

**Avonworth School District
Financial Statements
June 30, 2017**

**Avonworth School District
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HOSACK, SPECHT, MUETZEL & WOOD LLP

CERTIFIED PUBLIC ACCOUNTANTS

2 PENN CENTER WEST, SUITE 326

PITTSBURGH, PENNSYLVANIA 15276

PHONE - 412-343-9200

FAX - 412-343-9209

HSMW@HSMWCPA.COM

WWW.HSMWCPA.COM

Independent Auditor's Report

Members of the Board
Avonworth School District
Pittsburgh, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Avonworth School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Avonworth 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. 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.

Report on the Financial Statements (Cont'd)

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 Avonworth School District, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, post-employment benefit information and pension information as shown in the table of contents, 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.

Hosack, Specht, Muetzel & Wood LLP

HOSACK, SPECHT, MUETZEL & WOOD LLP
Pittsburgh, Pennsylvania
December 21, 2017

Avonworth School District
Management's Discussion and Analysis
June 30, 2017

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

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

Financial Highlights

The School District had material expenditure increases during the 2016/2017 school year in two major areas - salaries and benefits. Teacher contractual increases, combined with another significant increase in the employer retirement contribution rate, had a material impact on the planned increase to the School District's general fund budget.

The Board of School Directors approved the 2016/2017 budget with a millage rate of 18.67 which was the same rate imposed for the 2015/2016 school year. Real estate tax revenue for 2016/2017 was \$18,121,212, representing an increase of about \$383,000 from the 2015/2016 collections. The increase was due to the continued build-out of a new senior community within the School District. Real estate taxes represent 63.7% of total general fund revenue for the School District. The School District continued to see an increase in the collection of earned income taxes (EIT) which rose to \$2,529,855 in 2016/2017 from \$2,468,280 in the prior year. Real estate transfer taxes collected were \$500,499. State subsidies increased by approximately \$631,000 primarily due to the back payment of debt service (plan con) reimbursements accruing since 2012. Federal funds received of \$181,460 decreased by \$20,604 from the prior year due to a reduction in Title I funding. Overall, total general fund revenues recorded in 2016/2017 were in excess of budgeted revenues by \$754,868, or 2.63%.

Total general fund expenditures for 2016/2017 were \$28,800,854, an increase of \$1,793,138 over the prior year. Wages increased approximately \$615,000 and benefits increased \$807,659 over 2015/2016. The employer retirement contribution rate increased 16.2% (from 25.84% to 30.03%) representing the primary reason for the increase in benefit expense. Supply, book and purchased services expenditures increased approximately \$411,000 over the prior year. Contracted student transportation accounted for the majority of this increase due to the requirement of additional bus runs. Debt service payments were \$276,000 more than the prior year due to savings realized from a 2015 refinancing taken in the prior year. Overall, total general fund expenses for the year were \$61,725 less than budgeted, or 0.21%.

Actual results in operations showed revenues being more than expenditures by \$821,035, resulting in the School District having a year-end fund balance of \$5,844,359 which \$1,000,000 has been reserved to assist in paying future retirement rate increases.

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Financial Highlights (Cont'd)

The School District's food service (proprietary) fund showed a loss of \$51,224 for the 2016/2017 school year after adjusting for the GASB No. 68 (accounting and financial reporting for pensions) recognition of a net pension liability which increased expenses \$53,991. Revenues, consisting of lunch/breakfast sales and government subsidiaries, totaled \$609,884, a \$19,724 increase over the prior year. Operating expenses, consisting of mostly labor costs (includes GASB No. 68 pension adjustment), food and other supplies, totaled \$661,108, a \$56,473 increase over the prior year. The June 30, 2017 year ending net position for this fund is \$(680,809).

Using the Annual Financial Report

The Annual Financial Report consists of a financial section which includes the management's discussion and analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Avonworth School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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 School District's overall financial status.

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

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

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Using the Annual Financial Report (Cont'd)

Figure A-1 shows how the required parts of the financial section are arranged and relate to one another:

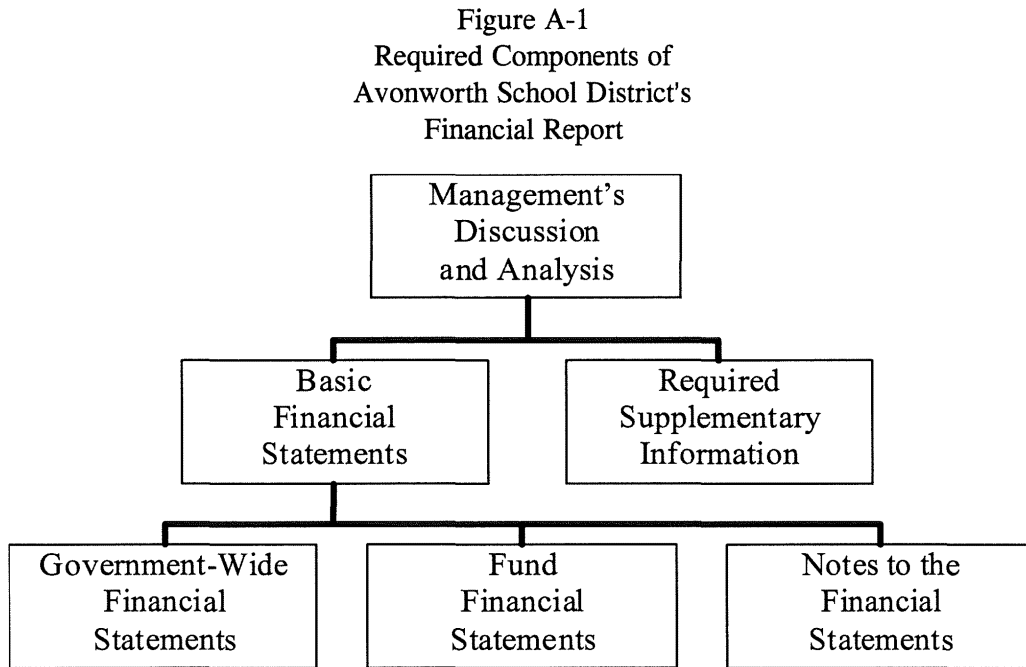


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents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

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Using the Annual Financial Report (Cont'd)

Figure A-2
Major Features of Avonworth School District's
Government-Wide and Fund Financial Statements

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

Overview of Financial Statements

Government-Wide Statements

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

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Overview of Financial Statements (Cont'd)

Government-Wide Statements (Cont'd)

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

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

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

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

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

Fund Financial Statements

The School District's fund financial statements, which begin with Exhibit 1, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and bond requirements.

Governmental funds - Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School 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 School 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.

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Overview of Financial Statements (Cont'd)

Fund Financial Statements (Cont'd)

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides - whether to outside customers or to other units in the School District - these services are generally reported in proprietary funds. The food service fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position on Exhibit 10. We exclude these activities from the School District's other financial statement because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position was a deficit \$(26,675,456) at June 30, 2017 and a deficit \$(25,268,759) at June 30, 2016.

Table A-1
Years Ended June 30, 2017 and 2016
Net Position

	2017			2016		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Current and Other Assets	\$ 12,714,214	\$ (39,153)	\$ 12,675,061	\$ 12,792,025	\$ (42,254)	\$ 12,749,771
Capital Assets	<u>39,192,150</u>	<u>4,781</u>	<u>39,196,931</u>	<u>40,121,459</u>	<u>6,114</u>	<u>40,127,573</u>
Total Assets	<u>51,906,364</u>	<u>(34,372)</u>	<u>51,871,992</u>	<u>52,913,484</u>	<u>(36,140)</u>	<u>52,877,344</u>
Deferred Outflows of Resources	<u>10,129,012</u>	<u>151,556</u>	<u>10,280,568</u>	<u>5,479,010</u>	<u>82,161</u>	<u>5,561,171</u>
Current and Other Liabilities	3,621,446	27,151	3,648,597	4,010,835	10,784	4,021,619
Noncurrent Liabilities						
Due in One Year	1,761,141	-	1,761,141	1,679,754	-	1,679,754
Due in More Than One Year	<u>82,145,158</u>	<u>762,120</u>	<u>82,907,278</u>	<u>77,121,401</u>	<u>643,500</u>	<u>77,764,901</u>
Total Liabilities	<u>87,527,745</u>	<u>789,271</u>	<u>88,317,016</u>	<u>82,811,990</u>	<u>654,284</u>	<u>83,466,274</u>
Deferred Inflows of Resources	<u>502,278</u>	<u>8,722</u>	<u>511,000</u>	<u>237,044</u>	<u>3,956</u>	<u>241,000</u>

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the School District as a Whole (Cont'd)

Table A-1 (Cont'd)
Years Ended June 30, 2017 and 2016
Net Position

	2017			2016		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Net Position						
Net Investment in Capital Assets	\$ 3,524,404	\$ 4,781	\$ 3,529,185	\$ 1,885,719	\$ 6,114	\$ 1,891,833
Unrestricted	<u>(29,519,051)</u>	<u>(685,590)</u>	<u>(30,204,641)</u>	<u>(26,542,259)</u>	<u>(618,333)</u>	<u>(27,160,592)</u>
Total Net Position	<u>\$(25,994,647)</u>	<u>\$(680,809)</u>	<u>\$(26,675,456)</u>	<u>\$(24,656,540)</u>	<u>\$(612,219)</u>	<u>\$(25,268,759)</u>

The results of this year's operations as a whole are reported in the statement of activities on Exhibit 2. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are local taxes (property and earned income), assessed to property owners and wage earners within the School District and the Basic Education Subsidy provided by the state of Pennsylvania.

Table A-2 summarizes the information in the statement of activities and provides a comparison between fiscal year 2017 and 2016.

Total revenues for governmental activities increased approximately \$1,009,000 from the prior year. Collection of local property taxes increased \$391,312 over the prior year due to new residential property construction. Operating and capital grants increased \$574,000 due to the increased state pension and social security subsidies to offset approximately one-half of the increased costs and debt service reimbursements accrued from prior years.

Total expenses for governmental activities increased 6.8%, or \$1,911,035. A number of factors contributed to this increase with the biggest contributors being contractual salary increases along with benefits increases (which include the state mandated increase in the employer retirement rate) and other employee-related costs. Contracted transportation increased \$310,000 from the prior year due to additional bus runs required to service public, private and special education students.

