u>\$ 24,520,000</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

17,341,600 22,000,000 24,611,360 52,106,800 24,273,950 48,000,000 26,107,926 20,163,000 29,598,476

DOWNINGTOWN AREA SCHOOL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ORIGINAL BUDGET AND ACTUAL GENERAL FUND

June 30,

	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual
REVENUES										
Local sources	\$ 148,233,912	\$ 150,471,909	\$ 147,481,628	\$ 146,373,855	\$ 143,943,049	\$ 144,795,089	\$ 140,037,014	\$ 141,835,270	\$ 135,085,133	\$ 140,460,808
State sources	2012 34,933,500	36,203,487	2011 37,898,372	34,875,076	2010 35,462,351	34,458,093	2009 35,809,986	35,339,348	2008 29,718,317	31,863,050
Federal sources	1,549,025									
Total revenues	184,716,437	189,815,520	187,792,000	187,005,937	182,860,000	183,178,252	176,850,000	178,094,201	165,600,000	173,250,288
EXPENDITURES										
Regular programs	76,800,064	71,789,600	74,462,903	69,548,479	73,480,639	67,953,524	72,201,942	65,273,933	66,874,672	64,072,900
Special programs	24,431,112	21,050,519	25,523,433	23,042,260	23,705,229	22,562,603	22,055,877	20,982,932	20,142,290	18,457,024
Vocational programs	9,140,127	8,832,006	8,652,096	3,455,887	8,925,070	6,028,050	6,719,090	6,798,526	6,986,430	6,540,624
Other instructional programs	1,508,031	1,567,525	1,796,365	1,630,027	1,834,071	1,841,734	1,950,670	1,569,577	1,734,179	1,748,518
Nonpublic school programs	-	-	-	-	-	-	-	-	-	-
Pupil personnel services	5,492,904	5,298,326	5,395,672	5,264,519	5,238,427	4,901,664	4,987,874	4,614,338	4,978,490	4,557,148
Instructional staff services	5,450,065	4,289,526	5,651,230	4,752,581	5,477,349	4,399,932	5,272,455	4,405,856	5,570,994	5,116,112
Administrative services	8,654,446	8,290,794	8,952,895	9,139,590	8,924,838	8,107,959	8,754,497	8,179,295	8,033,570	7,867,119
Pupil health	2,490,275	2,516,052	1,562,265	1,473,162	1,521,437	1,402,657	1,422,257	1,352,018	1,337,914	1,262,219
Business services	1,182,131	1,137,795	1,231,514	1,215,356	1,066,887	1,212,783	1,081,921	1,206,691	1,073,446	1,065,537
Operation and maintenance of plant services	13,141,927	11,409,836	14,217,981	13,121,864	13,962,806	13,319,612	13,653,560	13,930,075	13,645,950	13,111,495
Student transportation services	9,815,366	9,900,783	9,718,010	9,613,066	9,361,340	9,334,729	8,687,433	9,272,617	8,127,508	8,465,847
Central and other support services	3,747,757	3,306,049	3,369,557	3,452,198	2,769,884	3,302,485	2,329,587	2,728,190	1,560,561	1,363,380
Student activities	3,054,297	3,203,140	3,068,971	3,295,941	766,411	1,029,285	781,184	1,119,871	736,897	620,791
Community services	70,100	31,696	82,306	57,558	69,961	51,716	89,753	43,864	59,395	41,037
Facilities acquisition, construction and improvement	-	3,000,000	-	-	-	-	-	-	-	-
Debt service	18,000,000									
Total expenditures	180,902,802	180,167,042	182,003,000	170,939,173	175,080,000	165,135,545	169,980,000	160,471,040	160,600,000	151,856,976
EXCESS OF REVENUES OVER EXPENDITURES	3,813,635	9,648,478	5,789,000	16,066,764	7,780,000	18,042,707	6,870,000	17,623,161	5,000,000	21,393,312
OTHER FINANCING SOURCES (USES)	26,836,505	20,000,000	18,287,185	20,000,000	18,786,810	20,000,000	19,078,257	20,020,000	17,567,225	
Sale of/compensation for capital assets	-	16,100	-	-	-	-	-	-	-	-
Proceeds from extended-term financing	-	-	-	713,040	-	-	-	-	-	-
Refund of prior year expenditures (revenues)	(100,000)	(10,642)	(60,000)	36,170	(100,000)	55,209	(120,000)	165,470	(100,000)	(230,295)
Transfers in	-	-	-	-	-	-	-	56,767	-	-
Transfers out	(5,713,635)	(21,931,206)	(6,500,000)	(6,374,284)	(7,930,000)	(16,367,662)	(5,750,000)	(17,294,983)	(3,900,000)	(18,027,119)
Budgetary reserve	(500,000)									
Total other financing sources (uses)	(6,313,635)	(21,925,748)	(7,310,000)	(5,625,074)	(8,780,000)	(16,312,453)	(6,870,000)	(17,072,746)	(5,000,000)	(18,257,414)
NET CHANGE IN FUND BALANCE	(2,500,000)	(12,277,270)	(1,521,000)	10,441,690	(1,000,000)	1,730,254	(1,000,000)	(1,000,000)		
FUND BALANCE		(750,000)		(750,000)						
Beginning of year	42,250,000	50,977,315	15,136,800	40,180,859	14,148,000	38,450,605	14,148,000	37,733,000	13,248,000	34,580,483
Prior period adjustment	-		-		-		550,415		3,135,898	
Fund balance as restated	42,250,000	50,977,315	15,136,800	40,535,625	14,148,000	38,450,605	14,148,000	37,900,190	13,248,000	34,597,102
End of year	\$ 39,750,000	\$	\$	\$	\$	\$	\$	\$	\$	\$
			354,766				167,190	-		16,619
				-				-		
	38,700,045	13,615,800	50,977,315	13,148,000	40,180,859	14,148,000	38,450,605	13,248,000	37,733,000	

