AVON GROVE SCHOOL DISTRICT
WEST GROVE, PENNSYLVANIA

AUDIT REPORT

JUNE 30, 2013

AVON GROVE SCHOOL DISTRICT

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AVON GROVE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

October 28, 2013

Board of School Directors
Avon Grove School District
West Grove, 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 Avon Grove School District (the "District"), West Grove, Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.

BARBACANE
THORNTON
&COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Avon Grove School District, West Grove, Pennsylvania, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's 2012 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated October 26, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Avon Grove School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and is not a required part of the basic financial statements.

Board of School Directors
Avon Grove School District

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of the Avon Grove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

This discussion and analysis of Avon Grove School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013.

Financial Highlights

The District's net position increased by $4.0 million, due primarily to increased revenues and decreased expenses. Program revenues accounted for $13.3 million, or 17.0 percent of total revenues ($77.9 million); and general revenues accounted for $64.6 million, or 83.0 percent of the total.

The general fund reported a positive unassigned fund balance of $13.0 million, or 17.0 percent of the $76.3 million 2013-2014 operating budget. Actual expenditures in the general fund were $3.0 million less than budget.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its overall activities. These statements include all assets and liabilities of the District (except for fiduciary funds held in trust for student purposes) using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net position and changes in it during the fiscal year. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as the District's property tax base, current property tax laws, student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the District.

Entity-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $38.5 million at the close of the most recent fiscal year. In the prior year, assets exceeded liabilities by $34.5 million.

A portion of the District's total net position reflects its investment in capital assets. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A comparative analysis of fiscal year 2013 to 2012 follows:

STATEMENT OF NET POSITION
June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
ASSETS:						
Current and other assets	$ 36,065,368	$ 34,161,723	$ 938,507	$ 933,262	$ 37,003,875	$ 35,094,985
Capital assets	57,133,798	59,497,056	112,166	131,924	57,245,964	59,628,980
TOTAL ASSETS	93,199,166	93,658,779	1,050,673	1,065,186	94,249,839	94,723,965
LIABILITIES:						
Current liabilities	15,494,016	16,788,235	37,874	35,886	15,531,890	16,824,121
Long-term liabilities	40,222,807	43,365,740	-	-	40,222,807	43,365,740
TOTAL LIABILITIES	55,716,823	60,153,975	37,874	35,886	55,754,697	60,189,861
NET POSITION:						
Net investment in capital assets	20,910,546	17,612,928	112,166	131,924	21,022,712	17,744,852
Restricted	1,753,349	2,052,162	-	-	1,753,349	2,052,162
Unrestricted	14,818,448	13,839,714	900,633	897,376	15,719,081	14,737,090
TOTAL NET POSITION	$ 37,482,343	$ 33,504,804	$ 1,012,799	$ 1,029,300	$ 38,495,142	$ 34,534,104

Increases in cash and investments were offset by a net decrease in capital assets as depreciation exceeded total capital outlay.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those costs. The table on the following page reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities.

STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2013 and 2012

	2013		2012	
	Total Services	Net Services	Total Services	Net Services
PROGRAM EXPENSES				
Governmental Activities:				
Instruction	$ 50,952,893	$ 44,017,050	$ 51,953,685	$ 45,440,411
Instructional student support	4,134,501	3,725,902	4,102,180	3,636,535
Administration	4,476,081	4,180,471	4,703,438	4,446,995
Maintenance	3,852,136	3,684,506	3,968,925	3,824,058
Pupil transportation	6,134,672	3,955,627	5,976,285	3,651,914
Student activities	1,335,989	1,090,861	1,273,873	1,022,813
Community services	3,558	-	7,108	-
Interest and fiscal charges	1,180,786	5,234	1,313,836	160,578
Total Governmental Activities	72,070,616	60,659,651	73,299,330	62,183,304
Business-type Activities:				
Food service	1,879,670	17,134	1,888,101	63,886
Total Business-type Activities	1,879,670	17,134	1,888,101	63,886
Total Primary Government	$ 73,950,286	$ 60,676,785	$ 75,187,431	$ 62,247,190

The decreases in the net cost of services are due to decreasing personnel costs, salaries, wages and benefits, a reduction in debt service costs and operating costs.

The net costs of food services decreased as operating costs decreased.

CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program Revenues:						
Charges for services	$ 720,042	$ 609,013	$ 1,075,835	$ 1,089,325	$ 1,795,877	$ 1,698,338
Operating grants	10,690,923	10,507,013	786,701	734,890	11,477,624	11,241,903
Total Program Revenues	11,410,965	11,116,026	1,862,536	1,824,215	13,273,501	12,940,241
General Revenues:						
Taxes	47,677,548	46,097,566	-	-	47,677,548	46,097,566
Grants and entitlements	16,740,869	16,728,148	-	-	16,740,869	16,728,148
Investment earnings	218,773	175,209	633	598	219,406	175,807
Total General Revenues	64,637,190	63,000,923	633	598	64,637,823	63,001,521
TOTAL REVENUES	76,048,155	74,116,949	1,863,169	1,824,813	77,911,324	75,941,762

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
EXPENSES						
Program Services:						
Instruction	50,952,893	51,953,685	-	-	50,952,893	51,953,685
Support services:						
Instructional staff support	4,134,501	4,102,180	-	-	4,134,501	4,102,180
Administration	4,476,081	4,703,438	-	-	4,476,081	4,703,438
Maintenance	3,852,136	3,968,925	-	-	3,852,136	3,968,925
Pupil transportation	6,134,672	5,976,285	-	-	6,134,672	5,976,285
Student activities	1,335,989	1,273,873	-	-	1,335,989	1,273,873
Community services	3,558	7,108	-	-	3,558	7,108
Interest/fiscal charges	1,180,786	1,313,836	-	-	1,180,786	1,313,836
Food service	-	-	1,879,670	1,888,101	1,879,670	1,888,101
TOTAL EXPENSES	72,070,616	73,299,330	1,879,670	1,888,101	73,950,286	75,187,431
CHANGE IN NET POSITION	$ 3,977,539	$ 817,619	$ (16,501)	$ (63,288)	$ 3,961,038	$ 754,331

Reporting the District's Most Significant Funds

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements; therefore, the statements will essentially match the business-type activities portion of the entity-wide statements.

Fiduciary Funds

The District is the trustee, or fiduciary, for funds held on behalf of the District's students. All of the District's fiduciary activities are reported in the Statement of Net Position - Fiduciary Funds on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Fund Financial Statements

The fund financial statements of the District's major funds begin on page 16 and provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

The District's governmental funds reported a combined fund balance of $24.7 million, which is more than last year's total of $21.9 million. The schedule below indicates the fund balance as of June 30, 2013 and 2012 and the change in fund balance for the year ended June 30, 2013.