Avonworth School District
Management's Discussion and Analysis
June 30, 2017

Financial Analysis of the School District as a Whole (Cont'd)

Table A-2
Years Ended June 30, 2017 and 2016
Changes in Net Position

	2017			2016		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues and Transfers						
Program Revenues						
Charges for Services	\$ -	\$ 375,124	\$ 375,124	\$ -	\$ 383,265	\$ 383,265
Operating Grants and Contrib.	4,077,918	231,203	4,309,121	3,864,798	206,491	4,071,289
Capital Grants and Contrib.	591,300	-	591,300	230,346	-	230,346
General Revenues						
Property Taxes	18,752,821	-	18,752,821	18,361,509	-	18,361,509
Other Taxes	3,128,953	-	3,128,953	3,147,264	-	3,147,264
Grants, Subs. and Contribs.						
Unrestricted	2,785,123	-	2,785,123	2,753,907	-	2,753,907
Other	180,326	1,798	182,124	147,238	404	147,642
Transfers	<u>(1,759)</u>	<u>1,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Transfers	<u>29,514,682</u>	<u>609,884</u>	<u>30,124,566</u>	<u>28,505,062</u>	<u>590,160</u>	<u>29,095,222</u>
Expenses						
Instruction	18,562,389	-	18,562,389	17,585,608	-	17,585,608
Instructional Student Support	1,975,053	-	1,975,053	1,589,078	-	1,589,078
Admin. and Financial Support Svcs.	2,992,448	-	2,992,448	2,970,270	-	2,970,270
Operation and Maintenance of						
Plant Services	2,155,704	-	2,155,704	1,967,372	-	1,967,372
Pupil Transportation	1,745,525	-	1,745,525	1,435,689	-	1,435,689
Student Activities	1,111,783	-	1,111,783	1,092,097	-	1,092,097
Community Services	11,991	-	11,991	5,911	-	5,911
Interest on Long-Term Debt	1,472,806	-	1,472,806	1,470,639	-	1,470,639
Food Services	<u>-</u>	<u>661,108</u>	<u>661,108</u>	<u>-</u>	<u>604,635</u>	<u>604,635</u>
Total Expenses	<u>30,027,699</u>	<u>661,108</u>	<u>30,688,807</u>	<u>28,116,664</u>	<u>604,635</u>	<u>28,721,299</u>
Increase (Decrease) in Net Position	(513,017)	(51,224)	(564,241)	388,398	(14,475)	373,923
Beginning Net Position (Restated - See Note 2)	<u>(25,481,630)</u>	<u>(629,585)</u>	<u>(26,111,215)</u>	<u>(25,044,938)</u>	<u>(597,744)</u>	<u>(25,642,682)</u>
Ending Net Position	<u>\$(25,994,647)</u>	<u>\$(680,809)</u>	<u>\$(26,675,456)</u>	<u>\$(24,656,540)</u>	<u>\$(612,219)</u>	<u>\$(25,268,759)</u>

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the School District as a Whole (Cont'd)

The tables below present the expenses of both the governmental activities and the business-type activities of the School District.

Table A-3 shows the School District's largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, interest on debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Years Ended June 30, 2017 and 2016
Governmental Activities

Functions/Programs	2017		2016	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Instruction	\$18,562,389	\$15,635,147	\$17,585,608	\$14,894,195
Instructional Student Support	1,975,053	1,774,252	1,589,078	1,410,123
Admin. and Financial Support Svcs.	2,992,448	2,769,977	2,970,270	2,777,056
Operation and Maintenance of Plant Svcs.	2,155,704	2,047,438	1,967,372	1,869,748
Pupil Transportation	1,745,525	1,200,976	1,435,689	801,825
Student Activities	1,111,783	1,037,194	1,092,097	1,022,369
Community Services	11,991	11,991	5,911	5,911
Interest on Long-Term Debt	<u>1,472,806</u>	<u>881,506</u>	<u>1,470,639</u>	<u>1,240,293</u>
Total Governmental Activities	<u>\$30,027,699</u>	25,358,481	<u>\$28,116,664</u>	24,021,520
Less:				
Unrestricted Grants, Subsidies		<u>(2,785,123)</u>		<u>(2,753,907)</u>
Total Needs from Local Taxes and Other Revenues		<u>\$22,573,358</u>		<u>\$21,267,613</u>

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the School District as a Whole (Cont'd)

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District. For the 2016/2017 school year, the food service department operated at a net loss of \$51,224. This loss resulted from the GASB No. 68 adjustment of \$53,991 for recognition of the program's net pension liability.

Table A-4
Years Ended June 30, 2017 and 2016
Business-Type Activities

Functions/Programs	2017		2016	
	Total Cost (Expense) of Services	Net Cost (Expense) of Services	Total Cost (Expense) of Services	Net Cost (Expense) of Services
Food Service	<u>\$661,108</u>	\$54,781	<u>\$604,635</u>	\$14,879
Less:				
Investment Earnings		(1,798)		(404)
Transfers		<u>(1,759)</u>		<u>-</u>
Total Business-Type Activities		<u>\$51,224</u>		<u>\$14,475</u>

The statement of revenues, expenses and changes in fund net position for this proprietary fund shown on Exhibit 8 will further detail the actual results of operations.

School District Funds

At June 30, 2017, the School District's general fund reported a fund balance of \$5,844,359, which is an increase of \$1,504,359 from the amount projected based on the adopted 2016/2017 budget. The primary reasons for this increase is specific to the following:

- The actual year-ending fund balance from the previous year was \$683,324 higher than shown when the budget was adopted.
- Total expenditures for the year were \$66,167 less than projected, which was within 0.23% of the budget.
- Lastly, revenues received were higher than budgeted by \$754,868, or 2.7%. Local revenues exceeded budget by \$369,669 where the higher than expected values of new residential property resulted in both higher property (current and delinquent) and real estate transfer taxes. State revenues were \$383,739 more than budgeted primarily due to the release of the rental and sinking fund subsidies accruing since 2012.

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

School District Funds (Cont'd)

In addition to the general fund, the School District has both a capital reserve fund and a capital projects fund which are part of its governmental activities. Because the School District is actively preparing for and approving capital projects each year, these funds were established to fund and track these projects. Expenses for the planned replacement of the synthetic turf and bleacher addition at the School District's athletic stadium are accounted for in the capital projects fund.

General Fund Budget

During the fiscal year, the Board of School Directors (Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are confirmed at the time the annual audit is accepted. This is after the end of the fiscal year and permitted by state law. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary section. Transfers between specific categories of expenditures/other financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas. In 2016/2017, \$200,000 of the budgetary reserve was utilized to cover the amount expended in excess of the budget in the area of pupil transportation.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the School District had \$39,192,150 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and construction in progress.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

	2017	2016
Land and Land Improvements	\$ 2,044,399	\$ 1,409,264
Buildings and Building Improvements	36,296,471	37,372,259
Furniture and Equipment	851,280	730,570
Construction in Progress	-	609,366

Debt Administration

As of July 1, 2016, the School District included in its long-term liabilities \$39,454,774 for general obligation bonds and notes payable. During the year, the School District made principal payments of \$1,373,880 while recording a decrease in the accretion of interest on capital appreciation bonds in the amount of \$151,589. The net result of the above transactions resulted in an ending balance of \$37,929,305 of which \$1,708,159 is due within one year. Additionally, the School District paid \$14,276 as required under a capital lease agreement with Laurel Capital. The balance owing under the lease is \$26,207.

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Capital Assets and Debt Administration (Cont'd)

Debt Administration (Cont'd)

Table A-6
Outstanding Debt

General Obligation Bonds/Notes	As of 06/30/17	As of 06/30/16
Bonds - Series of 1999B	\$2,050,238	\$2,386,241
Bonds - Series 2011	3,740,000	4,115,000
Bonds - Series of 2013	9,215,000	9,235,000
Bonds - Series of 2014	5,025,000	5,095,000
Bonds - Series of 2015A-1	9,890,000	9,925,000
Bonds - Series of 2015A-2	5,255,000	5,430,000
Bonds - Series of 2015B	2,245,000	2,700,000
Notes - Series of 2008	-	568,533
Notes - Series of 2016	509,067	-

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

Economic Factors and Next Year's Budgets and Rates

All of the School District's direct bonded debt is rated "AA-" Stable Outlook by Standard & Poor's (S&P). Some School District-backed issues also carry insured ratings for Assured Guaranty rated "AA" by S&P. Additional security for bonds is provided by the Commonwealth of Pennsylvania's Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default of an issue.

The School District continues to see a gradual increase in enrollment due to residential development within Ohio Township (one of the five municipalities which make up the School District). The School District believes that it has positioned itself to accommodate any future enrollment increases due to the opening of a new primary center in August 2014 which houses kindergarten through second grade. These grade levels were relocated from the School District's elementary school allowing for more flexibility. In order to address space concerns at its middle school, the 6th grade was relocated to the elementary school for the 2017/2018 school year.

A second "senior community" development in Ohio Township is being constructed with occupancy beginning in the fall of 2017 with the development being completed in 2018. It is anticipated that this development will generate approximately \$850,000 in additional real estate tax revenue once completed.

The revenue budget for the 2017/2018 fiscal year is \$30,250,375, which is \$632,928 more than the revenue recorded in 2016/2017. The projected increase is the result of an increase in assessed property value due to new residential construction and an increase in state reimbursements for social security and retirement.

**Avonworth School District
Management's Discussion and Analysis
June 30, 2017**

Economic Factors and Next Year's Budgets and Rates (Cont'd)

The expenditure budget for the 2017/2018 year of \$31,768,730 is approximately \$2.9 million more than the actual expenditures recorded for 2016/2017, a 10.3% increase. The budget includes approximately \$1.1 million for salaries and benefit increases as six (6) new teaching positions were approved. In addition to health insurance coverages, the largest benefit impact, at an estimated \$500,000, is due to the increase in the employer pension contribution rate at 8.5%. The budget for technology equipment increased \$165,000 as the School District is implementing a one-to-one initiative for all grade levels. This budget includes a \$700,000 transfer to the capital projects account to assist in paying for a new \$1.4 million STEM/LGI room addition at the high school campus. Also included in the budget is \$200,000 placed in general contingency. These funds will only be expended if unanticipated expenditures cause the School District to over-expend the budgeted amount in any specific function.

Beginning with the 2007/2008 budget year, the School District, as well as all public school districts in Pennsylvania, was limited as to how much its property tax rate can be increased year after year. The limit (index) for 2017/2018 was 2.4% and is projected to be 2.4% for the 2018/2019 budget year. The School District did not increase its property tax rate for 2017/2018.

