



**AVON GROVE SCHOOL DISTRICT
WEST GROVE, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2017

AVON GROVE SCHOOL DISTRICT

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AVON GROVE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

November 9, 2017

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 the Avon Grove School District ("the District"), West Grove, Pennsylvania, as of and for the year ended June 30, 2017, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of School Directors
Avon Grove School District

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Avon Grove School District, West Grove, Pennsylvania, as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Avon Grove School District's 2016 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 November 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 16, the schedule of the District's proportionate share of the net pension liability on page 53 and the schedule of District contributions on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards on pages 61 and 62 is presented for purposes of additional analysis as required by Title 2 U.S. Code of

Board of School Directors
Avon Grove School District

Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of the 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

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED
JUNE 30, 2017**

Management's Discussion & Analysis ("MD&A") for the Avon Grove School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of the MD&A is to look at the financial performance as a whole. Readers should review the basic financial statements and corresponding notes to the financial statements to enhance their understanding of the District's financial performance.

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

SCHOOL DISTRICT

The District is a public school district in Chester County, Pennsylvania organized under the Public School Code of Pennsylvania. The District provides educational programs from kindergarten through twelfth grade to students who are residents of the school district and non-residents on a tuition basis. The District maintains four school buildings under the following grade structure (K-2, 3-6, 7-8, and 9-12).

MISSION STATEMENT

The purpose of the District is to foster a learning environment for all students to be exceptionally well-prepared to succeed and lead full and meaningful lives.

SCHOOL DISTRICT FINANCIAL HISTORY

The District and its predecessors have never defaulted on the payment of lease rentals or debt service. The status of the District's present indebtedness is shown in the Debt Administration section on page 15.

FUTURE FINANCING

The District did not enter into any new financings during the 2016 - 2017 fiscal year.

FINANCIAL HIGHLIGHTS

Overall, the District ended the 2016 - 2017 fiscal year with a \$5.6 million decrease in overall net position. The District's net deficit totaled \$50,899,034 at June 30, 2017. The District's general fund ended the 2016 - 2017 fiscal year with a decrease in fund balance of \$3.0 million. The decrease is the result of the District budgeting to use some fund balance for transfers to Capital Projects and the use of committed fund balance set aside for PSERS increases several years ago. Table A-5 will provide more detail to the budget vs. actual variances. The 2017 - 2018 budget approved in June 2017 included the appropriation of \$6.5 million of fund balance. The general fund reported a positive fund balance at June 30, 2017 of \$23.2 million.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

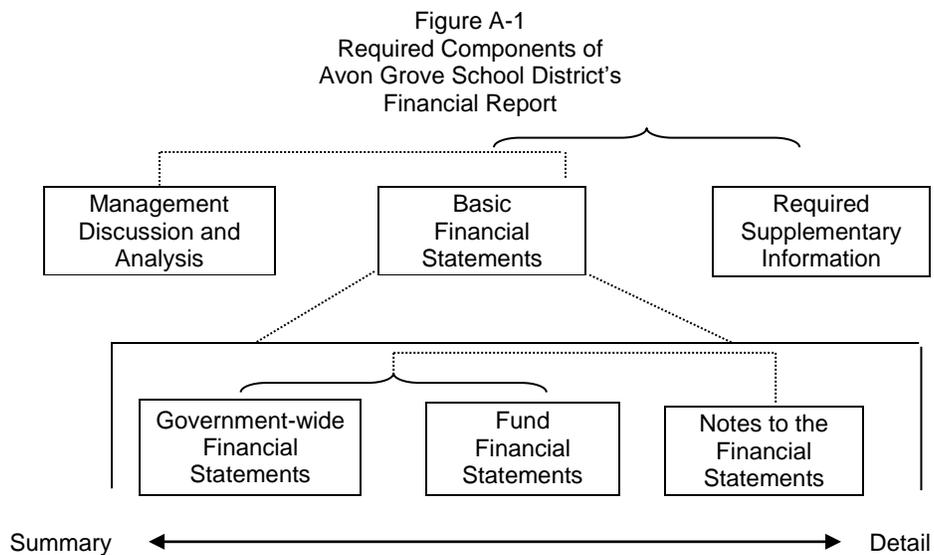
FINANCIAL STATEMENTS

The financial statements consist of three parts: Management Discussion and Analysis (this section), the basic financial statements, and required supplementary information ("RSI"). The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For the District, this is our Food Service Fund and our Internal Service Fund.
- Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and reports the financial statements.

