



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

Financial Statements
Year Ended June 30, 2017



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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			<u>(18,253,470)</u>	<u>(17,679,551)</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			<u>\$ 166,828,022</u>	<u>\$ 159,472,407</u>

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

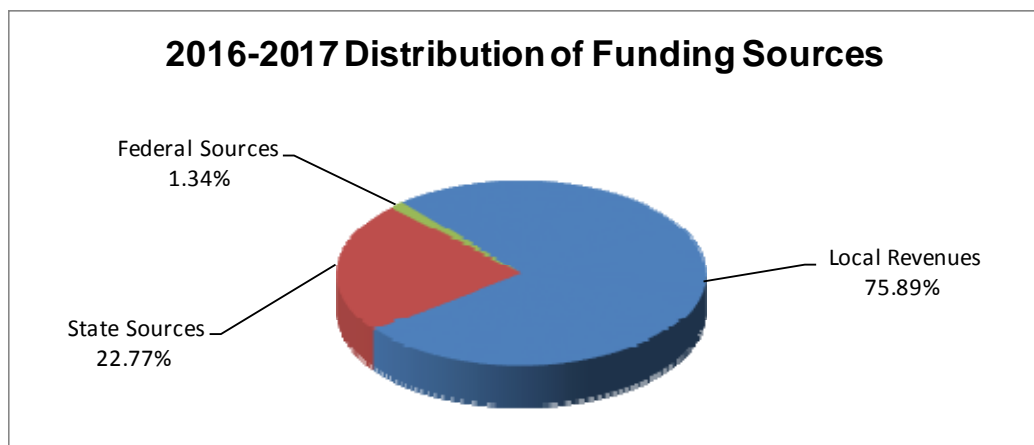
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

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

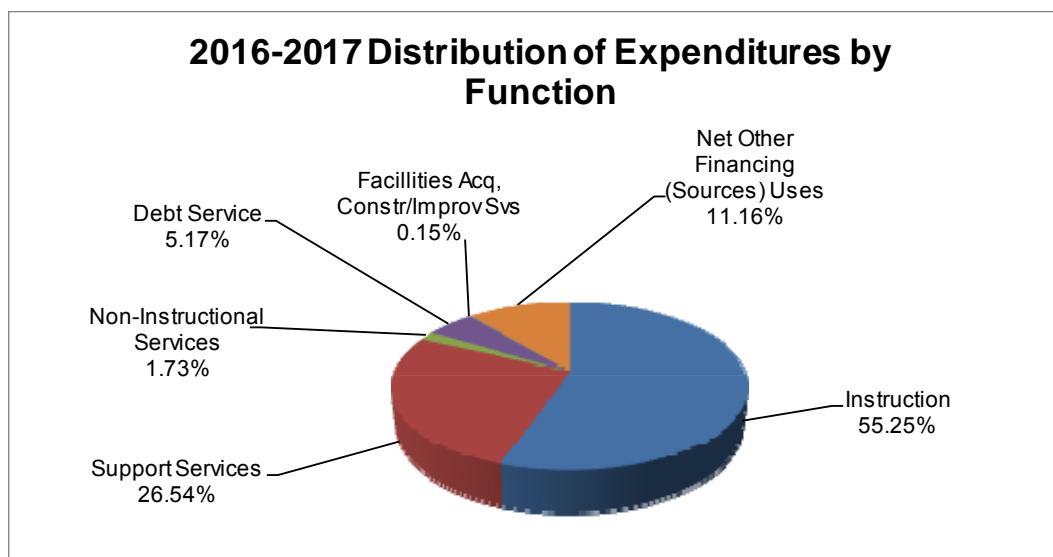
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

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

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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 (See Note 10)	6,758,791	2,018,626	915,163	7,862,254
Net pension liability (See Note 11)	<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 (See Note 11)	<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.

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,

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
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	2,973,257	2,724,944	2,758,810	3,057,783	3,012,007	3,140,124	5,757,006	3,925,070	919,583	926,430
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	11,831,039	13,361,677	13,887,128	16,801,219	27,185,883	26,836,505	18,287,185	18,786,810	19,078,257	17,567,225
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)	69,585	(76,904)	119,098	239,113	384	(10,642)	36,170	55,209	165,470	(230,295)
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	-	-	-	-	-	-	-	-	-	16,619
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	211,112,000	221,407,897	202,803,000	211,968,925	196,835,000	204,596,003	191,180,000	199,915,160	189,804,000	194,028,339
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	8,967,393	5,738,020	8,972,993	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	210,592,000	203,168,556	206,783,000	198,472,271	200,775,000	187,013,598	188,440,000	178,590,633	187,031,000	182,388,829
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	520,000	18,239,341	(3,980,000)	13,496,654	(3,940,000)	17,582,405	2,740,000	21,324,527	2,773,000	11,639,510
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)	(500,000)	(25,509,101)	(520,000)	(13,159,244)	(560,000)	(19,416,381)	(6,560,000)	(24,815,077)	(6,560,000)	(20,741,079)
NET CHANGE IN FUND BALANCE	20,000	(7,269,760)	(4,500,000)	337,410	(4,500,000)	(1,833,976)	(3,820,000)	(3,490,550)	(3,787,000)	(9,101,569)
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	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
End of year	\$ 24,520,000	\$	\$	\$	\$	\$	\$	\$	\$	\$

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

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.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
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	
Total CFDA #84.010											
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)	
Total CFDA #84.367											
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)	
Total CFDA #84.365											
Passed Through the Chester County I.U.											
							6,863				
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	
Total CFDA #84.027											
I.D.E.A. - Part B, Section 619	I	84.173	131-1600024	07/01/16 - 06/30/17	4,908	4,908	10,000		4,908		
Advanced Placement Test Fee Program	I	84.330	43-00529230	12/15/16 - 06/30/17	3,528	-		10,000	3,528	3,528	
Total U.S. Department of Education						1,807,183	374,262	2,463,346	2,463,346	1,030,425	
							4,908			-	
						-	3,528		-	-	
										-	

Continued on next page

<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	412,725	45,201	423,420	423,420	10,695	-
						-		1,400		-	

Continued on next page

<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)	
							680,123	4,697	676,357	676,357	931	
Total U.S. Department of Agriculture												
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	\$	\$
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)							\$ 1,370,182	\$	\$	\$	\$ -	\$
Child Nutrition Cluster (CFDA's #10.553 and #10.555)							\$ 2,126,918	\$ 57,573	\$ 57,573	\$ 1,494	\$	\$
							388,653	3,225,992	3,225,992	1,034,248		
							444,560	1,924,300	1,924,300		-	
							2,571	618,784	618,784		-	
										(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