The comparison of revenue and expenditure categories is as follows:

Table A-7

	Budgeted Revenue 2017/2018	Actual Revenue 2016/2017
Local	76.5%	75.7%
State	22.9%	23.7%
Federal/Other	0.6%	0.6%
	Budgeted Expenditures 2017/2018	Actual Expenditures 2016/2017
Instruction	55.6%	57.2%
Support Services	29.1%	29.3%
Noninstructional	3.0%	3.4%
Fund Transfers/Debt	12.3%	10.1%

Contacting the School District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact Bradley T. Waters, Director of Fiscal Management and Support Services at Avonworth School District, 258 Josephs Lane, Pittsburgh, PA 15237, 412-369-9878.

Avonworth School District
Statement of Net Position
June 30, 2017

Exhibit 1

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 8,851,522	\$ 306,505	\$ 9,158,027
Taxes Receivable, Net	1,830,862	-	1,830,862
Internal Balances	379,843	(379,843)	-
Due from Other Governments	906,630	18,889	925,519
Other Receivables	22,560	-	22,560
Inventories	-	15,096	15,096
Prepaid Items	201,875	-	201,875
Other Current Assets	16,506	200	16,706
Long-Term Prepayments, Net of Amortization	504,416	-	504,416
Capital Assets not Being Depreciated			
Land	806,288	-	806,288
Capital Assets, Net of Accumulated Depreciation			
Land Improvements	1,238,111	-	1,238,111
Buildings and Building Improvements	36,296,471	-	36,296,471
Furniture and Equipment	<u>851,280</u>	<u>4,781</u>	<u>856,061</u>
TOTAL ASSETS	<u>51,906,364</u>	<u>(34,372)</u>	<u>51,871,992</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts Related to Pensions	9,060,284	151,556	9,211,840
Amounts Related to OPEB	474,356	-	474,356
Deferred Charge on Refunding	<u>594,372</u>	<u>-</u>	<u>594,372</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>10,129,012</u>	<u>151,556</u>	<u>10,280,568</u>
LIABILITIES			
Accounts Payable	361,872	-	361,872
Contracts Payable	170,571	-	170,571
Accrued Salaries and Benefits	2,721,429	-	2,721,429
Unearned Revenues	-	8,564	8,654
Other Current Liabilities	367,574	18,587	386,161
Noncurrent Liabilities			
Due Within One Year	1,761,141	-	1,761,141
Due in More Than One Year			
Notes Payable	475,907	-	475,907
Capital Leases	11,528	-	11,528
Compensated Absences	280,883	-	280,883
Bonds Payable	35,918,321	-	35,918,321
OPEB Liability	1,569,639	-	1,569,639
Net Pension Liability	<u>43,888,880</u>	<u>762,120</u>	<u>44,651,000</u>
TOTAL LIABILITIES	<u>87,527,745</u>	<u>789,271</u>	<u>88,317,016</u>
DEFERRED INFLOWS OF RESOURCES			
Amounts Related to Pensions	<u>502,278</u>	<u>8,722</u>	<u>511,000</u>
NET POSITION			
Net Investment in Capital Assets	3,524,404	4,781	3,529,185
Unrestricted	<u>(29,519,051)</u>	<u>(685,590)</u>	<u>(30,204,641)</u>
TOTAL NET POSITION	<u>\$(25,994,647)</u>	<u>\$(680,809)</u>	<u>\$(26,675,456)</u>

See Accompanying Notes

**Avonworth School District
Statement of Activities
Year Ended June 30, 2017**

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Govern- mental Activities	Business- Type Activities	Totals
Governmental Activities							
Instruction	\$18,562,389	\$ -	\$2,927,242	\$ -	\$(15,635,147)	\$ -	\$(15,635,147)
Instructional Student Support	1,975,053	-	200,801	-	(1,774,252)	-	(1,774,252)
Administrative and Financial Support Services	2,992,448	-	222,471	-	(2,769,977)	-	(2,769,977)
Operation and Maintenance of Plant Services	2,155,704	-	108,266	-	(2,047,438)	-	(2,047,438)
Pupil Transportation	1,745,525	-	544,549	-	(1,200,976)	-	(1,200,976)
Student Activities	1,111,783	-	74,589	-	(1,037,194)	-	(1,037,194)
Community Services	11,991	-	-	-	(11,991)	-	(11,991)
Interest on Long-Term Debt	<u>1,472,806</u>	-	-	<u>591,300</u>	<u>(881,506)</u>	-	<u>(881,506)</u>
Total Governmental Activities	<u>30,027,699</u>	-	<u>4,077,918</u>	<u>591,300</u>	<u>(25,358,481)</u>	-	<u>(25,358,481)</u>
Business-Type Activities							
Food Service	<u>661,108</u>	<u>375,124</u>	<u>231,203</u>	-	-	<u>(54,781)</u>	<u>(54,781)</u>
Total Primary Government	<u>\$30,688,807</u>	<u>\$375,124</u>	<u>\$4,309,121</u>	<u>\$591,300</u>	<u>(25,358,481)</u>	<u>(54,781)</u>	<u>(25,413,262)</u>
General Revenues and Transfers							
Taxes							
Property Taxes Levied for General Purposes, Net					18,752,821	-	18,752,821
Earned Income Taxes					2,589,740	-	2,589,740
Real Estate Transfer Taxes					500,499	-	500,499
Other Taxes Levied for General Purposes, Net					38,714	-	38,714
Grants, Subsidies and Contributions not Restricted					2,785,123	-	2,785,123
Investment Earnings					48,360	1,798	50,158
Miscellaneous Income					131,966	-	131,966
Transfers					<u>(1,759)</u>	<u>1,759</u>	-
Total General Revenues and Transfers					<u>24,845,464</u>	<u>3,557</u>	<u>24,849,021</u>
Changes in Net Position					(513,017)	(51,224)	(564,241)
Net Position - July 1, 2016					<u>(25,481,630)</u>	<u>(629,585)</u>	<u>(26,111,215)</u>
Net Position - June 30, 2017					<u>\$(25,994,647)</u>	<u>\$(680,809)</u>	<u>\$(26,675,456)</u>

See Accompanying Notes

**Avonworth School District
Balance Sheet
Governmental Funds
June 30, 2017**

Exhibit 3

	General Fund	Non- major Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 6,995,114	\$1,856,408	\$ 8,851,522
Taxes Receivable, Net	1,830,862	-	1,830,862
Due from Other Funds	379,843	-	379,843
Due from Other Governments	906,630	-	906,630
Other Receivables	22,560	-	22,560
Prepaid Items	201,875	-	201,875
Other Current Assets	<u>16,506</u>	<u>-</u>	<u>16,506</u>
TOTAL ASSETS	<u>\$10,353,390</u>	<u>\$1,856,408</u>	<u>\$12,209,798</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 361,872	\$ -	\$ 361,872
Contracts Payable	-	170,571	170,571
Accrued Salaries and Benefits	2,721,429	-	2,721,429
Other Current Liabilities	<u>2,408</u>	<u>-</u>	<u>2,408</u>
Total Liabilities	<u>3,085,709</u>	<u>170,571</u>	<u>3,256,280</u>
Deferred Inflows of Resources			
Unavailable Revenues - Property Taxes	<u>1,423,322</u>	<u>-</u>	<u>1,423,322</u>
Fund Balances			
Nonspendable	201,875	-	201,875
Restricted	-	581,848	581,848
Committed	1,000,000	1,103,989	2,103,989
Unassigned	<u>4,642,484</u>	<u>-</u>	<u>4,642,484</u>
Total Fund Balances	<u>5,844,359</u>	<u>1,685,837</u>	<u>7,530,196</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$10,353,390</u>	<u>\$1,856,408</u>	<u>\$12,209,798</u>

See Accompanying Notes

Avonworth School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017

Exhibit 4

Total Fund Balances - Governmental Funds \$ 7,530,196

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$56,871,656, and the accumulated depreciation is \$17,679,506. 39,192,150

Property taxes receivable will be collected next year but are not available soon enough to pay for the current period's expenditures and therefore, are deferred inflows in the funds. 1,423,322

Premium and discount on bonds issued are capitalized and amortized over the life of the bonds in the statement of net position. (173,083)

Deferred loss on bonds refunded is capitalized and amortized over the life of the bonds in the statement of position and reported as deferred outflows of resources in the statement of net position. 594,372

The payment to the joint venture career and technical center is capitalized and amortized over the life of the notes in the statement of net position. 504,416

Long-term liabilities, including bonds, notes and capital leases payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$(37,420,238)	
Accrued Interest on the Bonds	(365,166)	
Capital Leases Payable	(26,207)	
Notes Payable	(509,067)	
Compensated Absences	<u>(319,185)</u>	(38,639,863)

Some liabilities including net pension obligations and other post-employment benefits, are not due and payable in the current period and therefore, are not reported in the funds.

OPEB Liability	(1,569,639)	
Net Pension Liability	<u>(43,888,880)</u>	(45,458,519)

Avonworth School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017

Exhibit 4

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

Deferred Outflows of Resources Related to OPEB	\$ 474,356	
Deferred Outflows of Resources Related to Pensions	9,060,284	
Deferred Inflows of Resources Related to Pensions	<u>(502,278)</u>	<u>\$ 9,032,362</u>
Total Net Position - Governmental Activities		<u>\$(25,994,647)</u>

See Accompanying Notes

**Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017**

Exhibit 5

	General Fund	Non- major Funds	Total Governmental Funds
Revenues			
Local Sources	\$22,405,469	\$ 13,165	\$22,418,634
State Sources	7,035,193	-	7,035,193
Federal Sources	<u>181,460</u>	<u>-</u>	<u>181,460</u>
Total Revenues	<u>29,622,122</u>	<u>13,165</u>	<u>29,635,287</u>
Expenditures			
Instruction	16,479,461	-	16,479,461
Support Services	8,449,351	-	8,449,351
Noninstructional Services	965,678	-	965,678
Capital Outlay	-	451,050	451,050
Debt Service	2,888,188	-	2,888,188
Refunds of Prior Year's Receipts	<u>16,650</u>	<u>-</u>	<u>16,650</u>
Total Expenditures	<u>28,799,328</u>	<u>451,050</u>	<u>29,250,378</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>822,794</u>	<u>(437,885)</u>	<u>384,909</u>
Other Financing Sources (Uses)			
Transfers Out	<u>(1,759)</u>	<u>-</u>	<u>(1,759)</u>
Net Change in Fund Balances	821,035	(437,885)	383,150
Fund Balances - July 1, 2016	<u>5,023,324</u>	<u>2,123,722</u>	<u>7,147,046</u>
Fund Balances - June 30, 2017	<u>\$ 5,844,359</u>	<u>\$ 1,685,837</u>	<u>\$ 7,530,196</u>

See Accompanying Notes

**Avonworth School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures
and Changes in Fund Balances
to the Statement of Activities
Year Ended June 30, 2017**

Exhibit 6

Total Net Change in Fund Balances - Governmental Funds \$ 383,150

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

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

Depreciation Expense	\$(1,282,820)	
Capital Outlays	<u>353,511</u>	(929,309)

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year. (97,521)

The payment to the joint venture career and technical center is capitalized and amortized over the life of the notes in the statement of net position. (42,627)

Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,756,325

In the statement of activities, certain operating expenses - compensated absences (sick pay and vacations) and other post-employment benefits (OPEB) - are measured by the amounts earned during the year. In governmental funds, however, expenditures for the items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Compensated Absences	52,605	
Other Post-Employment Benefits	<u>(88,508)</u>	(35,903)

**Avonworth School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures
 and Changes in Fund Balances
 to the Statement of Activities
 Year Ended June 30, 2017**

Exhibit 6

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

Net Change in Accrued Interest on the Bonds	\$ (9,007)	
Accretion of Interest on the School District's Capital Appreciation Bonds	<u>(138,997)</u>	\$ (148,004)

Bond discount and premium are reported in the statement of revenues and expenditures of governmental funds as expenditures but are capitalized and amortized over the life of the bonds in the statement of activities.