DOWNINGTOWN AREA SCHOOL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES - GENERAL FUND

June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES					
Local sources					
Current real estate taxes	\$ 136,816,786	\$ 134,549,959	\$ 132,009,040	\$ 130,277,236	\$ 129,407,143
Interim real estate taxes	3,448,417	4,121,201	3,176,436	2,360,683	1,752,473
Public utility realty tax	176,715	179,587	191,740	186,605	189,265
Act 511 local services taxes	232,779	212,407	203,886	204,042	170,459
Act 511 earned income taxes	16,440,768	15,700,345	16,076,800	15,098,451	14,065,246
Act 511 real estate transfer taxes	2,937,027	3,348,454	2,514,756	2,443,816	2,678,500
Delinquent real estate taxes	2,964,014	3,332,783	3,355,254	3,954,319	3,379,685
Earnings on investments	732,214	475,958	381,737	309,237	377,824
Revenues from intermediary sources	1,927,828	1,670,659	1,691,913	1,593,535	1,682,844
Rentals	374,630	494,672	235,404	267,334	158,046
Tuition - regular and summer school	154,829	71,276	53,854	58,790	77,561
Student activities	1,707,287	1,430,436	1,275,591	1,171,632	1,090,745
Miscellaneous revenue	105,924	211,165	181,306	136,434	135,987
Total revenues from local sources	<u>168,019,218</u>	<u>165,798,902</u>	<u>161,347,717</u>	<u>158,062,114</u>	<u>155,165,778</u>
State sources					
Basic education	14,346,522	13,870,652	13,474,564	13,509,785	13,062,584
Charter schools	-	-	-	-	-
Tuition court placed	157,552	115,763	150,544	102,923	131,695
Homebound instruction	-	-	-	-	-
Alternative education	-	-	-	-	-
Special education	5,849,908	5,688,100	5,500,007	5,411,988	5,310,989
Transportation	3,838,040	4,016,650	3,804,844	3,754,560	3,649,538
Rental and sinking fund payments	4,842,591	591,455	782,427	1,892,129	1,541,547
Medical and dental services	288,748	288,659	290,607	313,153	308,513
State property tax reduction allocation	3,906,948	3,808,899	3,881,937	3,813,172	3,828,397
Other state grants	-	6,195	1,000	-	-
Safe schools	-	9,780	-	-	13,434
Accountability grant	-	-	-	264,742	264,742
Ready to learn grant	874,969	874,969	660,098	-	-
Dual enrollment	-	-	-	-	-
Social security subsidy	3,218,331	3,182,939	3,082,604	2,964,554	2,890,657
Retirement subsidy	13,091,813	10,991,018	8,860,844	6,768,257	4,848,458
Incarcerated education	-	-	-	-	-
Classrooms of the future	-	-	-	-	-
Total revenues from state sources	<u>50,415,422</u>	<u>43,445,079</u>	<u>40,489,476</u>	<u>38,795,263</u>	<u>35,850,554</u>
Federal sources					
Title I - low income	356,259	257,694	298,055	265,935	253,603
Title II - improving teaching quality	147,573	135,367	148,398	105,225	138,074
Title III - english language	31,686	27,623	22,959	18,016	33,528
Title V - innovative education	-	-	-	-	-
Drug free school grants	-	-	-	-	-
Qualified school construction bond (QSCB)	1,831,039	1,827,108	1,823,177	1,809,417	1,965,689
All other federal grants	594,897	452,998	444,422	830,834	621,113
Medical assistance/administrative	11,803	24,154	21,799	28,356	-
ARRA grants	-	-	-	-	-
Total revenues from federal sources	<u>2,973,257</u>	<u>2,724,944</u>	<u>2,758,810</u>	<u>3,057,783</u>	<u>3,012,007</u>
Other financing sources					
Sale of/compensation for capital assets	182,098	45,414	37,165	17,064	3,675
Proceeds from extended-term financing	-	-	-	-	-
Refunds of prior years expenditures	88,522	64,835	121,572	244,587	11,754
Transfers in	-	-	-	-	-
Total other financing sources	<u>270,620</u>	<u>110,249</u>	<u>158,737</u>	<u>261,651</u>	<u>15,429</u>
Total revenues	<u>\$ 221,678,517</u>	<u>\$ 212,079,174</u>	<u>\$ 204,754,740</u>	<u>\$ 200,176,811</u>	<u>\$ 194,043,768</u>