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



**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

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

Figure A-2
Major Features of Avon Grove School District's
Government-wide and Fund Financial Statements

	Fund Statements			
	Government- Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services	An activity the District operates similar to private business – Food Service and Internal Service	Instances in which the District is the trustee or agent to someone else's resources – Student Activities Fund
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement of Net Position Statement of Revenues, Expenses, and Changes in Net Position Statement of Cash Flows	Statement of Net Position Statement of Changes in Net Position
Accounting basis and measurement focus.	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/deferred outflow of resources/liability/deferred inflow of resources information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS

Impact of GASB No. 68 and 71

During the 2014 - 2015 year, the District implemented Government Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." The purpose of these statements is to improve the transparency, consistency, and comparability of the pension information reported by state and local governments (e.g. school districts).

The adoption of GASB Statements No. 68 and No. 71 have had, and will continue to have, a profound effect on the financial statements and net position of school districts and governments not only in Pennsylvania, but across the nation. By recognizing the impact of any unfunded liability faced by defined benefit pension plans, plan administrators (at the direction of elected officials) and participants will be required to evaluate the cost of providing these benefits as compared to the benefit to be derived through providing for certain retirement benefits to the work force.

The net pension liability is the difference between the market value of pension fund assets and the actuarial present value of projected benefit payments at the measurement date. Included in the calculation are projected employer and employee contributions as well as the expectation that the assets will grow at the long-term assumed rate of return on plan investments.

While the net pension liability is significant to the District's financial statements, it is a liability the District has limited control over. Over the last six years, the PSERS employer contribution rate has risen significantly, from 5.6 percent in 2010 - 2011 to 30.03 percent in 2016 - 2017. These increases are expected to improve the plan's funding level, which should reduce net position in future years. This rate is anticipated to continue to increase to a level of over 35 percent in future years.

Government-wide Statements

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

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

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

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

- To assess the overall health of the District, you need to consider additional factors, such as changes in the Commonwealth of Pennsylvania contributions, increase of the Public School Employee's Retirement contributions, and the projected enrollment of the students.

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

- **Governmental Activities** – All of the District's basic services are included here, such as instruction, administration, and community services. Local tax revenue and state subsidies finance most of these activities.
- **Business-type Activities** – The District operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Some funds are required by state law and by bond requirements.

- **Governmental funds** – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary funds** – These funds are used to account for the District's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the same as the business-type activities reported in the government-wide statements, but provides more detail and additional information, such as cash flows. The District also operates a self-insurance fund which reflects medical premiums and claims of the District's employees.
- **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

A comparative analysis of fiscal years 2017 and 2016 follows:

**Table A-1
STATEMENT OF NET POSITION
June 30, 2017 and June 30, 2016**

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
ASSETS:				
Current and other assets	\$ 40,385,106	\$ 504,335	\$ 40,889,441	\$ 40,375,684
Capital assets	49,048,001	59,366	49,107,367	51,105,033
TOTAL ASSETS	89,433,107	563,701	89,996,808	91,480,717
Deferred Outflows of Resources	21,749,423	382,889	22,132,312	9,909,126
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$111,182,530	\$ 946,590	\$112,129,120	\$101,389,843
LIABILITIES:				
Current liabilities	\$ 13,788,011	\$ 49,677	\$ 13,837,688	\$ 11,505,335
Long-term liabilities	145,976,217	2,056,745	148,032,962	134,388,949
TOTAL LIABILITIES	159,764,228	2,106,422	161,870,650	145,894,284
Deferred Inflows of Resources	1,140,377	17,127	1,157,504	836,004
NET POSITION (DEFICIT):				
Net investment in capital assets	30,156,841	59,366	30,216,207	29,288,401
Restricted	2,251,726	-	2,251,726	1,593,975
Unrestricted (Deficit)	(82,130,642)	(1,236,325)	(83,366,967)	(76,222,821)
	<u>(49,722,075)</u>	<u>(1,176,959)</u>	<u>(50,899,034)</u>	<u>(45,340,445)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	\$111,182,530	\$ 946,590	\$112,129,120	\$101,389,843