Amortization of Discount, Premium and Deferred Loss on Refunding		(55,890)
--	--	----------

Governmental funds report School District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense.

School District Pension Contributions to PSERS	3,567,210	
Cost of Benefits Earned	<u>(4,910,448)</u>	<u>(1,343,238)</u>

Change in Net Position of Governmental Activities		\$ <u>(513,017)</u>
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See Accompanying Notes

**Avonworth School District
Statement of Net Position
Proprietary Funds
June 30, 2017**

Exhibit 7

	Food Service Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 306,505
Due from Other Governments	18,889
Inventories	15,096
Other Current Assets	<u>200</u>
Total Current Assets	<u>340,690</u>
Noncurrent Assets	
Furniture and Equipment, Net	<u>4,781</u>
TOTAL ASSETS	<u>345,471</u>
DEFERRED OUTFLOWS OF RESOURCES	
Amounts Relating to Pensions	<u>151,556</u>
LIABILITIES	
Current Liabilities	
Due to Other Funds	379,843
Unearned Revenues	8,564
Other Current Liabilities	<u>18,587</u>
Total Current Liabilities	<u>406,994</u>
Noncurrent Liabilities	
Net Pension Liability	<u>762,120</u>
TOTAL LIABILITIES	<u>1,169,114</u>
DEFERRED INFLOWS OF RESOURCES	
Amounts Relating to Pensions	<u>8,722</u>
NET POSITION	
Net Investment in Capital Assets	4,781
Unrestricted	<u>(685,590)</u>
TOTAL NET POSITION	<u>\$ (680,809)</u>

See Accompanying Notes

Avonworth School District
Statement of Revenues, Expenses and Changes
in Net Position
Proprietary Funds
Year Ended June 30, 2017

Exhibit 8

	Food Service Fund
Operating Revenues	
Food Service Revenue	\$ <u>375,124</u>
Operating Expenses	
Salaries	224,365
Employee Benefits	156,048
Purchased Property Services	258
Other Purchased Services	112
Supplies	278,530
Depreciation	1,333
Dues and Fees	<u>462</u>
Total Operating Expenses	<u>661,108</u>
Operating Income (Loss)	<u>(285,984)</u>
Nonoperating Revenues (Expenses)	
Earnings on Investments	1,798
State Sources	53,499
Federal Sources	<u>177,704</u>
Total Nonoperating Revenues (Expenses)	<u>233,001</u>
Income (Loss) Before Transfers	(52,983)
Transfers In	<u>1,759</u>
Change in Net Position	(51,224)
Net Position - July 1, 2016 (Restated - See Note 2)	<u>(629,585)</u>
Net Position - June 30, 2017	<u>\$(680,809)</u>

See Accompanying Notes

**Avonworth School District
Statement of Cash Flows
Proprietary Fund Types
Year Ended June 30, 2017**

Exhibit 9

	Food Service Fund
Cash Flows from Operating Activities	
Cash Received from Users	\$ 376,501
Cash Payments to Employees for Services	(326,422)
Cash Payments to Suppliers for Goods and Services	(234,902)
Cash Payments for Other Operating Expenses	<u>(462)</u>
Net Cash Used for Operating Activities	<u>(185,285)</u>
Cash Flows from Non-Capital Financing Activities	
State Sources	55,376
Federal Sources	149,508
Loans Received	(162,852)
Transfers In	<u>1,759</u>
Net Cash Provided by Non-Capital Financing Activities	<u>43,791</u>
Cash Flows from Investing Activities	
Earnings on Investments	<u>1,798</u>
Net Decrease in Cash and Cash Flows	(139,696)
Cash and Cash Equivalents - July 1, 2016	<u>446,201</u>
Cash and Cash Equivalents - June 30, 2017	<u>\$ 306,505</u>

**Avonworth School District
Statement of Cash Flows
Proprietary Fund Types
Year Ended June 30, 2017**

Exhibit 9

	Food Service Fund
Operating Income (Loss)	<u>\$(285,984)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities	
Depreciation	1,333
Change in Pension Expense and Net Pension Liability	53,991
Donated Commodities	43,003
(Increase) Decrease in Accounts Receivable	156
(Increase) Decrease in Inventories	995
Increase (Decrease) in Other Current Liabilities	<u>1,221</u>
Total Adjustments	<u>100,699</u>
Cash Used for Operating Activities	<u>\$(185,285)</u>
Noncash Non-Capital Financing Activities	
During the year ended June 30, 2017, the School District received \$40,783 of U. S. D. A. Donated Commodities in the food service fund.	

See Accompanying Notes

**Avonworth School District
Statement of Net Position
Fiduciary Funds
June 30, 2017**

Exhibit 10

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	<u>\$1,339</u>	<u>\$80,499</u>
LIABILITIES		
Accounts Payable	1,000	-
Other Current Liabilities	<u>-</u>	<u>80,499</u>
TOTAL LIABILITIES	<u>1,000</u>	<u>80,499</u>
NET POSITION		
Restricted for Scholarships	<u>\$ 339</u>	<u>\$ -</u>

See Accompanying Notes

Avonworth School District
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2017

Exhibit 11

	Private Purpose Trust Fund
Additions	\$ <u> </u> -
Deductions	
Scholarships Awarded	1,000
Bank Fees	<u> </u> 96
Total Deductions	<u> </u> 1,096
Change in Net Position	(1,096)
Net Position - July 1, 2016	<u> </u> 1,435
Net Position - June 30, 2017	\$ <u> </u> 339

See Accompanying Notes

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

Avonworth School District, located in Allegheny County, Pennsylvania, provides public education, kindergarten through twelfth grade, to the residents of the Boroughs of Ben Avon, Ben Avon Heights and Emsworth and the Townships of Kilbuck and Ohio. The School District operates under a nine-person elected Board of Directors.

A. Basic Financial Statements - Government-Wide Statements

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of Avonworth School District. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. In the government-wide statement of net position, governmental activities are represented on a consolidated basis by column.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

B. Basic Financial Statements - Fund Financial Statements

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three categories: governmental; proprietary; and fiduciary.

The emphasis in fund financial statements is on the major funds in the governmental category. Nonmajor funds are summarized in a single column. The nonmajor funds are combined in a column in the fund financial statements.

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

B. Basic Financial Statements - Fund Financial Statements (Cont'd)

1. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and change in financial position (sources, uses, and balances of financial resources) rather than upon net income. The School District reports this major governmental fund and fund type:

The *general fund* is the School 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 School District also reports as nonmajor governmental funds the following:

The *capital reserve fund*, a capital projects fund, accounts for the resources accumulated from surplus monies in the general fund which is to be used for capital improvements.

The *2010 capital projects fund* accounts for financial resources to be used for the acquisition of construction of major capital facilities or equipment (other than those financed by proprietary funds).

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The School District reports the following proprietary fund type:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are reported as business-type activities in the government-wide financial statements. The *food service fund* accounts for the revenues, food purchases and other costs and expenses for providing meals to students and/or faculty during the school year.

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

B. Basic Financial Statements - Fund Financial Statements (Cont'd)

3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and are therefore not available to support School District programs. The reporting focus is on net position and changes in net position. The School District's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose, or agency). The School District reports the following fiduciary fund types:

The *private purpose trust fund* is used to account for resources of monies contributed to the School District for scholarships. The Dan Ulanowicz Scholarship Fund is considered a private purpose trust fund.

The *agency fund* represents the School District's student activity funds. These funds account for student activities in the high school, middle school, and elementary school.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e. the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

C. Measurement Focus and Basis of Accounting (Cont'd)

The government-wide financial statements and proprietary fund financial statements are reported 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 the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, intergovernmental revenues, interest, rent and certain miscellaneous income associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

D. Joint Venture

The School District is one of nine-member school districts of the A. W. Beattie Career Center (Beattie). Beattie provides vocational-technical training and education to participating students of the member districts. Beattie is controlled and governed by the Joint Board, which is composed of all the school board members of all the member districts. Beattie's operations are the responsibility of the Joint Committee, which consists of two representatives from each participating school district. No member of the Jointure exercises specific control over the fiscal policies or operations of Beattie. The School District's share of annual operating and capital costs for Beattie fluctuates, based on the percentage of enrollment of each member district in the school. The

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

D. Joint Venture (Cont'd)

School District's financial obligation to Beattie for the year ended June 30, 2017, was \$215,754 which was paid in the year ended June 30, 2017 to Beattie and reported in the School District's general fund. The School District has no equity interest in Beattie as of June 30, 2017. Complete financial statements for Beattie can be obtained from the administrative offices at 9600 Babcock Boulevard, Allison Park, PA 15101-2091.

E. Cash and Cash Equivalents

The School District's policy is to maintain cash balances in interest-bearing accounts such as money market or flex funds. The market values of the funds approximate cost. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Investments

Investments are stated at fair value except that treasury and agency obligations that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost. Fair value is based on quoted market prices. Funds are invested pursuant to the Public School Code of 1949 and investment policy guidelines established by the School District and approved by the Members of the Board. The School Code states that authorized types of investments shall be: United States Treasury Bills; short-term obligations of the United States Government or its agencies or instrumentalities; deposits in savings accounts, time deposits or share accounts of institutions insured by the FDIC; obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States and the Commonwealth of Pennsylvania.