	Fund Balance June 30, 2013	Fund Balance June 30, 2012	Increase (Decrease)
General	$ 22,991,882	$ 19,884,589	$ 3,107,293
Capital Projects	1,753,349	2,052,162	(298,813)
TOTAL	$ 24,745,231	$ 21,936,751	$ 2,808,480

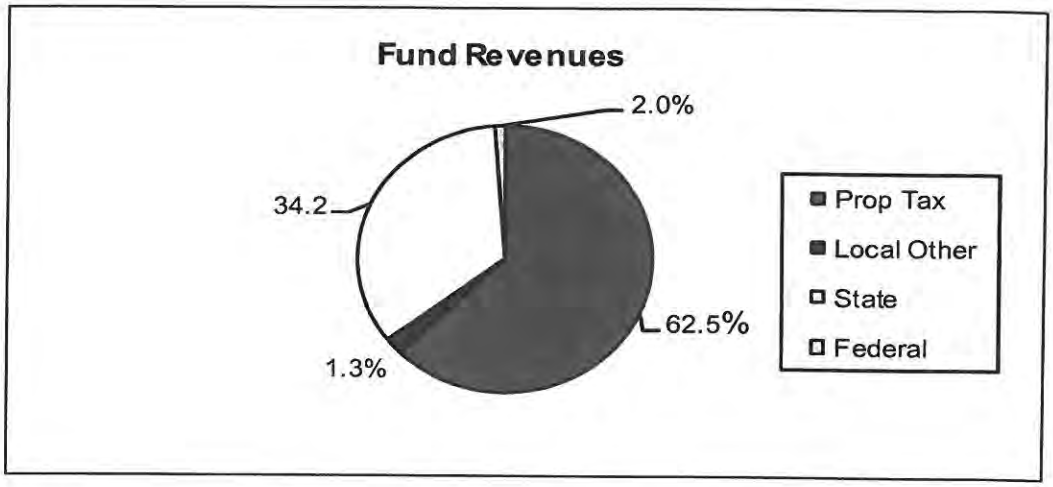
The decrease in the capital projects fund balance is the result of the expenditure of funds for instructional technology equipment.

The increase in the District's general fund balance is due to real estate tax revenues exceeding projections and the District's continuing efforts to reduce noninstructional operating costs. The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

Revenues	2013 Amount	2012 Amount	Dollar Change	Percent Change
Taxes	$ 47,603,664	$ 46,097,566	$ 1,506,098	3.27%
Intergovernmental	27,581,463	27,235,161	346,302	1.27%
Other revenue	956,982	831,028	125,954	15.16%
Total	$ 76,142,109	$ 74,163,755	$ 1,978,354	2.67%

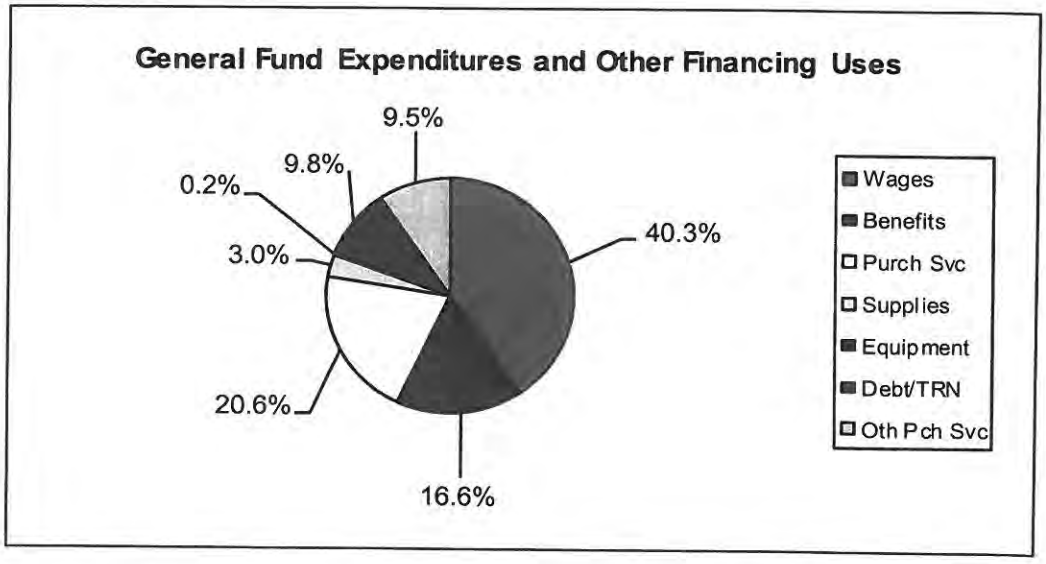
There was an increase in the tax rate from 2012 to 2013 of 2.2 percent. Total current real estate taxes increased by $1,161,696, or 2.7 percent, due to the increased rate and an increase in assessed valuation. Interim real estate taxes increased by $196,486, or 45.6 percent, due to an increase in new construction and the realty transfer tax increased by $87,561 or 12.4 percent due to increased sales of residential properties.

Intergovernmental revenue increased by 1.27 percent due to increased Commonwealth subsidies for social security and retirement payments.



The District's reliance upon revenues from real estate property taxes and revenues from other local sources is demonstrated by the chart above that indicates 63.8 percent of total revenues for government activities come from local sources.

As the graph below illustrates, the largest portions of District general fund expenditures and other financing uses are for salaries and benefits (56.9 percent) and contracted services, including pupil transportation and charter school tuition (20.6 percent), other purchased services (9.5 percent) and debt service (9.8 percent). Equipment, purchased services and supplies make up the balance (3.2 percent) of total expenditures and other financial uses.



Expenditures and Other Financing Uses by Object	2013	2012	Change	Percent
Salaries and wages	$29,404,864	$30,410,023	$ (1,005,159)	(3.31)%
Benefits	12,146,485	12,391,559	(245,074)	(1.98)%
Other purchased services	6,940,538	7,365,647	(425,109)	(5.77)%
Purchased property services	15,065,739	14,655,481	410,258	2.80 %
Supplies	2,203,233	2,043,612	159,621	7.81 %
Equipment	128,485	127,454	1,031	.81 %
Debt service/transfers	7,145,472	6,858,354	287,118	4.19 %
Total	$73,034,816	$73,852,130	$ (817,314)	(1.11)%

Expenditures and other financing uses decreased by $817,314 (1.11 percent) due primarily to a decline of total salary and benefit costs. This was offset, in part, by increased expenditures for purchased services such as tuition paid to out-of-district programs and the tuition paid to charter schools.

Business-type Activities

Business-type activities consist of the food service program. This program had a decrease in net position of $16,501 due to increased labor, food and operating costs.

General Fund Budget Information

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

The final budget for expenditures reflects the required changes in functional categories due to spending patterns.