Most of the District's net position is invested in capital assets (buildings, land, and equipment). The remaining net position is a combination of restricted and unrestricted amounts and now includes the District's net pension liability as required by GASB 68. The restricted balances are amounts set aside to fund future projects as may be planned by the District.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

The long-term liabilities increased in the 2017 fiscal year due to an increase in the District's net pension liability.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those costs. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues. The increase in expense and decrease in net position were driven by increases in pension and healthcare costs which were not fully offset by increases in tax and state subsidy revenues.

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

**Table A-2
STATEMENT OF ACTIVITIES
Fiscal Years Ended June 30, 2017 and 2016**

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Total Services</u>	<u>Net Services</u>	<u>Total Services</u>	<u>Net Services</u>
PROGRAM EXPENSES				
Governmental Activities:				
Instruction	\$62,755,867	\$53,444,463	\$58,894,777	\$50,359,999
Instructional student support	7,516,401	6,564,280	5,832,232	5,169,285
Administration	7,830,347	7,194,194	7,408,906	6,929,848
Maintenance	4,285,646	4,118,390	4,029,160	3,717,381
Pupil transportation	6,005,853	4,151,274	5,921,950	3,682,671
Student activities	1,701,225	1,339,160	1,516,980	1,210,746
Community services	3,261	3,147	1,158	1,080
Interest and fiscal charges	302,843	(125,213)	347,482	(674,025)
Total Governmental Activities	<u>90,401,443</u>	<u>76,689,695</u>	<u>83,952,645</u>	<u>70,396,985</u>
Business-type Activities:				
Food service	<u>2,017,820</u>	<u>156,991</u>	<u>1,985,952</u>	<u>172,446</u>
Total Business-type Activities	<u>2,017,820</u>	<u>156,991</u>	<u>1,985,952</u>	<u>172,446</u>
Total Primary Government	<u>\$92,419,263</u>	<u>\$76,846,686</u>	<u>\$85,938,597</u>	<u>\$70,569,431</u>

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

**Table A-3
CHANGES IN NET POSITION
For the Years Ended June 30, 2017 and 2016**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Charges for services	\$ 602,538	\$ 556,740	\$ 889,189	\$ 896,668	\$ 1,491,727	\$ 1,453,408
Operating grants	13,109,210	12,998,920	971,640	916,838	14,080,850	13,915,758
Total Program Revenues	<u>13,711,748</u>	<u>13,555,660</u>	<u>1,860,829</u>	<u>1,813,506</u>	<u>15,572,577</u>	<u>15,369,166</u>
General Revenues:						
Taxes	53,296,582	51,504,373	-	-	53,296,582	51,504,373
Grants and entitlements	17,569,388	17,278,979	-	-	17,569,388	17,278,979
Investment earnings	277,826	122,682	1,831	696	279,657	123,378
Miscellaneous	142,470	143,610	-	-	142,470	143,610
Total General Revenues	<u>71,286,266</u>	<u>69,049,644</u>	<u>1,831</u>	<u>696</u>	<u>71,288,097</u>	<u>69,050,340</u>
TOTAL REVENUES	<u>84,998,014</u>	<u>82,605,304</u>	<u>1,862,660</u>	<u>1,814,202</u>	<u>86,860,674</u>	<u>84,419,506</u>
EXPENSES						
Program Services:						
Instruction	62,755,867	58,894,777	-	-	62,755,867	58,894,777
Support Services:						
Instructional staff support	7,516,401	5,832,232	-	-	7,516,401	5,832,232
Administration	7,830,347	7,408,906	-	-	7,830,347	7,408,906
Maintenance	4,285,646	4,029,160	-	-	4,285,646	4,029,160
Pupil transportation	6,005,853	5,921,950	-	-	6,005,853	5,921,950
Student activities	1,701,225	1,516,980	-	-	1,701,225	1,516,980
Community services	3,261	1,158	-	-	3,261	1,158
Interest/fiscal charges	302,843	347,482	-	-	302,843	347,482
Food service	-	-	2,017,820	1,985,952	2,017,820	1,985,952
TOTAL EXPENSES	<u>90,401,443</u>	<u>83,952,645</u>	<u>2,017,820</u>	<u>1,985,952</u>	<u>92,419,263</u>	<u>85,938,597</u>
CHANGE IN NET POSITION	<u>\$ (5,403,429)</u>	<u>\$ (1,347,341)</u>	<u>\$ (155,160)</u>	<u>\$ (171,750)</u>	<u>\$ (5,558,589)</u>	<u>\$ (1,519,091)</u>