DOWNINGTOWN AREA SCHOOL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES - GENERAL FUND

June 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES					
Local sources					
Current real estate taxes	\$ 126,413,056	\$ 123,849,460	\$ 121,308,451	\$ 116,188,316	\$ 112,218,749
Interim real estate taxes	1,792,941	1,736,256	1,823,629	3,044,228	3,907,605
Public utility realty tax	197,693	196,179	188,392	169,536	174,439
Act 511 local services taxes	209,436	164,639	178,604	189,809	147,464
Act 511 earned income taxes	12,845,110	12,550,773	12,072,855	11,879,981	11,723,290
Act 511 real estate transfer taxes	2,067,424	1,734,999	2,001,326	1,884,621	2,931,794
Delinquent real estate taxes	3,486,927	2,997,765	3,817,104	3,610,739	2,926,886
Earnings on investments	419,429	741,421	1,139,960	2,578,378	4,517,530
Revenues from intermediary sources	1,563,822	1,474,452	1,518,018	1,516,147	1,440,836
Rentals	117,069	93,811	107,587	58,598	105,123
Tuition - regular and summer school	62,613	59,311	106,762	135,806	124,750
Student activities	1,113,741	-	-	-	-
Miscellaneous revenue	182,648	775,240	532,401	579,111	242,342
Total revenues from local sources	150,471,909	146,374,306	144,795,089	141,835,270	140,460,808
State sources					
Basic education	13,062,584	11,697,594	11,932,397	13,058,796	12,679,868
Charter schools	-	935,412	839,158	797,043	596,495
Tuition court placed	437,805	198,057	491,378	452,513	360,524
Homebound instruction	-	-	-	925	423
Alternative education	-	-	-	112,088	107,700
Special education	5,211,893	5,226,233	5,247,386	5,126,418	5,038,561
Transportation	3,653,543	3,715,525	3,981,882	3,976,816	3,752,612
Rental and sinking fund payments	3,193,177	2,909,754	2,115,570	2,125,502	1,883,305
Medical and dental services	287,491	288,145	286,406	285,906	287,827
State property tax reduction allocation	3,850,949	3,903,983	3,883,624	3,792,872	-
Other state grants	51,000	-	-	-	-
Safe schools	13,656	-	27,387	3,685	34,180
Accountability grant	264,742	673,836	728,584	720,013	716,593
Ready to learn grant	-	-	-	-	-
Dual enrollment	-	46,405	55,585	74,239	125,929
Social security subsidy	2,862,912	2,995,144	2,950,318	2,829,655	2,657,924
Retirement subsidy	3,313,297	2,281,268	1,918,418	1,799,481	2,604,780
Incarcerated education	438	3,720	-	-	-
Classrooms of the future	-	-	-	183,396	1,016,329
Total revenues from state sources	36,203,487	34,875,076	34,458,093	35,339,348	31,863,050
Federal sources					
Title I - low income	257,547	286,555	335,859	218,931	207,592
Title II - improving teaching quality	196,466	188,221	194,570	208,494	190,013
Title III - english language	40,114	38,075	64,138	27,089	30,192
Title V - innovative education	-	-	-	-	10,461
Drug free school grants	-	10,064	14,634	18,989	22,361
Qualified school construction bond (QSCB)	1,586,545	603,774	-	-	-
All other federal grants	1,059,452	1,826,585	661,212	446,080	465,811
Medical assistance/administrative	-	-	-	-	-
ARRA grants	-	2,803,281	2,654,657	-	-
Total revenues from federal sources	3,140,124	5,756,555	3,925,070	919,583	926,430
Other financing sources					
Sale of/compensation for capital assets	16,100	-	-	-	-
Proceeds from extended-term financing	-	713,040	-	-	-
Refunds of prior years expenditures	43,861	82,631	193,260	223,935	80,631
Transfers in	-	-	-	56,767	-
Total other financing sources	59,961	795,671	193,260	280,702	80,631
Total revenues	\$ 189,875,481	\$ 187,801,608	\$ 183,371,512	\$ 178,374,903	\$ 173,330,919