Spending Review

		Original Budget	Final Budget	Variance Positive (Negative)	Percent Change
Instructional services:					
Regular programs	1100	$ 32,975,002	$ 32,831,676	$ 143,326	.43 %
Special programs	1200	13,059,889	13,142,077	(82,188)	(.63)%
Vocational programs	1300	1,983,112	1,985,356	(2,244)	(.11)%
Other Programs	1400	187,645	188,987	(1,342)	(.72)%
Total Instructional Services		48,205,648	48,148,096	57,552	.12 %
Support services:					
Pupil personnel	2100	2,434,119	2,432,172	1,947	.08 %
Instructional staff services	2200	1,376,380	1,304,803	71,577	5.20 %
Administrative services	2300	3,277,187	3,282,920	(5,733)	(.17)%
Pupil health	2400	632,044	640,113	(8,069)	(1.27)%

Spending Review

(cont'd)		Original Budget	Final Budget	Variance Positive (Negative)	Percent Change
Business services	2500	576,830	598,906	(22,076)	(3.83)%
Operation and maintenance of	2600	4,383,422	4,373,422	10,000	.23 %
Student transportation services	2700	6,210,401	6,210,401	-	0 %
Central support services	2800	785,664	883,014	(97,350)	(12.39)%
Other support services	2900	42,000	42,000	-	0 %
Total Support Services		19,718,047	19,767,751	(49,704)	(.25)%
Operation of noninstructional services:					
Student activities	3200	973,311	983,508	(10,197)	(1.05)%
Community services	3300	5,428	10,127	(4,699)	(86.57)%
Total Operation of Noninstructional Services		978,739	993,635	(14,896)	(1.52)%
Debt service/transfers	5100	6,911,502	6,904,454	7,048	.10 %
		$ 75,813,936	$ 75,813,936	$ -	0 %

Using spending variances in excess of one percent, the most significant changes in the District's final budget expenditures vs. planned expenditures were:

		Original Budget	Final Budget	Variance Positive (Negative)	Percent Change
Instructional staff services	2200	1,373,380	1,304,803	71,577	5.20%
Pupil health	2400	632,044	640,113	(8,069)	(1.27)%
Business services	2500	576,830	598,906	(22,076)	(3.83)%
Central support services	2800	785,664	883,014	(97,350)	(12.39)%
Student activities	3200	973,311	983,508	(10,197)	(1.05)%
Community services	3300	5,428	10,127	(4,699)	(86.57)%

A relatively small dollar increase ($4,699) is due to a reallocation of funds in a federally funded program to additional expenditures for community services. The largest variance in dollars ($97,350 or 12.39 percent) is in central support services due to the reallocation of funds from building instructional budgets and the technology function for the purchase of instructional technology equipment.

Funds were reallocated to the business function, but were not expended, and remained unspent at year end. Salaries and wages in the pupil health and student activity functions were slightly higher than anticipated and funds were reallocated to cover the increased costs.

The other variances are relatively small dollar amounts and resulted from minor changes in the budgets and expenditures required by programmatic changes.

Capital Assets

The District has $57.2 million invested in capital assets net of depreciation, with $57.1 million attributed to governmental activities. Acquisitions for governmental activities totaled $.7 million, and depreciation expense for the year was $3.1 million. The majority of the acquisitions were for instructional equipment. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 6).

Debt

At June 30, 2013, the District had $35.79 million in outstanding general obligation bonds and $49.20 million in authorized but unissued general obligation bonds. The District had a net decrease of $5.71 million in outstanding general obligation bonds during the fiscal year. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements (Note 8).

Under current Commonwealth of Pennsylvania statutes, the District's nonelectoral general obligation bonded debt issues are subject to legal limitation based on 225 percent of the average revenues for the prior three years. At June 30, 2013, the District's general obligation debt was $77.51 million below the legal limit.

Factors Expected to have an Effect on Future Operations

The District has experienced significant growth (9.5 percent) in enrollment over the last 10 years but enrollment in the last five years has remained relatively constant. If the growth patterns in student population change so that more students enter the District than currently anticipated, adjustments will have to be made to the financial models upon which assumptions have been made.

The District's property tax base is expected to remain relatively constant over the next several years. The District's ability to raise new real estate property tax revenues has been curtailed by property tax relief legislation that limits future tax rate increases and limits the future taxing authority of the District. It is anticipated that the rate of growth will return to the three percent to five percent range previously projected when the overall housing market improves.

The District's enrollment is expected to remain relatively constant through fiscal year 2015 - 2016. The District's facilities are being studied to adequately accommodate future increases in student growth. While most of the District's facilities are relatively new or renovated, and while all these facilities meet current federal, state, county and municipal guidelines for health and safety criteria, new mandates for facility upgrades can be imposed by any of these governments at any time.

The reader is invited to review additional tax and enrollment information on the District's web page (www.avongrove.org) and to review official offering statements of recent District bond issues that contain related housing, commercial and demographic information available at its business office located at the Avon Grove School District Administrative Office or at www.avongrove.org.

Contacting the District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the 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 financial information, please contact the Business Manager at Avon Grove School District, 375 South Jennersville Road, West Grove, Pennsylvania 19390, (610) 869-2441, extension 1014; or asciutto@avongrove.org.

AVON GROVE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013
(With Summarized Comparative Data for June 30, 2012)

	Governmental Activities	Business-type Activities	Totals 2013	Totals 2012*
ASSETS				
Cash and cash equivalents	$ 1,057,702	$ 95,267	$ 1,152,969	$ 321,887
Investments	31,836,851	822,064	32,658,915	31,803,276
Taxes receivable, net of allowance	1,680,854	-	1,680,854	1,745,079
Due from other governments	1,123,099	16,545	1,139,644	929,881
Internal balances	62,465	(62,465)	-	-
Other receivables	92,685	34	92,719	21,459
Inventories	-	67,062	67,062	61,691
Other current assets	211,712	-	211,712	211,712
Land	11,035,789	-	11,035,789	11,035,789
Buildings and improvements	82,536,565	-	82,536,565	82,451,514
Furniture and equipment	5,373,454	662,681	6,036,135	5,471,751
Accumulated depreciation	(41,812,010)	(550,515)	(42,362,525)	(39,330,074)
TOTAL ASSETS	$ 93,199,166	$ 1,050,673	$ 94,249,839	$ 94,723,965
LIABILITIES AND NET POSITION				
LIABILITIES:				
Accounts payable	$ 859,063	$ 287	$ 859,350	$ 1,110,154
Accrued salaries, payroll withholdings and benefits	8,288,505	431	8,288,936	8,625,187
Accrued interest payable	205,669	-	205,669	260,831
Unearned revenues	169,126	37,156	206,282	32,289
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable, net	5,246,377	-	5,246,377	5,675,842
Capital lease payable	8,835	-	8,835	8,835
Accumulated compensated absences/early retirement incentive	71,118	-	71,118	308,037
Other post-employment benefit obligations	645,323	-	645,323	802,946
Portion due or payable after one year:				
Bonds payable, net	30,941,535	-	30,941,535	36,164,111
Capital lease payable	26,505	-	26,505	35,340
Accumulated compensated absences/early early retirement incentive	1,125,093	-	1,125,093	1,038,046
Other post-employment benefit obligations	8,129,674	-	8,129,674	6,128,243
TOTAL LIABILITIES	55,716,823	37,874	55,754,697	60,189,861
NET POSITION:				
Net investment in capital assets	20,910,546	112,166	21,022,712	17,744,852
Restricted for capital projects	1,753,349	-	1,753,349	2,052,162
Unrestricted	14,818,448	900,633	15,719,081	14,737,090
TOTAL NET POSITION	37,482,343	1,012,799	38,495,142	34,534,104
TOTAL LIABILITIES AND NET POSITION	$ 93,199,166	$ 1,050,673	$ 94,249,839	$ 94,723,965