G. Budgets

The School Board approves, prior to the beginning of each year, an annual budget on the modified accrual basis of accounting for the general fund. This is the only fund for which a budget is required and for which taxes may be levied. The general fund is the only fund that has an annual budget that has been legally adopted by the School Board. The Public School Code allows the School Board to authorize budget transfer amendments during the year, but only during the last nine months of the fiscal year. The School Board approved various budget transfers throughout the school year. There were no supplemental budgetary appropriations made during the year ended June 30, 2017.

The final budget data reflected in the financial statements includes the effect of approved budget transfer amendments and for comparative purposes the actual amounts have also been presented. The School District expenditures may not legally exceed the revised budget amounts by function. Function is defined as a program area such as instructional services. Management may amend the budget without seeking prior approval of the

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

G. Budgets (Cont'd)

Board within a function. Amendments between functions require prior Board approval. Excess of expenditures over appropriations in the general fund is presented in the required supplementary information section.

H. 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 "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

I. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the general fund, if considered material. There was no material inventory balance as of June 30, 2017.

The inventory of the food service fund consists of food supplies and government donated commodities which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2017 are reported as unearned revenue.

J. Prepaid Items

In both the government-wide and fund financial statements, certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

K. Capital Assets

Capital assets, which include property, plant, equipment and land improvements are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

K. Capital Assets (Cont'd)

are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building Improvements	25-30
Land Improvements	20
Furniture	5-10
Vehicles	8
Equipment	5-20

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 12 years.

L. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discount are reported as deferred charges and amortized over the term of the related debt.

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

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

M. Compensated Absences

The School District's policies regarding vacation and sick time is provided through various contracts. Employees can accumulate sick and/or vacation days which they are paid for upon retirement or termination of service. The amount the employee is compensated and the number of days varies based on their contract and their years of service. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the amount of reimbursable unused vacation or sick leave to employees who have terminated their employment as of the end of the fiscal year, while the proprietary funds report the liability as it is incurred.

N. Defining Operating Revenues and Expenses

The School District's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the School District's food service fund consist of charges for meals and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has three items that qualify for reporting in this category. One is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition, in the government-wide statement of net position, the School District reports deferred outflows of resources as they relate to the cost-sharing defined benefit plan and other post-employment benefits. The School District reports no deferred outflows of resources in the fund financial statements.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under the modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The School District has one item reported in the government-wide statement of net position relating to the cost sharing defined benefit pension plan. These amounts are deferred and recognized as inflows of resources in the period that the amount becomes available.

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

P. Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - all other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Fund Statements - Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, fund balance reporting and governmental fund type definitions, the School District classifies governmental fund balances as follows:

Nonspendable - amounts that cannot be spent because they are either (1) not in a spendable form or (2) legally or contractually required to remain intact.

Restricted - the part of fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or by enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payments and includes a legally enforceable requirement on the use of these funds.

Committed - the portion of fund balance that can only be used for specific purposes as a result of formal action, approval of a motion by the majority of the School Board. Once the item is committed, it cannot be used for any other purpose unless changed by the same procedures used to initially commit the money.

Assigned - reflects the School District's intent to use the money for a specific purpose but is not considered restricted or committed. The assignment of fund balance can be assigned by management in the business office.

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Cont'd)

P. Equity Classifications (Cont'd)

Fund Statements - Fund Balance (Cont'd)

Unassigned - represents the part of spendable fund balance that has not been categorized as restricted, committed or assigned. The general fund is the only fund permitted to have a positive unassigned fund balance.

The School District's policy is that it considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. It also considers committed amounts to be spent first when an expenditure is incurred for purposes for which both committed and unassigned fund balance could be used.

The purposes of the nonspendable, restricted, and committed fund balances as of June 30, 2017, are as follows:

1. The nonspendable fund balance in the general fund of \$201,875 is for prepaid expenses as of June 30, 2017.
2. The restricted fund balance in the capital projects fund of \$581,848 is for capital expenditures relating to the 2014 general obligation bonds.
3. The purpose of the committed fund balance in the general fund of \$1,000,000 is for future increases in the employer's share of retirement expenditures.
4. The purpose of committed fund balance in the capital reserve fund of \$1,103,989 is for future capital expenditures.

Note 2 - Restatement of Beginning Net Position

Avonworth School District chose early adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, as of July 1, 2016 and applied the statement by restating the beginning net position. In addition, the School District restated the food service fund and business-type activities net position as of July 1, 2016 to properly report other current liabilities relating to positive student account balances. Beginning net position of the governmental activities and business-type activities in the government-wide financial statement and the food service fund in the proprietary fund statements were restated as of July 1, 2016. The results of the restatements are summarized below.

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 2 - Restatement of Beginning Net Position (Cont'd)

	Governmental Activities	Food Service Fund/ Business-Type Activities
Net Position - June 30, 2016 (previously reported)	\$(24,656,540)	\$(612,219)
This statement requires the liability of employers for defined benefit other post-employment benefit plans to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position, net of previously reported OPEB \$181,685.	(825,090)	-
Adjustment to properly state other current liabilities relating to positive student account balances.	-	(17,366)
Restated Net Position - July 1, 2016	<u>\$(25,481,630)</u>	<u>\$(629,585)</u>

Note 3 - Deposits and Investments

The deposit and investment policy of the School District adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Pennsylvania State Legislature which requires the institution to pool collateral for all governments and have the collateral held by an approved custodian in the institution's name. As of June 30, 2017, \$1,710,609 of the School District's bank balance of \$1,960,609 was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Agent not in the School District's Name	<u>\$1,710,609</u>
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As of June 30, 2017, the School District had the following investments:

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 3 - Deposits and Investments (Cont'd)

Custodial Credit Risk - Deposits (Cont'd)

Investments	Fair Value
PSDLAF	<u>\$7,412,625</u>

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risks - The Pennsylvania Public School Code authorizes the types of investments allowed. These are described in Note 1F. The School District has no investment policy that would further limit its investment choices. The School District's investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) were rated AAAM by Standard & Poor's.

Concentration of Credit Risk - The School District places no limit on the amount it may invest in any one issue.

Investments

The Pennsylvania School District Liquid Asset Fund (PSDLAF) was established as a common law trust, organized under laws of the Commonwealth of Pennsylvania. Shares of the fund are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the fund is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. This fund has the characteristics of open-end mutual funds and is not subject to custodial credit risk classification.

PSDLAF is governed by an elected board of trustees who are responsible for the overall management of the fund. The trustees are elected from the several classes of local governments participating in the fund. The fund is audited annually by independent auditors. The fund is a local government investment pool and is exempt from the requirements of SEC's Rule 2(a)7 of the Investment Company Act of 1940. The fund measures for financial reporting purposes its assets at amortized cost and maintains a stable net asset value of \$1 per share. Accordingly, the fair value of the position in PSDLAF is the same as the value of PSDLAF shares. There are no limitations or restrictions on withdrawals.

Note 4 - Real Estate Taxes

The municipal tax collectors bill and collect real estate taxes on behalf of the School District based upon assessed values provided by the County. The School District's tax rate for all purposes in 2016/2017 was 18.67 mills (\$18.67 per \$1,000 assessed valuation). The tax calendar for real estate taxes levied is as follows:

Tax Levy Date	July 1, 2016
2% Discount Period	Through August 31, 2016
Face Payment Period	September 1 – October 31, 2016
10% Penalty Period	November 1, Until Liened
Lien Filing Date	July 1, 2017

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 4 - Real Estate Taxes (Cont'd)

Taxpayers may also pay these taxes in three equal installments due at face on or before the following dates: August 31; October 31; and December 31.

The amounts shown as delinquent real estate taxes receivable have not been recorded as revenue on the fund statements. These taxes are, however, recorded as deferred inflows of resources on the balance sheet until they are received. The real estate taxes receivable are reported net of the estimated uncollectible amounts which are estimated at approximately 39%. The receivable includes penalty and interest.

Note 5 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2017, the following amounts are due from other governmental units:

	Governmental Funds	Business-Type Funds	Totals
Federal (through the state)	\$ -	\$16,859	\$ 16,859
State	<u>906,630</u>	<u>2,030</u>	<u>908,660</u>
	<u>\$906,630</u>	<u>\$18,889</u>	<u>\$925,519</u>

Note 6 - Capital Assets

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

	Balance 07/01/16	Additions	Transfers	Balance 06/30/17
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 806,288	\$ -	\$ -	\$ 806,288
Construction in Progress	<u>609,366</u>	<u>155,812</u>	<u>(765,178)</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>1,415,654</u>	<u>155,812</u>	<u>(765,178)</u>	<u>806,288</u>
Capital Assets Being Depreciated				
Land Improvements	2,238,727	16,080	765,178	3,019,985
Buildings and Building Improvements	51,366,792	-	-	51,366,792
Furniture and Equipment	<u>1,496,972</u>	<u>181,619</u>	<u>-</u>	<u>1,678,591</u>
Total Capital Assets Being Depreciated	<u>55,102,491</u>	<u>197,699</u>	<u>765,178</u>	<u>56,065,368</u>
Less Accumulated Depreciation				
Land Improvements	1,635,751	146,123	-	1,781,874

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 6 - Capital Assets (Cont'd)

	Balance 07/01/16	Additions	Transfers	Balance 06/30/17
Governmental Activities (Cont'd)				
Less Accumulated Depreciation (Cont'd)				
Buildings and Building Improvements	\$13,994,533	\$ 1,075,788	\$ -	\$15,070,321
Furniture and Equipment	<u>766,402</u>	<u>60,909</u>	<u>-</u>	<u>827,311</u>
Total Accumulated Depreciation	<u>16,396,686</u>	<u>1,282,820</u>	<u>-</u>	<u>17,679,506</u>
Total Capital Assets Being Depreciated, Net	<u>38,705,805</u>	<u>(1,085,121)</u>	<u>765,178</u>	<u>38,385,862</u>
Governmental Activities Capital Assets, Net	<u>\$40,121,459</u>	<u>\$ (929,309)</u>	<u>\$ -</u>	<u>\$39,192,150</u>
Business Activities				
Furniture and Equipment	\$ 133,767	\$ -	\$ -	\$ 133,767
Less Accumulated Depreciation	<u>127,653</u>	<u>1,333</u>	<u>-</u>	<u>128,986</u>
Business-Type Capital Assets, Net	<u>\$ 6,114</u>	<u>\$ (1,333)</u>	<u>\$ -</u>	<u>\$ 4,781</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Instruction	\$1,141,455
Instructional Student Support	674
Administration and Financial Support Services	1,308
Operation and Maintenance of Plant Services	22,357
Student Activities	<u>117,026</u>
Total Depreciation Expense	<u>\$1,282,820</u>
Business-Type Activities	
Food Service	<u>\$ 1,333</u>

Note 7 - Interfund Balances

Interfund balances at June 30, 2017 were:

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 7 - Interfund Balances (Cont'd)

Fund	Interfund Receivable	Interfund Payable
General Fund	\$379,843	\$ -
Proprietary Fund		
Food Service Fund	<u>-</u>	<u>379,843</u>
	<u>\$379,843</u>	<u>\$379,843</u>

Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All the balances above are expected to be collected in the subsequent year.