Fund Balances

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$25,494,593, which is a decrease of \$2,308,952 from June 30, 2016.

General Fund:

The District ended the 2016 - 2017 fiscal year with a fund balance of \$23.2 million in the general fund. Of this amount, \$8.6 million has been committed for future retirement contributions, \$8.9 million is assigned for future facilities improvements and next year's budget, and \$5.6 million is unassigned. The remainder represents prepaid expenditures which are considered non-spendable.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

Capital Project Fund:

The capital project fund is used to track pre-approved facilities and other related projects. Transfers from the general fund are used to cover these expenditures.

**Table A-4
FUND BALANCE
Fiscal Years Ended June 30, 2017 and 2016**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
General Fund	\$ 23,242,867	\$ 26,209,570	\$ (2,966,703)
Capital Projects Fund	<u>2,251,726</u>	<u>1,593,975</u>	<u>657,751</u>
Total	<u>\$ 25,494,593</u>	<u>\$ 27,803,545</u>	<u>\$ (2,308,952)</u>

General Fund Budget

A schedule showing the District's original budget amounts compared with amounts actually paid and received is provided in the financial statements. Below are line items contributing to the net decrease in fund balance for the year.

**Table A-5
ANALYSIS OF BUDGET VS. ACTUAL REVENUES AND EXPENDITURES
For the Year Ended June 30, 2017**

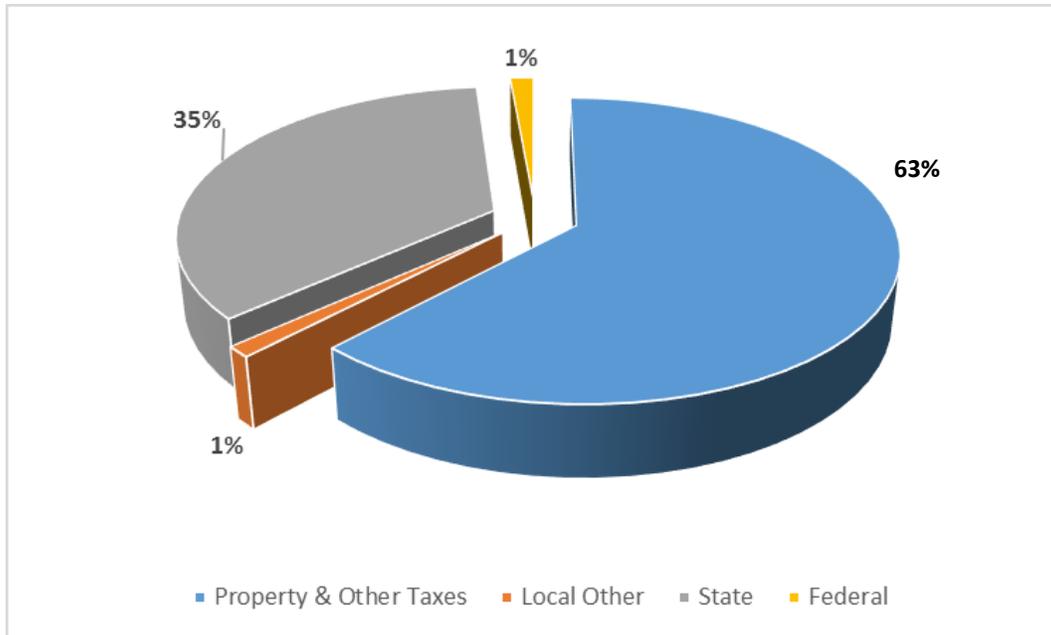
<u>2016 - 2017</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES AND PROCEEDS	\$ 84,925,031	\$ 85,509,202	\$ 584,171
EXPENDITURES AND TRANSFERS	<u>\$ 91,471,852</u>	<u>\$ 88,475,905</u>	<u>\$ 2,995,947</u>
NET	\$ (6,546,821)	\$ (2,966,703)	\$ (3,580,118)
Contributing Line Items:			
<u>Revenues and Proceeds</u>			
Local Revenue	\$ 54,715,732	\$ 54,099,155	\$ (616,577)
State Revenue	\$ 28,922,030	\$ 30,203,441	\$ 1,281,411
Federal Revenue	\$ 1,287,269	\$ 1,191,439	\$ (95,830)
Proceeds from Asset Disposition	\$ -	\$ 15,167	\$ 15,167