* - Restated (see note 18)

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(With Summarized Comparative Data for the Year Ended June 30, 2012)

		Program Revenues			Net (Expense) and Changes in Net Position			
							Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2013	2012*
GOVERNMENTAL ACTIVITIES:								
Instruction	$50,952,893	$ 461,844	$ 6,473,999	$ -	$(44,017,050)	$ -	$(44,017,050)	$(45,440,411)
Instructional student support	4,134,501	-	408,599	-	(3,725,902)	-	(3,725,902)	(3,636,535)
Administrative and financial support services	4,476,081	22,809	272,801	-	(4,180,471)	-	(4,180,471)	(4,446,995)
Operation and maintenance of plant services	3,852,136	44,885	122,745	-	(3,684,506)	-	(3,684,506)	(3,824,058)
Pupil transportation	6,134,672	-	2,179,045	-	(3,955,627)	-	(3,955,627)	(3,651,914)
Student activities	1,335,989	190,504	54,624	-	(1,090,861)	-	(1,090,861)	(1,022,813)
Community services	3,558	-	3,558	-	-	-	-	-
Interest on long-term debt	1,180,786	-	1,175,552	-	(5,234)	-	(5,234)	(160,578)
TOTAL GOVERNMENTAL ACTIVITIES	72,070,616	720,042	10,690,923	-	(60,659,651)	-	(60,659,651)	(62,183,304)
BUSINESS-TYPE ACTIVITIES:								
Food service	1,879,670	1,075,835	786,701	-	-	(17,134)	(17,134)	(63,886)
TOTAL BUSINESS-TYPE ACTIVITIES	1,879,670	1,075,835	786,701	-	-	(17,134)	(17,134)	(63,886)
TOTAL PRIMARY GOVERNMENT	$73,950,286	$ 1,795,877	$11,477,624	$ -	(60,659,651)	(17,134)	(60,676,785)	(62,247,190)
		GENERAL REVENUES						
		Property taxes levied for general purposes			46,881,332	-	46,881,332	45,388,911
		Taxes levied for specific purposes			796,216	-	796,216	708,655
		Grants and entitlements not restricted to specific programs			16,740,869	-	16,740,869	16,728,148
		Investment earnings			218,773	633	219,406	175,807
		TOTAL GENERAL REVENUES			64,637,190	633	64,637,823	63,001,521
		CHANGE IN NET POSITION			3,977,539	(16,501)	3,961,038	754,331
		NET POSITION, BEGINNING OF YEAR			33,504,804	1,029,300	34,534,104	33,779,773
		NET POSITION, END OF YEAR			$ 37,482,343	$ 1,012,799	$ 38,495,142	$ 34,534,104

* - Restated (see note 18)

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013
(With Summarized Comparative Data for June 30, 2012)

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2013	2012
ASSETS				
Cash and cash equivalents	$ 1,057,702	$ -	$ 1,057,702	$ 206,508
Investments	30,083,502	1,753,349	31,836,851	30,981,710
Taxes receivable, net of allowance	1,680,854	-	1,680,854	1,745,079
Due from other funds	62,465	-	62,465	75,375
Due from other governments	1,123,099	-	1,123,099	919,917
Other receivables	92,685	-	92,685	21,422
Other current assets	211,712	-	211,712	211,712
TOTAL ASSETS	$ 34,312,019	$ 1,753,349	$ 36,065,368	$34,161,723
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 859,063	$ -	$ 859,063	$1,107,879
Accrued salaries, payroll withholdings and benefits	8,933,828	-	8,933,828	9,426,811
Accumulated compensated absences/early retirement incentive	71,118	-	71,118	308,037
Unearned revenues	169,126	-	169,126	-
TOTAL LIABILITIES	10,033,135	-	10,033,135	$10,842,727
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - delinquent taxes	1,287,002	-	1,287,002	1,382,245
TOTAL DEFERRED INFLOWS OF RESOURCES	1,287,002	-	1,287,002	1,382,245
FUND BALANCES:				
Restricted for capital projects	-	1,753,349	1,753,349	2,052,162
Committed for future retirement contributions	10,000,000	-	10,000,000	10,000,000
Assigned for next year's budget	-	-	-	3,819,474
Unassigned	12,991,882	-	12,991,882	6,065,115
TOTAL FUND BALANCES	22,991,882	1,753,349	24,745,231	21,936,751
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 34,312,019	$ 1,753,349	$ 36,065,368	$ 34,161,723

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2013

TOTAL GOVERNMENTAL FUND BALANCES		$ 24,745,231
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	$ 11,035,789	
Buildings and improvements (including Construction-in-progress)	82,536,565	
Furniture and equipment	5,373,454	
Accumulated depreciation	(41,812,010)	57,133,798
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:		
Bonds payable	(36,187,912)	
Capital lease payable	(35,340)	
Accumulated compensated absences/early retirement incentive	(1,125,093)	
Accrued interest payable	(205,669)	
Other post-employment benefits	(8,129,674)	(45,683,688)
Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.		1,287,002
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 37,482,343

These accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013
(With Summarized Comparative Data for the Year Ended June 30, 2012)

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2013	2012
REVENUES				
Local sources	$ 48,560,646	$ 1,289	$ 48,561,935	$ 46,934,087
State sources	26,062,911	-	26,062,911	25,769,852
Federal sources	1,518,552	-	1,518,552	1,461,257
TOTAL REVENUES	76,142,109	1,289	76,143,398	74,165,196
EXPENDITURES				
Current:				
Instruction	46,685,306	-	46,685,306	47,808,098
Support services	18,310,916	-	18,310,916	18,365,252
Operation of noninstructional services	941,738	-	941,738	881,949
Capital outlays	-	500,134	500,134	392,561
Debt service	6,896,824	270,452	7,167,276	6,796,831
TOTAL EXPENDITURES	72,834,784	770,586	73,605,370	74,244,691
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,307,325	(769,297)	2,538,028	(79,495)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	-	10,000,000	10,000,000	-
Payment of debt - refunding	-	(9,830,000)	(9,830,000)	-
Bond premiums	-	167,110	167,110	-
Bond discounts	-	(66,658)	(66,658)	-
Transfers in	-	200,032	200,032	-
Transfers out	(200,032)	-	(200,032)	-
TOTAL OTHER FINANCING SOURCES (USES)	(200,032)	470,484	270,452	-
NET CHANGE IN FUND BALANCES	3,107,293	(298,813)	2,808,480	(79,495)
FUND BALANCES, BEGINNING OF YEAR	19,884,589	2,052,162	21,936,751	22,016,246
FUND BALANCES, END OF YEAR	$ 22,991,882	$ 1,753,349	$ 24,745,231	$ 21,936,751