Note 8 - Long-Term Debt

The following are changes in the long-term liabilities for the year ended June 30, 2017:

	Balance 07/01/16	Additions	Reductions	Balance 06/30/17	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$38,886,241	\$138,997	\$1,605,000	\$37,420,238	\$1,675,000
Plus: Bond Premium	481,269	-	40,114	441,155	-
Less: Bond Discount	<u>(285,346)</u>	<u>-</u>	<u>(17,274)</u>	<u>(268,072)</u>	<u>-</u>
Total Bonds Payable	<u>39,082,164</u>	<u>138,997</u>	<u>1,627,840</u>	<u>37,593,321</u>	<u>1,675,000</u>
General Obligation Notes	568,533	547,043	606,509	509,067	33,160
Capital Leases	40,483	-	14,276	26,207	14,679
Compensated Absences	<u>371,790</u>	<u>-</u>	<u>52,605</u>	<u>319,185</u>	<u>38,302</u>
Governmental Activity Long-Term Liabilities	<u>\$40,062,970</u>	<u>\$686,040</u>	<u>\$2,301,230</u>	<u>\$38,447,780</u>	<u>\$1,761,141</u>

General Obligation Bonds

Capital Projects - Series of 1999B

Capital Appreciation Bonds of \$2,300,636 due in varying installments through March 15, 2022, yield ranging from 5.10% to 5.70%

\$ 2,050,238

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 8 - Long-Term Debt (Cont'd)

General Obligation Bonds (Cont'd)

Capital Projects - Refunding Series of 2011

Original issue amount of \$5,690,000 due in varying installments through March 15, 2025, interest from 1.3% to 5.0% \$ 3,740,000

Capital Projects - Series of 2013

Original issue amount of \$9,275,000 due in varying installments through March 15, 2035, interest from 1.0% to 4.5% 9,215,000

Capital Projects - Series of 2014

Original issue amount of \$5,140,000 due in varying installments through March 15, 2036, interest from 0.35% to 3.875% 5,025,000

Capital Projects - Refunding Series of 2015A-1

Original issue amount of \$9,925,000 due in varying installments through March 15, 2031, interest from 2.0% to 3.125% 9,890,000

Capital Projects - Refunding Series of 2015A-2

Original issue amount of \$5,485,000 due in varying installments through March 15, 2026, interest from 2.0% to 2.50% 5,255,000

Capital Projects - Refunding Series of 2015B

Original issue amount of \$3,165,000 due in varying installments through March 15, 2022, interest from 0.50% to 2.0% 2,245,000

\$37,420,238

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 8 - Long-Term Debt (Cont'd)

General Obligation Notes

Series of 2016 in the amount of \$547,043; payable in semi-annual installments; final payment due April 15, 2029, interest from 0.5% - 5.0%

\$ 509,067

The debt service source for the above debt is the general fund.

The annual requirements of School District funds to amortize all debt outstanding (excluding compensated absences) as of June 30, 2017, including interest, sinking fund payments and accretion on the capital appreciation bonds, are as follows:

Year Ended June 30,	General Obligation				Totals
	Bonds		Notes		
	Principal	Interest	Principal	Interest	
2018	\$ 1,373,076	\$ 1,540,539	\$ 33,160	\$ 18,231	\$ 2,965,006
2019	1,397,282	1,516,275	34,271	17,049	2,964,877
2020	1,437,012	1,478,044	35,939	15,465	2,966,460
2021	1,483,028	1,439,378	37,791	13,621	2,973,818
2022	1,505,211	1,406,327	39,644	11,686	2,962,868
2023-2026	9,640,000	4,519,006	227,858	28,780	14,415,644
2027-2031	11,375,000	2,994,088	100,404	2,240	14,471,732
2032-2036	<u>7,925,000</u>	<u>683,049</u>	-	-	<u>8,608,049</u>
	36,135,609	15,576,706	509,067	107,072	52,328,454
Accretion to Date	<u>1,284,629</u>	<u>(1,284,629)</u>	-	-	-
	<u>\$37,420,238</u>	<u>\$14,292,077</u>	<u>\$509,067</u>	<u>\$107,072</u>	<u>\$52,328,454</u>

Note 9 - Capital Leases

The School District has entered into a lease agreement as lessee for financing the acquisition of equipment, mainly telephone and communications equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 9 - Capital Leases (Cont'd)

The assets acquired through the capital lease are as follows:

	Governmental Activities
Asset	
Machinery and Equipment	\$170,428
Less: Accumulated Depreciation	<u>(156,159)</u>
Total	<u>\$ 14,269</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

Year Ended June 30,	Governmental Activities
2018	\$15,252
2019	<u>12,710</u>
Total Minimum Lease Payments	27,962
Less: Amount Representing Interest	<u>(1,755)</u>
Present Value of Minimum Lease Payments	<u>\$26,207</u>

Note 10 - Public School Employees' Retirement System (PSERS)

A. Summary of Significant Accounting Policies

Pensions

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

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

B. General Information about the Pension Plan

1. Plan Description

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

2. Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

B. General Information about the Pension Plan (Cont'd)

3. 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.

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

Employer Contributions

The School District's contractually required contribution rate for 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 School District were \$3,623,381 for the year ended June 30, 2017.

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

At June 30, 2017, the School District reported a liability of \$44,651,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was 0.0901%, which was a decrease of 0.0004% from its proportion measured as of June 30, 2015.

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

For the year ended June 30, 2017, the School District recognized pension expense of \$5,020,609. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ -	\$372,000
Net difference between projected and actual investment earnings	2,489,000	-
Changes in assumptions	1,612,000	-
Changes in proportions	1,376,000	139,000
Difference between employer contributions and proportionate share of total contributions	111,459	-
Contributions subsequent to the measurement date	<u>3,623,381</u>	<u>-</u>
	<u>\$9,211,840</u>	<u>\$511,000</u>

\$3,623,381 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the 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	\$1,216,610
2019	1,216,610
2020	1,725,200
2021	<u>919,039</u>
	<u>\$5,077,459</u>

1. Changes in Actuarial Assumptions

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

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

1. Changes in Actuarial Assumptions (Cont'd)

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 assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting and were effective beginning with the June 30, 2016 actuarial valuation.

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

The pension plan's policy in regard to 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 of the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

1. Changes in Actuarial Assumptions (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternate investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0)%	0.5%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

2. 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.

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 10 - Public School Employees' Retirement System (PSERS) (Cont'd)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

3. Sensitivity of School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Cont'd)

	(In thousands)		
	1.00 % Decrease	Current Discount Rate 7.25 %	1.00 % Increase 8.25 %
School District's proportionate share of the net pension liability	\$54,620	\$44,651	\$36,274

4. Pension Plan Fiduciary Net Position

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

Note 11 - Contingent Liabilities

Avonworth School District participates in a number of federally assisted grant programs, principal of which are Title I and National School Lunch Program. The programs are subject to program compliance audits by the grantors or their representatives. The audits of some of these programs for and including the year ended June 30, 2017 have not yet been conducted. Accordingly, the School District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 12 - Post-Employment Benefits Other than Pensions (OPEB)

A. Plan Description

Avonworth School District administers a single-employer defined benefit OPEB plan ("the Supplemental Health Plan"). The plan provides medical, and in some cases dental and vision, for four groups of employees:

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 12 - Post-Employment Benefits Other than Pensions (OPEB) (Cont'd)

A. Plan Description (Cont'd)

teachers; administrators; support staff; and custodians. The benefits provided are for the eligible retirees and their spouses through the School District group health insurance plan which covers both active and retired members. Benefit provisions are mostly established through negotiations between the School District and union or group representing the employees. The plan does not issue a publicly available financial report.

Effective for the 2016/2017 fiscal year, a voluntary retirement incentive is in effect for teachers.

In order to be eligible, the teacher must terminate school service by June 30, 2017 and retire under PSERS with at least 15 years of service with the School District.

For a teacher who retires under this incentive, the District will contribute the following amounts towards the premium:

- 6 years at a maximum of \$1,050 per month from July 2017 through June 2023;
- 7 years at a maximum of \$900 per month from July 2017 through June 2024;
- 8 years at a maximum of \$800 per month from July 2017 through June 2025;
- 9 years at a maximum of \$700 per month from July 2017 through June 2026; or
- 10 years at a maximum of \$600 per month from July 2017 through June 2027.

At this time, there is no retirement incentive currently in place for any group other than teachers. However, the School District has had incentives in the past but those incentives have been infrequent. In the absence of a retirement incentive, the School District does not provide post-retirement medical, dental or vision coverage.

Consistent with the current teachers' incentive, past incentives that have been in place called for the School District to provide a specified monthly amount to be used towards the purchase of health coverage. The monthly amount would typically be provided for a specified number of years which ranged from 6 to 10 years.

Medical

The School District provides eligible retirees with an option of either a PPO program called Community Blue Flex PPO or an EPO called Keystone Blue Flex which is provided through the Allegheny County Schools Health Insurance Consortium (ACSHIC). The plan is administered by Highmark.

Dental/Vision

Retirees are eligible to remain covered for dental and/or vision benefits. However, retirees and spouses are required to contribute 100% of the premium rate. Retirees who retired prior to 2007 are provided with benefits for their lifetime, if they make the required contributions. Retirees who retired after 2007 can stay on the dental and vision plans until they are 65 or their retirement incentive is expired.

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 12 - Post-Employment Benefits Other than Pensions (OPEB) (Cont'd)

A. Plan Description (Cont'd)

Eligibility

Should there be an incentive in place, the eligibility criteria is typically as follows: Employees are eligible for post-retirement medical, dental and vision coverage provided they meet the criteria for either early or normal retirement under PSERS. Employees are eligible for early retirement upon attaining age 55 with at least 25 years of service under PSERS. Normal retirement eligibility occurs upon attaining 35 years of service, age 60 with 30 years of service, or age 62 with 1 year of service.