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SINGLE AUDIT

DOWNINGTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of Education</u>											
<u>Passed-Through the Pennsylvania Department of Education</u>											
Title I - Improving Basic Programs	I	84.010	013-160121	07/01/15 - 09/30/16	\$ 298,227	\$ 98,142	\$ 38,817	\$ 59,325	\$ 59,325	\$ -	-
Title I - Improving Basic Programs	I	84.010	013-170121	07/01/16 - 09/30/17	341,659	223,737					
						321,879	38,817	356,259	356,259	73,197	
<u>U.S. Department of Education</u>											
Title II - Improving Teacher Quality	I	84.367	020-160121	07/01/15 - 09/30/16	162,146	42,994	(96,720)	147,573	147,573	7,859	-
Title II - Improving Teacher Quality	I	84.367	020-170121	07/01/16 - 09/30/17	158,612	45,620	296,934				
						88,614	(96,720)	296,934	147,573	(37,761)	
<u>U.S. Department of Education</u>											
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-160121	07/01/15 - 09/30/16	38,718	13,323	(12,395)	24,823	24,823	(895)	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-170121	07/01/16 - 09/30/17	46,148	13,185	-			(6,322)	
						26,508	(12,395)	31,686	31,686	(7,217)	
<u>Passed Through the Chester County I.U.</u>											
I.D.E.A. - Part B, Section 611	I	84.027	062-1500024	07/01/15 - 09/30/16	1,667,100	444,560	444,560	6,863	-	-	-
I.D.E.A. - Part B, Section 611	I	84.027	062-1600024	07/01/16 - 09/30/17	1,909,392	910,714	-	1,909,392	1,909,392	998,678	-
I.D.E.A. - Part B, Section 611	I	84.027	062-1700032	07/01/16 - 06/30/17	10,000	10,000				-	
						1,365,274	444,560	1,919,392	1,919,392	998,678	
<u>U.S. Department of Education</u>											
Advanced Placement Test Fee Program	I	84.330	43-00529230	12/15/16 - 06/30/17	3,528	-	10,000	10,000	3,528	3,528	
						1,807,183	374,262	2,463,346	2,463,346	1,030,425	
Total U.S. Department of Education											
							4,908	-	-	-	
							3,528	-	-	-	