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 2,808,480
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 ($3,086,211) exceeded captial outlays ($722,953) in the period.		(2,363,258)
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year.		(95,243)
Debt proceeds are reported as financing sources in the governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount by which debt proceeds ($10,000,000) were less than debt repayments ($15,718,835).		5,718,835
Governmental funds report discounts as expenditures and bond premiums as revenue. However, these amounts are reported netted against the outstanding bond liability on the statement of net position and amortized over the life of the debt. This is the amount by which net amortization exceeded current discounts net of premiums		(57,959)
In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave) and special termination benefits (early retirement) – are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the amount by which current period amounts paid were less than current period compensated absences earned.		
Compensated absences	$ (87,047)	
Other post-employment benefits	(2,001,431)	(2,088,478)
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.		55,162
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 3,977,539

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	(GAAP Basis)	(Negative)
REVENUES				
Local sources	$ 48,051,573	$ 47,483,264	$ 48,560,646	$ 1,077,382
State sources	25,930,331	25,930,331	26,062,911	132,580
Federal sources	954,857	1,523,166	1,518,552	(4,614)
TOTAL REVENUES	74,936,761	74,936,761	76,142,109	1,205,348
EXPENDITURES				
Instruction:				
Regular programs	32,975,002	32,831,676	31,789,209	1,042,467
Special programs	13,059,889	13,142,077	12,767,374	374,703
Vocational programs	1,983,112	1,985,356	1,985,356	-
Other instructional programs	187,645	188,987	143,367	45,620
Total Instruction	48,205,648	48,148,096	46,685,306	1,462,790
Support services:				
Pupil personnel services	2,434,119	2,432,172	2,353,735	78,437
Instructional staff services	1,376,380	1,304,803	1,140,653	164,150
Administrative services	3,277,187	3,282,920	3,064,141	218,779
Pupil health	632,044	640,113	640,113	-
Business services	576,830	598,906	580,273	18,633
Operation and maintenance of plant services	4,383,422	4,373,422	3,484,196	889,226
Student transportation services	6,210,401	6,210,401	6,134,672	75,729
Central support services	785,664	883,014	880,493	2,521
Other support services	42,000	42,000	32,640	9,360
Total Support Services	19,718,047	19,767,751	18,310,916	1,456,835
Operation of noninstructional services:				
Student activities	973,311	983,508	938,180	45,328
Community services	5,428	10,127	3,558	6,569
Total Operation of Noninstructional Services	978,739	993,635	941,738	51,897
Debt service	6,911,502	6,904,454	6,896,824	7,630
TOTAL EXPENDITURES	75,813,936	75,813,936	72,834,784	2,979,152
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(877,175)	(877,175)	3,307,325	4,184,500
OTHER FINANCING USES				
Transfer out	-	-	(200,032)	(200,032)
TOTAL OTHER FINANCING USES	-	-	(200,032)	(200,032)
NET CHANGE IN FUND BALANCE	(877,175)	(877,175)	3,107,293	3,984,468
FUND BALANCE, BEGINNING OF YEAR	15,784,547	15,784,547	19,884,589	4,100,042
FUND BALANCE, END OF YEAR	$ 14,907,372	$ 14,907,372	$ 22,991,882	$ 8,084,510

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2013
(With Comparative Data for June 30, 2012)

	Major Fund	
	Food Service Fund	
	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 95,267	$ 115,379
Investments	822,064	821,566
Due from other governments	16,545	9,964
Other receivables	34	37
Inventories	67,062	61,691
Total Current Assets	1,000,972	1,008,637
PROPERTY AND EQUIPMENT:		
Furniture and equipment	662,681	722,848
Accumulated depreciation	(550,515)	(590,924)
Net Property and Equipment	112,166	131,924
TOTAL ASSETS	$ 1,113,138	$ 1,140,561
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 287	$ 2,275
Payroll payable	431	1,322
Due to other funds	62,465	75,375
Unearned revenues	37,156	32,289
Total Current Liabilities	100,339	111,261
NET POSITION:		
Net investment in capital assets	112,166	131,924
Unrestricted	900,633	897,376
Total Net Position	1,012,799	1,029,300
TOTAL LIABILITIES AND NET POSITION	$ 1,113,138	$ 1,140,561

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Data for the Year Ended June 30, 2012)

	Major Fund	
	Food Service Fund	
	2013	2012
OPERATING REVENUES		
Food service revenues	$ 1,075,835	$ 1,089,325
Total Operating Revenues	1,075,835	1,089,325
OPERATING EXPENSES		
Salaries	512,296	486,267
Employee benefits	294,567	260,811
Purchased professional and technical services	9,214	40,512
Other operating expenses	4,258	3,411
Supplies	1,028,214	1,066,551
Depreciation	31,121	30,549
Total Operating Expenses	1,879,670	1,888,101
OPERATING LOSS	(803,835)	(798,776)
NONOPERATING REVENUES		
Earnings on investments	633	598
State sources	100,318	96,686
Federal sources	686,383	638,204
Total Nonoperating Revenues	787,334	735,488
CHANGE IN NET POSITION	(16,501)	(63,288)
NET POSITION, BEGINNING OF YEAR	1,029,300	1,092,588
NET POSITION, END OF YEAR	$ 1,012,799	$ 1,029,300

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Data for the Year Ended June 30, 2012)

	Major Fund Food Service Fund	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 1,080,702	$ 1,094,276
Payments to suppliers	(962,532)	(1,004,066)
Payments to employees	(807,754)	(755,595)
NET CASH USED BY OPERATING ACTIVITIES	(689,584)	(665,385)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State sources	99,866	98,972
Federal sources	580,831	547,623
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	680,697	646,595
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(11,363)	(12,300)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(11,363)	(12,300)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Earnings on investments	636	598
Purchase of investments	(498)	(411)
NET CASH PROVIDED BY INVESTING ACTIVITIES	138	187
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,112)	(30,903)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	115,379	146,282
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 95,267	$ 115,379
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (803,835)	$ (798,776)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	31,121	30,549
Donated commodities	99,423	109,950
Increase in:		
Accounts receivable	-	(16)
Inventories	(5,371)	(5,817)
Increase (Decrease) in:		
Accounts payable	(1,988)	2,275
Due to other funds	(12,910)	11,434
Accrued payroll expenses	(891)	(19,951)
Unearned revenues	4,867	4,967
NET CASH USED BY OPERATING ACTIVITIES	$ (689,584)	$ (665,385)
SUPPLEMENTAL DISCLOSURE:		
Noncash noncapital financing activity:		
USDA donated commodities	$ 99,423	$ 109,950

The accompanying notes are an integral part of these financial statements.