Life Insurance

Retiree life insurance benefits are not provided.

At July 1, 2016, the following employees were covered by the benefits terms:

Inactive employees or beneficiaries currently receiving benefit payments	5
Active employees	<u>154</u>
	<u>159</u>

B. Total OPEB Liability

The School District's total OPEB liability of \$1,569,639 was measured as of July 1, 2016, and was determined by an actuarial valuation as of that date.

C. Actuarial Methods and Assumptions

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	2.50%
Discount Rate	2.85%
Healthcare Cost Trend Rates	7.00% for 2016/2017, decreasing 0.25% per year to an ultimate rate of 4.50%

The discount rate was based on the Bond Buyers 20-Bond Index.

Mortality rates were based on the RPH-2014 Total Dataset Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale MP-2016.

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 12 - Post-Employment Benefits Other than Pensions (OPEB) (Cont'd)

C. Actuarial Methods and Assumptions (Cont'd)

The actuarial assumptions used in the July 1, 2016 valuation were selected using input from the School District based upon actual experience.

D. Change in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$1,006,775
Changes for the Year:	
Service Cost	65,974
Interest	40,271
Differences Between Expected and Actual Experience	341,428
Changes of Assumptions or Other Inputs	169,417
Benefit Payments	<u>(54,226)</u>
Net Changes	<u>562,864</u>
Balance as of June 30, 2017	<u>\$1,569,639</u>

E. Changes of Assumptions and Other Inputs

- Changed the discount rate from 4.00% to 2.85%.
- Changed the aging factors to utilize the morbidity factors developed by Dale H. Yamamoto in "Health Care Costs - From Birth to Death" (June 2013).
- Changed the mortality table to RPH-2014 Total Dataset using Improvement Projection Scale MP-2016.
- The cost method was changed from a projected unit credit to entry age normal as a level percent of pay.

F. Sensitivity of the Total Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.85%) or 1-percentage point higher (3.85%) than the current discount rate:

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 12 - Post-Employment Benefits Other than Pensions (OPEB) (Cont'd)

F. Sensitivity of the Total Liability to Changes in the Discount Rate (Cont'd)

	1.00% Decrease	Discount Rate	1.00% Increase
	1.85%	2.85%	3.85%
Total OPEB Liability	\$1,597,298	\$1,569,639	\$1,506,505

G. Sensitivity of the Total Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6.00% decreasing to 3.50%) or a 1-percentage point higher (8.00% decreasing to 5.50%) than the current healthcare cost trend rates:

	1.00% Decrease (6.00% to 3.50%)	Healthcare Cost Trend Rate (7.00% to 4.50%)	1.00% Increase (8.00% to 5.50%)
Total OPEB Liability	\$1,556,966	\$1,569,639	\$1,593,732

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the School District recognized OPEB expense of \$88,508. At June 30, 2017, the School District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$317,040	\$ -
Changes in Assumptions	<u>157,316</u>	<u>-</u>
	<u>\$474,356</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Avonworth School District
Notes to Financial Statements
June 30, 2017**

Note 12 - Post-Employment Benefits Other than Pensions (OPEB) (Cont'd)

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
(Cont'd)

Year Ended June 30,	
2018	\$ 36,489
2019	36,489
2020	36,489
2021	36,489
2022	36,489
Thereafter	<u>291,911</u>
	<u>\$474,356</u>

Note 13 - Risk Management

The School District is one of forty-six members of the Allegheny County Schools Health Insurance Consortium (Consortium) which purchases health benefits on behalf of participating public school districts. The School District is billed monthly based on employee count and coverage information at rates established by the Consortium at the beginning of each fiscal year. As the Consortium is self-insured, rates are established with the objective of satisfying estimated claims and other costs, as well as maintaining working capital requirements. Contributions to the Consortium totaled \$2,405,126 and \$2,339,864 for the years ended June 30, 2017 and 2016, respectively.

Participating school districts are permitted to withdraw from the Consortium under terms specified in the agreement. Withdrawing participants are entitled to or responsible for a proportionate share of the Consortium net position or deficiency in net position, respectively, as determined on the fiscal year-end date after withdrawal. As of June 30, 2017, the net position of the Consortium was \$47,685,965 of which \$457,022 is attributable to the School District.

The School District participates in an insurance program offered by a commercial insurance company. It purchases commercial insurance policies for risks of losses for casualty, workmen's compensation and liability claims.

The School District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Avonworth School District
Notes to Financial Statements
June 30, 2017

Note 14 - On-Behalf Payments

The amounts recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2017 was \$2,268,493.

This includes \$1,832,597 recognized for revenues and expenditures relating to pension contributions for its employees that the Commonwealth of Pennsylvania paid to the Public School Employees' Retirement System (PSERS) for pension and \$435,896 to the federal government for social security and Medicare taxes for the year ended June 30, 2017. The School District pays these on-behalf payments directly to PSERS and the government and is reimbursed by the Commonwealth for their appropriate share.

Note 15 - Operating Lease

The School District entered into operating lease agreements for copiers. The current lease term is for sixty (60) months ending June 2020 with monthly payments of \$4,209. Total payments made under the prior lease in the current fiscal year were \$50,508.

Total future lease payments to be made by the School District under the above lease are as follows:

Year Ended June 30,	Amount
2018	\$ 50,508
2019	50,508
2020	<u>50,508</u>
	<u>\$151,524</u>

Note 16 - Tax Increment Financing Plan

The School District has entered into a tax increment financing plan with Ohio Township and Allegheny County to provide financing for the development of blighted areas within their respective jurisdictions in order to increase the tax base and improve the general economy. The Mt. Nebo Pointe Tax Increment financing plan is for the financing and construction of infrastructure improvements in connection with a mixed-use commercial development. The School District agrees to contribute and pay over to the Redevelopment Authority for repayment of debt issued by them for the assistance in funding this project, 78% of their share of all incremental real estate taxes realized from increase in market value of taxable real property situated in the tax increment financing district through the tax year 2022. For the year ended June 30, 2017, the School District abated property taxes totaling \$102,370 under this agreement.

**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**

Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Sources				
Taxes				
Current Real Estate Taxes	\$18,374,143	\$18,373,600	\$18,121,211	\$ (252,389)
Public Utility Realty Taxes	21,500	21,500	22,562	1,062
Local Services Taxes	22,000	22,000	16,152	(5,848)
Amusement Taxes	1,700	1,700	-	(1,700)
Earned Income Taxes	2,500,000	2,500,000	2,529,855	29,855
Real Estate Transfer Taxes	340,000	340,000	500,499	160,499
Delinquencies on Taxes	470,000	470,000	805,666	335,666
Earnings on Investments	7,000	7,000	35,195	28,195
Other Local Revenues				
Revenue from Student Activities	40,000	40,000	53,764	13,764
Federal Revenues from IUs	183,000	183,000	217,122	34,122
Contributions and Donations from Private Sources	20,000	20,000	25,241	5,241
Rentals	30,000	30,000	45,678	15,678
Miscellaneous	<u>27,000</u>	<u>27,000</u>	<u>32,524</u>	<u>5,524</u>
Total Revenues from Local Sources	<u>22,036,343</u>	<u>22,035,800</u>	<u>22,405,469</u>	<u>369,669</u>
State Sources				
Basic Instruct. and Oper. Subsidies				
Basic Instructional Subsidy	2,557,602	2,557,602	2,513,506	(44,096)
Tuition	-	-	12,377	12,377
Subsidies for Spec. Educ. Programs				
Special Education of Excep. Pupils	695,434	695,434	702,401	6,967
Subsidies for Noneduc. Programs				
Transportation (Regular and Add'l.)	650,000	650,000	544,549	(105,451)
Rentals and Sinking Fund Payments	273,000	273,000	591,300	318,300
Health Services	33,824	33,824	35,008	1,184
State Property Tax Reduction Allocation	246,376	246,919	246,376	(543)
Ready to Learn Block Grants	-	-	121,183	121,183
Social Security Payments	450,000	450,000	435,896	(14,104)
State Retirement Revenue	<u>1,740,000</u>	<u>1,740,000</u>	<u>1,832,597</u>	<u>92,597</u>
Total Revenues from State Sources	<u>6,646,236</u>	<u>6,646,779</u>	<u>7,035,193</u>	<u>388,414</u>

**Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (Cont'd)				
Federal Sources				
Restricted Grants-in-Aid from the Fed. Gov't. through the Commonwealth				
Title I	\$ 180,000	\$ 180,000	\$ 119,705	\$ (60,295)
Title II	-	-	61,474	61,474
Medical Assistance - Access	<u>-</u>	<u>-</u>	<u>281</u>	<u>281</u>
Total Revenues from Federal Sources	<u>180,000</u>	<u>180,000</u>	<u>181,460</u>	<u>1,460</u>
Total Revenues	<u>28,862,579</u>	<u>28,862,579</u>	<u>29,622,122</u>	<u>759,543</u>
Expenditures				
Instruction				
Regular Programs				
Personal Services				
Salaries	7,073,239	7,110,338	7,109,238	1,100
Employee Benefits	4,047,271	4,032,971	4,036,337	(3,366)
Purchased Prof. and Tech. Services	121,177	203,321	203,243	78
Purchased Property Services	57,178	57,178	55,386	1,792
Other Purchased Services	345,439	372,739	377,295	(4,556)
Supplies	516,715	385,715	383,127	2,588
Property	<u>3,141</u>	<u>3,141</u>	<u>-</u>	<u>3,141</u>
Total Regular Programs	<u>12,164,160</u>	<u>12,165,403</u>	<u>12,164,626</u>	<u>777</u>
Special Programs				
Personal Services				
Salaries	1,932,708	1,940,208	1,940,204	4
Employee Benefits	1,064,253	1,084,352	1,081,350	3,002
Purchased Prof. and Tech. Services	270,860	346,061	346,060	1
Other Purchased Services	532,485	506,685	506,684	1
Supplies	<u>133,229</u>	<u>119,829</u>	<u>119,672</u>	<u>157</u>
Total Special Programs	<u>3,933,535</u>	<u>3,997,135</u>	<u>3,993,970</u>	<u>3,165</u>

**Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Instruction (Cont'd)				
Vocational Education Programs				
Other Purchased Services	\$ 298,909	\$ 271,909	\$ 271,861	\$ 48
Other Instructional Programs				
Personal Services				
Salaries	33,200	18,015	17,974	41
Employee Benefits	5,845	6,755	6,755	-
Other Purchased Services	17,000	24,275	24,275	-
Supplies	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
Total Other Instructional Programs	<u>56,545</u>	<u>49,545</u>	<u>49,004</u>	<u>541</u>
Total Instruction	<u>16,453,149</u>	<u>16,483,992</u>	<u>16,479,461</u>	<u>4,531</u>
Support Services				
Pupil Personnel				
Personal Services				
Salaries	663,879	668,572	668,571	1
Employee Benefits	373,001	362,817	370,743	(7,926)
Purchased Prof. and Tech. Services	27,400	62,591	62,591	-
Other Purchased Services	4,786	4,901	4,901	-
Supplies	71,983	63,226	63,187	39
Other Objects	<u>2,793</u>	<u>2,267</u>	<u>2,101</u>	<u>166</u>
Total Pupil Personnel	<u>1,143,842</u>	<u>1,164,374</u>	<u>1,172,094</u>	<u>(7,720)</u>
Instructional Staff				
Personal Services				
Salaries	178,600	116,532	114,131	2,401
Employee Benefits	103,357	182,588	182,579	9
Purchased Prof. and Tech. Services	-	47,900	47,900	-
Purchased Property Services	1,356	1,356	-	1,356
Other Purchased Services	4,000	15,758	15,757	1
Supplies	107,490	75,600	67,682	7,918
Other Objects	<u>17,200</u>	<u>31,350</u>	<u>31,350</u>	<u>-</u>
Total Instructional Staff	<u>412,003</u>	<u>471,084</u>	<u>459,399</u>	<u>11,685</u>

**Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Expenditures (Cont'd)				
Support Services (Cont'd)				
Administration				
Personal Services				
Salaries	\$ 997,544	\$ 1,090,754	\$ 1,090,754	\$ -
Employee Benefits	553,989	555,253	555,253	-
Purchased Prof. and Tech. Services	210,448	127,268	127,268	-
Purchased Property Services	11,353	6,943	6,943	-
Other Purchased Services	55,027	43,827	43,681	146
Supplies	76,411	45,911	44,424	1,487
Other Objects	<u>27,446</u>	<u>24,946</u>	<u>24,859</u>	<u>87</u>
Total Administration	<u>1,932,218</u>	<u>1,894,902</u>	<u>1,893,182</u>	<u>1,720</u>
Pupil Health				
Personal Services				
Salaries	123,031	112,771	111,885	886
Employee Benefits	102,085	93,621	92,609	1,012
Purchased Prof. and Tech. Services	1,339	29,339	28,345	994
Purchased Property Services	554	554	-	554
Other Purchased Services	1,000	1,000	191	809
Supplies	<u>4,500</u>	<u>4,500</u>	<u>4,198</u>	<u>302</u>
Total Pupil Health	<u>232,509</u>	<u>241,785</u>	<u>237,228</u>	<u>4,557</u>
Business				
Personal Services				
Salaries	169,083	185,105	185,104	1
Employee Benefits	125,062	128,277	111,049	17,228
Purchased Prof. and Tech. Services	27,339	30,993	30,993	-
Purchased Property Services	19,111	11,117	11,116	1
Other Purchased Services	8,367	5,367	5,320	47
Supplies	5,653	5,653	4,107	1,546
Other Objects	<u>1,884</u>	<u>1,884</u>	<u>330</u>	<u>1,554</u>
Total Business	<u>356,499</u>	<u>368,396</u>	<u>348,019</u>	<u>20,377</u>

**Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Expenditures (Cont'd)				
Support Services (Cont'd)				
Oper. and Maint. of Plant Svcs.				
Personal Services				
Salaries	\$ 595,436	\$ 576,231	\$ 576,209	\$ 22
Employee Benefits	437,856	436,111	441,763	(5,652)
Purchased Prof. and Tech. Services	3,675	3,675	2,881	794
Purchased Property Services	506,023	563,023	561,591	1,432
Other Purchased Services	123,628	114,003	110,164	3,839
Supplies	297,092	234,092	233,264	828
Property	28,991	40,708	40,707	1
Other Objects	<u>2,772</u>	<u>2,772</u>	<u>692</u>	<u>2,080</u>
Total Oper. and Maint. of Plant Svcs.	<u>1,995,473</u>	<u>1,970,615</u>	<u>1,967,271</u>	<u>3,344</u>
Student Transportation Services				
Other Purchased Services	<u>1,582,617</u>	<u>1,757,974</u>	<u>1,745,525</u>	<u>12,449</u>
Central				
Personal Services				
Salaries	6,120	1,304	-	1,304
Employee Benefits	500	500	-	500
Purchased Prof. and Tech. Services	275,000	266,000	265,529	471
Purchased Property Services	125,634	86,246	86,007	239
Other Purchased Services	1,163	1,163	300	863
Supplies	37,785	51,600	51,573	27
Property	163,417	163,417	161,741	1,676
Other Objects	<u>1,509</u>	<u>1,509</u>	<u>-</u>	<u>1,509</u>
Total Central	<u>611,128</u>	<u>571,739</u>	<u>565,150</u>	<u>6,589</u>
Other				
Personal Services				
Employee Benefits	17,998	32,190	32,190	-
Other Purchased Services	<u>32,645</u>	<u>29,294</u>	<u>29,293</u>	<u>1</u>
Total Other	<u>50,643</u>	<u>61,484</u>	<u>61,483</u>	<u>1</u>

Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Cont'd)				
Support Services (Cont'd)				
Total Support Services	\$ <u>8,316,932</u>	\$ <u>8,502,353</u>	\$ <u>8,449,351</u>	\$ <u>53,002</u>
Noninstructional Services				
Student Activities				
Personal Services				
Salaries	518,187	532,187	531,369	818
Employee Benefits	156,508	172,508	172,032	476
Purchased Prof. and Tech. Services	17,556	17,556	17,032	524
Purchased Property Services	24,988	14,088	14,056	32
Other Purchased Services	76,050	90,855	90,855	-
Supplies	103,854	123,854	123,273	581
Property	15,000	5,000	4,710	290
Other Objects	<u>1,700</u>	<u>700</u>	<u>360</u>	<u>340</u>
Total Student Activities	<u>913,843</u>	<u>956,748</u>	<u>953,687</u>	<u>3,061</u>
Community Services				
Other Purchased Services	<u>9,874</u>	<u>11,991</u>	<u>11,991</u>	<u>-</u>
Total Noninstructional Services	<u>923,717</u>	<u>968,739</u>	<u>965,678</u>	<u>3,061</u>
Debt Service				
Interest	1,297,482	1,268,912	1,268,912	-
Refunds of Prior Year's Receipts	16,300	17,399	16,650	749
Redemption of Principal	<u>1,654,999</u>	<u>1,619,425</u>	<u>1,619,276</u>	<u>149</u>
Total Debt Service	<u>2,968,781</u>	<u>2,905,736</u>	<u>2,904,838</u>	<u>898</u>
Total Expenditures	<u>28,662,579</u>	<u>28,860,820</u>	<u>28,799,328</u>	<u>61,492</u>
Other Financing Uses				
Fund Transfers				
Food Service Fund	-	1,759	1,759	-
Budgetary Reserve	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Uses	<u>200,000</u>	<u>1,759</u>	<u>1,759</u>	<u>-</u>

**Avonworth School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Total Expenditures and Other Financing Uses	<u>\$28,862,579</u>	<u>\$28,862,579</u>	<u>\$28,801,087</u>	<u>\$ 61,492</u>
Net Change in Fund Balance	-	-	821,035	821,035
Fund Balance - July 1, 2016	<u>4,340,000</u>	<u>4,340,000</u>	<u>5,023,324</u>	<u>683,324</u>
Fund Balance - June 30, 2017	<u>\$ 4,340,000</u>	<u>\$ 4,340,000</u>	<u>\$ 5,844,359</u>	<u>\$1,504,359</u>

**Avonworth School District
Required Supplementary Information
Schedule of Changes in the
Total OPEB Liability and Related Ratios
Last Two Years**

	June 30, 2017	June 30, 2016
Total OPEB Liability		
Service Cost	\$ 65,974	\$ -
Interest	40,271	-
Difference Between Expected and Actual Experience	341,428	-
Changes in Assumptions and Other Inputs	169,417	-
Benefit Payments	<u>(54,226)</u>	<u>-</u>
Net Change in Total OPEB Liability	562,864	-
Total OPEB Liability - Beginning	<u>1,006,775</u>	<u>-</u>
Total OPEB Liability - Ending	<u>\$ 1,569,639</u>	<u>\$1,006,775</u>
Covered Employee-Payroll	\$10,027,436	N/A
Total OPEB Liability as a Percentage of Covered Employee-Payroll	15.65%	N/A

Notes to Schedule:

GASB 75 was implemented beginning with fiscal year ended June 30, 2017.

Assumption changes:

Discount rate used for fiscal year ending:

2017	2.85%
2016	4.00%

For the June 30, 2017 valuation, changes were made to the aging factors, mortality table and the cost method.

The information reported above is the information which was available upon implementation of the new reporting standard; 10 years of information will be reported when available.

Avonworth School District
Required Supplementary Information
Schedule of School District's Contributions
PSERS
Last Three Years

	2017	2016	2015
Contractually Required Contribution	\$ 3,557,531	\$ 2,863,182	\$ 2,335,134
Contributions in Relation to the Contractually Required Contribution	<u>3,557,531</u>	<u>2,863,182</u>	<u>2,335,134</u>
Contribution Deficiency (Excess)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
School District's Covered-Employee Payroll	\$12,361,217	\$11,672,742	\$11,597,198
Contributions as a Percentage of Covered Employee Payroll	28.78%	24.53%	20.14%

The information reported above is the information which was available upon implementation of the new reporting standard; 10 years of information will be reported when available.

The covered-employee payroll amount reported for June 30, 2016 has been revised from the prior year presentation to reflect adjustments processed by PSERS during fiscal year 2017.

Avonworth School District
Required Supplementary Information
Schedule of School District's Proportionate Share
of the Net Pension Liability
PSERS
Last Four Years
(Dollar Amount in Thousands)

	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
School District's Proportion of the Net Pension Liability (Asset)	0.0901%	0.0905%	0.0863%	0.0845%
School District's Proportionate Share of the Net Pension Liability (Asset)	\$44,651	\$39,200	\$34,158	\$34,591
School District's Covered Employee Payroll	\$11,673	\$11,597	\$11,008	\$10,847
School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	382.52%	338.01%	310.30%	318.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.14%	54.36%	57.24%	54.49%

The information reported above is the information which was available upon implementation of the new reporting standard; 10 years of information will be reported when available.