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<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of Health and Human Services</u>											
<u>Passed Through the Pennsylvania Department of Public Welfare</u>											
Medical Assistance Program	I	93.778	N/A	07/01/15 - 06/30/16	24,154	9,694	9,694	-	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/16 - 06/30/17	11,803	8,911					
						<u>18,605</u>	<u>9,694</u>	<u>11,803</u>	<u>11,803</u>	<u>2,892</u>	
<u>Federal Emergency Management Agency</u>											
<u>Passed Through the Pennsylvania Emergency Management Agency</u>							11,803	11,803	2,892	-	
Disaster Grants - Public Assistance	I	97.036	N/A	03/23/16-09/23/16	74,486	<u>74,486</u>			<u>74,486</u>	<u>-</u>	
<u>U.S. Department of Agriculture</u>											
<u>Passed Through the Pennsylvania Department of Education</u>							74,486			-	
State Matching Share	S	N/A	N/A	07/01/15 - 06/30/16	N/A	2,126	2,126	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/16 - 06/30/17	N/A	<u>56,079</u>					
Total State Matching Share						<u>58,205</u>	<u>2,126</u>	<u>57,573</u>	<u>57,573</u>	<u>1,494</u>	
Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	1,802	1,802	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/16 - 06/30/17	N/A	<u>43,801</u>	<u>57,573</u>	<u>57,573</u>			
						<u>45,603</u>	<u>1,802</u>	<u>45,201</u>	<u>45,201</u>	<u>1,400</u>	
<u>National School Lunch Program</u>											
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	14,467	14,467	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	<u>412,725</u>	<u>45,201</u>	<u>423,420</u>	<u>423,420</u>	<u>10,695</u>	-
						-		1,400		-	

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<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>		<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Passed Through to Subrecipients</u>
Passed-Through the Pennsylvania Department of Agriculture												
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	a)	149,123	b) (13,698)	c) 150,163	150,163	d) (12,658)	
							576,315		573,583		(1,963)	
Total U.S. Department of Agriculture							680,123	4,697	676,357	676,357	931	
Total CFDA #10.555												
Total Federal Awards and Certain State Grants							\$ 2,580,397	\$	\$ 573,583	\$	\$	\$
							769				-	
Total Federal Awards							\$ 2,522,192	\$ 386,527	\$ 3,168,419	\$ 3,168,419	\$ 1,032,754	\$ -
Total State Awards							58,205					
Total Federal Awards and Certain State Grants							\$ 2,580,397	\$ 3,225,992	\$ 3,225,992	\$ 1,034,248	\$	\$
							2,580,397					
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)							\$ 1,370,182	\$	\$	\$	\$ -	\$
							2,126	57,573	57,573			
Child Nutrition Cluster (CFDA's #10.553 and #10.555)							\$ 621,918	\$ 3,225,992	\$ 3,225,992	\$ 1,494	\$	\$
							388,653			1,034,248		
								1,924,300	1,924,300		-	
							444,560	618,784	618,784	998,678	-	
							2,571			(563)	-	

Footnotes

- a) Total amount of commodities received
b) Beginning inventory July 1
c) Total amount of commodities used
d) Ending inventory June 30

Source Codes

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

DOWNINGTOWN AREA SCHOOL DISTRICT

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

June 30, 2017

(1) FEDERAL EXPENDITURES

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

(2) BASIS OF ACCOUNTING

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

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 National School Lunch Program and passed through the Pennsylvania Department of Agriculture represent federal surplus food consumed by the District during the 2016-2017 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2017 was \$520,411.

(5) QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). In conjunction with the QSCB Program, the District receives subsidy reimbursements for a portion of the interest payments made under its loan agreements with the SPSBA. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of QSCB subsidy payments recognized for the year ended June 30, 2017 was \$1,831,039.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2017.

DOWNTOWN AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2017

There were no audit findings for the year ended June 30, 2016.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Board of School Directors
Downingtown Area School District
Downingtown, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Downingtown Area School District, Downingtown, Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Downingtown Area School District's basic financial statements, and have issued our report thereon dated December 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
December 5, 2017**



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

**Board of School Directors
Downingtown Area School District
Downingtown, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Downingtown Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Downingtown Area School District's major federal programs for the year ended June 30, 2017. Downingtown Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania
December 5, 2017**

DOWNINGTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

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

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

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