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2013
(With Comparative Data for June 30, 2012)

	2013	2012
ASSETS:		
Cash	$ 99,025	$ 88,978
TOTAL ASSETS	$ 99,025	$ 88,978
LIABILITIES AND NET POSITION:		
LIABILITIES		
Accounts payable	$ 99,025	$ 88,978
NET POSITION	-	-
TOTAL LIABILITIES AND NET POSITION	$ 99,025	$ 88,978

The accompanying notes are an integral part of these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Avon Grove School District (the "District") operates two elementary schools, one middle school and one senior high school to provide education and related services to the residents of Penn, London Grove, New London, Franklin and London Britain Townships and the Boroughs of Avondale and West Grove. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member Board form of government.

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

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 and GASB Statement No. 61, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Entity-wide Financial Statements

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

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental program. Expenses are those that are specifically associated with a service or program and are, therefore, clearly identifiable to a particular function. Program revenues

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

include charges paid by the recipients of the goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

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

The entity-wide financial statements report net position in one of three components: net investment in capital assets; consists of capital assets, net of accumulated depreciation; and reduced by the outstanding balances of borrowings attributable to acquiring, constructing or improving those assets. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from the capital projects fund. Unrestricted net position consists of net position that does not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Fund Financial Statements

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

Governmental Funds

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

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

The **Capital Projects Fund** is used to account for the acquisition, construction and renovation of major capital facilities and their related capital assets and to account for funds set aside for future capital needs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not recognized proportionately within the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in an agency fund. The agency fund accounts for funds held on behalf of students of the District. It is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

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

Receivables and Payables

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

Taxes receivable are presented net of allowances for estimated uncollectibles of $34,349. The allowance for uncollectible accounts is based upon historical data established according to experience and other factors which, in the judgment of District management, deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

Property Taxes

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

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

An installment payment plan is available to residential property owners, who have been approved as homestead owners by the Chester County Board of Assessments, with three equal installments due as follows:

August 31	-	one third of the gross levy
September 30	-	one third of the gross levy
October 31	-	one third of the gross levy

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In order to participate in the installment payment plan, homestead owners must forego the opportunity to make payment at the two percent of gross levy discount rate.

The District's taxes are billed and collected by the District. The tax on real estate for public school purposes for fiscal years 2012 - 2013 was 26.75 mills ($26.75 for $1,000 of assessed valuation) for the entire District.

Inventories

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

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000, composite assets of more than $10,000 and critical control assets as defined by District policy. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

School buildings	40-50 years
Portable classrooms	20-25 years
HVAC systems	20-25 years
Interior construction	25-30 years
Sprinkler/fire system	20-25 years
Outdoor equipment	15-20 years
Machinery and tools	10-15 years
Kitchen equipment	10-15 years
Custodian equipment	5-7 years
Furniture and accessories	15-20 years
Business machines	5-10 years
Copiers	3-5 years
Computers	3-5 years
Audio visual	7-10 years
Communication	5-10 years

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

District policies permit employees to accumulate earned but unused vacation and personal and sick days as stipulated in each bargaining unit's contract. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are netted against outstanding principal balances amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amortized amounts are amortized using the straight-line method.

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The District currently has one type of item that qualifies for reporting in this category. Delinquent taxes not collected within 60 days of year end, and therefore are not available under modified accrual reporting, are reflected as deferred inflows of resources on the general fund balance sheet.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

As of June 30, 2013, fund balances of the governmental funds are classified, if applicable, as follows:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for Avon Grove School District. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Finance Committee, the Superintendent or the Business Manager may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

Early Implementation of GASB Statement

During the current year, the School elected to early implement the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). See the restatement footnote disclosure for the restatement effects to these financial statements.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Use of Estimates in the Preparation of Financial Statements

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for all capital projects funds.

The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by District officials on a uniform form furnished by such Department and submitted to the Board of School Directors for approval prior to the beginning of the fiscal year on July 1.

Under the Taxpayer Relief Act, the District must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the Board of School Directors may hold a public hearing on the budget; and the Board must give at least 10 days' public notice of its intent to adopt such budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education ("PDE") no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the District's Index and within 10 days, but no later than 75 days, prior to the upcoming election, inform the District whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the District must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election or seek approval to utilize one or more of the referendum exceptions authorized by the Taxpayer Relief Act.

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

To use any of the referendum exceptions for which court approval is required under the Taxpayer Relief Act, the District must petition the court of common pleas no later than 75 days prior to the upcoming election, after giving one week's public notice of the intent to file such petition. The court may schedule a hearing on the petition, and the District must prove by clear and convincing evidence that it qualifies for the exception sought. The Taxpayer Relief Act requires that the court rule on the petition and inform the District of its decision no later than 55 days prior

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

to the upcoming election. Such Act provides that the court, in approving the petition, shall determine the dollar amount for which the exception is granted, the tax rate increase required to fund the exception and the appropriate duration of the tax increase. If the court denies the District's petition, such Act permits the District to submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

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

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

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2013, the carrying amount of the District's deposits was $1,251,994 and the bank balance was $2,607,858. Of the bank balance, $250,000 was covered by federal depository insurance and $2,357,858 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

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

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

Most of the District's investments are in the Pennsylvania Local Government Investment Trust ("PLGIT"), the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and the Pennsylvania Treasurer's Program for Local Governments ("INVEST"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT, PSDLAF and INVEST act like money market mutual funds in that their objective is to maintain a stable net asset value of $1 per share, are rated by a nationally recognized statistical rating organization and are subject to an independent annual audit. Additionally, the District has invested in one certificate of deposit. The carrying value of the District's investments at June 30, 2013 was $32,658,915.

Credit Risk

The District has an investment policy that limits its investment choices in local government investment pools only to the extent it is rated in the highest rating category by a nationally recognized rating agency. As of June 30, 2013, PLGIT, PSDLAF and INVEST were rated as AAAm by a nationally recognized statistical rating organization.

NOTE 4 UNEARNED REVENUES

The District records unearned revenue for resources that have been received but not yet earned. At the end of the current fiscal year, unearned revenue reported in the governmental funds resulted from federal grants received that have not satisfied eligibility requirements and revenue received but not yet earned. Unearned revenue in the proprietary funds and the entity-wide financial statements represents resources that have been received but not yet earned.

NOTE 5 DEFERRED INFLOWS OF RESOURCES - UNAVAILABLE REVENUES

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, unavailable revenue reported in the governmental funds resulted from delinquent property taxes receivable which was not collected within 60 days of fiscal year end.

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$11,035,789	$ -	$ -	$11,035,789
Total Capital Assets Not Being Depreciated	11,035,789	-	-	11,035,789
Capital assets being depreciated:				
Buildings and improvements	82,451,514	85,051	-	82,536,565
Furniture and equipment	4,748,903	637,902	13,351	5,373,454
Total Capital Assets Being Depreciated	87,200,417	722,953	13,351	87,910,019

NOTE 6 CAPITAL ASSETS (cont'd)

(cont'd)	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings and improvements	35,823,175	2,594,517	-	38,417,692
Furniture and equipment	2,915,975	491,694	13,351	3,394,318
Total accumulated depreciation	38,739,150	3,086,211	13,351	41,812,010
Total Capital Assets Being Depreciated, Net	48,461,267	(2,363,258)	-	46,098,009
Governmental Activities Assets, Net	$59,497,056	$(2,363,258)	$ -	$57,133,798
Business-type Activities:				
Capital assets being depreciated:				
Furniture and equipment	$ 722,848	$ 11,363	$ 71,530	$ 662,681
Less accumulated depreciation	590,924	31,121	71,530	550,515
Business-type Capital Assets, Net	$ 131,924	$ (19,758)	$ -	$ 112,166

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

Governmental activities:	
Instruction	$ 2,179,109
Administrative and financial support services	141,353
Operation and maintenance of plant services	367,940
Student activities	397,809
Total Depreciation Expense - Governmental Activities	$ 3,086,211
Business-type Activities - Food Service	$ 31,121

NOTE 7 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013 is as follows:

Receivable To	Amount	Payable From	Amount
General Fund	$ 62,465	Food Service Fund	$ 62,465

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end. There was one transfer of $200,032 at year end from the general fund to the capital projects fund for the purpose of funding future capital projects.

NOTE 8 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2013:

NOTE 8 GENERAL LONG-TERM DEBT (cont'd)

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Bonds payable	$ 41,839,953	$ 10,100,452	$15,752,493	$ 36,187,912
Capital lease payable	44,175	-	8,835	35,340
Accumulated compensated absences/early retirement incentive	1,346,083	-	149,872	1,196,211
TOTALS	$ 43,230,211	$ 10,100,452	$15,911,200	$ 37,419,463

Bonds payable is comprised of the following:

	June 30, 2013	June 30, 2012
Bonds payable, at face	$ 35,790,000	$ 41,500,000
Unamotized discount	(260,081)	(244,811)
Unamortized premium	657,993	584,764
Bonds payable, net	$ 36,187,912	$ 41,839,953

Payments of long-term debt are expected to be funded by the General Fund.

General Obligation Bonds

Series A of 2007, maturing through November 15, 2015, bearing Interest at 3.55%, interest payable semi-annually on May 15 and November 15.	$ 310,000
Series of 2009, maturing through August 15, 2015, bearing interest ranging from 2.00% to 2.50%, interest payable semi-annually on February 15 and August 15. This Series of 2009 provided funds to refund the Series of 2002AA bonds.	4,360,000
Series A of 2009, maturing through November 15, 2021, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually on May 15 and November 15. This Series A of 2009 provided funds to refund the Series of 2003, Series of 2004 and Series of 2004B bonds.	12,235,000
Series of 2010, maturing through August 15, 2021, bearing interest ranging from 0.50% to 3.50%, interest payable semi-annually on February 15 and August 15. This series of 2010 provided funds to refund the Series of 2005 bonds.	5,950,000
Series A of 2010, maturing through August 15, 2014, bearing interest ranging from 2.00% to 3.00%, interest payable semi-annually on February 15 and August 15. This Series A of 2010 provided funds to refund the Series A of 2005 bonds.	3,340,000

NOTE 8 GENERAL LONG-TERM DEBT (cont'd)

Series of 2012, maturing through November 15, 2022, bearing interest at 2.00%, interest payable semi-annually on May 15 and November 15. This series of 2012 provided funds to refund the Series of 2007 bonds. This transaction resulted in an achieved cash flow difference and an economic gain of $204,416 as a result of the refunding.	1,850,000
Series A of 2012, maturing through November 15, 2027, bearing interest ranging from 2.00% to 2.35%, interest payable semi-annually on May 15 and November 15. This series A of 2012 provided funds to refund the Series A of 2007 bonds. This transaction resulted in an achieved cash flow difference and an economic gain of $1,146,896 as a result of the refunding.	7,745,000
TOTAL	$ 35,790,000

Presented below is a summary of debt requirements to maturity by years:

Year Ending June 30,	Principal Maturities	Interest Maturities	Total Maturities
2014	$ 5,205,000	$ 916,220	$ 6,121,220
2015	5,480,000	799,545	6,279,545
2016	4,180,000	673,377	4,853,377
2017	2,690,000	586,290	3,276,290
2018	2,770,000	505,340	3,275,340
2019-2023	12,100,000	1,162,700	13,262,700
2024-2028	3,365,000	195,684	3,560,684
	$ 35,790,000	$ 4,839,156	$ 40,629,156

NOTE 9 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P. O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25 and 7.5 percent of salary depending on their membership

NOTE 9 PENSION PLAN cont'd)

status. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer contribution was 12.36 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2011, 2012 and 2013 were $1,904,829, $2,508,475 and $3,752,581, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District approximately 50 percent of its contribution each year.

NOTE 10 OPERATING LEASES

The District currently is obligated under operating lease agreements for office equipment and modular classrooms. These leases are considered as operating leases for accounting purposes. The following is a summary of the minimum rental costs for the remaining terms at June 30, 2013:

Year Ending June 30,	
2014	$ 195,886
2015	127,944
2016	20,392
2017	4,992
2018-2019	1,248
Total	$ 350,462

Rental expense for the year ended June 30, 2013 was $362,611.

NOTE 11 CAPITAL LEASES - LESSEE

The District has entered into a lease agreement as a lessee for financing the acquisition of copying equipment used within the District. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the lower of asset value or present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

ASSET	
Equipment - Xerox Copier	$ 44,175
Less: Accumulated depreciation	(17,670)
Total	$ 26,505

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 were as follows:

NOTE 11 CAPITAL LEASES - LESSEE (cont'd)

Year Ending June 30,	
2014	$ 11,604
2015	11,604
2016	11,604
2017	8,703
	43,515
Less: Amount representing interest	(8,175)
Total	$ 35,340

NOTE 12 JOINT VENTURES

The District is a participating member of the Center for Arts Technology (the "Vo-Tech"). The Vo-Tech is run by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of the debt and operating costs of the Vo-Tech based on the number of students from each district. For fiscal year ended June 30, 2013, the District's share of debt and operating costs was $1,985,356. The Vo-Tech prepares financial statements which are available to the public. The financial statements of the Vo-Tech are available from the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, Pennsylvania 19335.

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits and life insurance benefits provided by the District. This Statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2013, the District contributed $802,944 to the plan for current premiums, or approximately 86 percent of total premiums. Plan members receiving benefits contributed $126,438, or approximately 14 percent of total premiums, through their required monthly contributions.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

Annual required contribution	$ 2,857,892
Interest on net OPEB obligation	275,771
Adjustment to annual required contribution	(376,222)
Annual OPEB cost (expense)	2,757,441
Contributions made	(756,010)
Increase in net OPEB obligation	2,001,431
Net OPEB obligation - beginning of year	6,128,243
Net OPEB obligation - end of year	$ 8,129,674

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2012	$ -	$25,518,878	$25,518,878	0.00%	$30,896,290	82.60%
1/1/2010	$ -	$19,468,739	$19,468,739	0.00%	$30,660,028	63.50%

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the January 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 10.0 percent in 2012, reduced by decrements to an ultimate rate of five percent in 2022 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2013 was 27 years.

NOTE 14 VOLUNTARY RETIREMENT INCENTIVE PLANS

At the conclusion of the 2007-2008, 2009-2010 and 2010-2011 fiscal years, the District offered a VRIP to qualified employees. The plan included the payment of $20,000 or $10,000 based on the retiree's years of service in either a lump sum or five consecutive annual payments.

During the year ended June 30, 2013, the cost of these benefits was $2,000.

NOTE 15 FUND BALANCES

As of June 30, 2013, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Restricted:			
Capital projects	$ -	$ 1,753,349	$ 1,753,349
Committed:			
Pension costs	10,000,000	-	10,000,000
Unassigned	12,991,882	-	12,991,882
Total Fund Balances	$ 22,991,882	$ 1,753,349	$ 24,745,231

NOTE 16 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

NOTE 17 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2012 - 2013 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 18 RESTATEMENT OF NET POSITION

The District has decreased its July 1, 2011 governmental activities net position by $296,620 due to the effects of implementing GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," which requires bond issuance costs to be expensed when incurred. In addition, amortization of bond issuance costs in the amount of $44,398 has also been removed from the amounts reported in governmental activities for the year ended June 30, 2012. The total effect as a result of implementing GASB Statement No. 65 was a decrease to the net position in the amount of $252,222 as of June 30, 2012.

NOTE 19 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through October 28, 2013, the date the financial statements were available to be issued.

SINGLE AUDIT SUPPLEMENT

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

October 28, 2013

Board of School Directors
Avon Grove School District
West Grove, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Avon Grove School District, West Grove, Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Avon Grove School District's basic financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

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

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

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

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Avon Grove School District

Compliance and Other Matters

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

Purpose of this Report

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

October 28, 2013

Board of School Directors
Avon Grove School District
West Grove, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Avon Grove School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on Avon Grove School District's major federal program for the year ended June 30, 2013. Avon Grove School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Avon Grove School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Avon Grove School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Board of School Directors
Avon Grove School District

Opinion on Each Major Federal Program

In our opinion, Avon Grove School District, West Grove, Pennsylvania, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Avon Grove School District, West Grove, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Avon Grove School District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Avon Grove School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

AVON GROVE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse or disclaimer]*:

Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	_____ Yes	__X__ No
• Significant deficiency(ies) identified?	_____ Yes	__X__ None reported
• Noncompliance material to financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ Yes	__X__ No
• Significant deficiency(ies) identified?	_____ Yes	__X__ None reported

Type of auditors' report issued on compliance for major programs [*unmodified, qualified, adverse or disclaimer]*:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes __X__ No

Identification of major program:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? __X__ Yes _____ No

AVON GROVE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

AVON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor Project Title	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 7/01/2012	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2013
U.S. Department of Education										
Passed through Pennsylvania Department of Education										
Title I - Grants to Local Education Agencies	I	84.010	013-12-0017	07/06/11-09/30/12	323,667	$ 82,400	$ 82,400	$ -	$ -	$ -
Title I - Grants to Local Education Agencies	I	84.010	013-13-0017	07/05/12-09/30/13	379,059	274,358	-	340,491	340,491	66,133
Total CFDA# 84.010						356,758	82,400	340,491	340,491	66,133
Title II - Improving Teacher Quality	I	84.367	020-12-0017	07/06/11-09/30/12	103,229	68,667	5,142	63,525	63,525	-
Title II - Improving Teacher Quality	I	84.367	020-13-0017	07/06/12-09/30/13	104,158	97,238	-	99,947	99,947	2,709
Total CFDA# 84.367						165,905	5,142	163,472	163,472	2,709
Title III - Language Inst LEP	I	84.365	010-12-0017	07/06/11-09/30/13	111,319	61,993	11,571	50,422	50,422	-
Title III - Language Inst LEP	I	84.365	010-13-0017	07/05/12-09/30/13	103,746	48,415	-	75,496	75,496	27,082
Total CFDA# 84.365						110,408	11,571	125,918	125,918	27,082
Education Jobs Fund	I	84.410	140-12-0017	07/01/11-06/30/12	16,050	16,050	16,050	-	-	-
Subgrant from U.S. Department of Education										
Passed through Chester County Intermediate Unit										
I.D.E.A. Part B	I	84.027	062-12-0024	07/01/11-06/30/12	548,775	90,201	90,201	-	-	-
I.D.E.A. Part B	I	84.027	062-13-0024	07/01/12-06/30/13	612,432	449,117	-	612,432	612,432	163,315
Total CFDA# 84.027						539,318	90,201	612,432	612,432	163,315
I.D.E.A. Preschool	I	84.173	131-11-0024B	07/01/12-06/30/13	2,879	2,879	-	2,879	2,879	-
Total Special Education Cluster						542,197	90,201	615,311	615,311	163,315
Total U.S. Department of Education						1,191,318	205,364	1,245,192	1,245,192	259,239
U.S. Department of Agriculture										
Passed through Pennsylvania Department of Agriculture										
Value of U.S.D.A. Donated Commodities	I	10.555	N/A		N/A	99,423	-	99,423	99,423	-
Passed through Pennsylvania Department of Education										
National School Lunch Program	I	10.555	N/A	07/01/11-06/30/12	N/A	7,723	7,723	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/12-06/30/13	N/A	512,243	-	525,710	525,710	13,467
Total CFDA# 10.555						619,389	7,723	625,133	625,133	13,467

Continued on next page.

AVON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor Project Title (cont'd)	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 7/01/2012	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2013
U.S. Department of Agriculture										
Passed through Pennsylvania Department of Education										
Breakfast Program	I	10.553	N/A	07/01/11-06/30/12	N/A	1,354	1,354	-	-	-
Breakfast Program	I	10.553	N/A	07/01/12-06/30/13	N/A	59,511	-	61,250	61,250	1,739
Total CFDA# 10.553						60,865	1,354	61,250	61,250	1,739
Total Child Nutrition Cluster						680,254	9,077	686,383	686,383	15,206
Total U.S. Department of Agriculture						680,254	9,077	686,383	686,383	15,206
TOTAL FEDERAL AWARDS						$ 1,871,572	$214,441	$ 1,931,575	$ 1,931,575	$ 274,445

Source Codes:

D = Direct Funding
I = Indirect Funding

AVON GROVE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 Value of U.S.D.A. Donated Commodities represent surplus food consumed by the District during the 2012 - 2013 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2013 was $273,360.