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

**Table A-5
ANALYSIS OF BUDGET VS. ACTUAL REVENUES AND EXPENDITURES
For the Year Ended June 30, 2017**

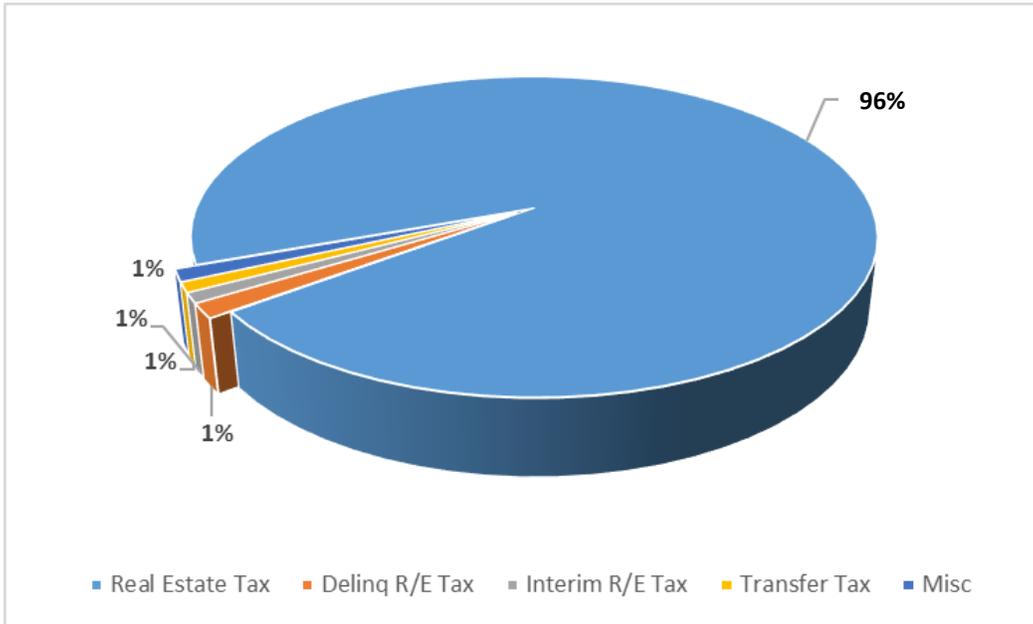
<u>2016 - 2017</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
(cont'd)			
<u>Expenditures and Transfers</u>			
Salaries	\$ 31,445,508	\$ 30,701,829	\$ 743,679
Benefits	\$ 19,323,693	\$ 18,966,334	\$ 357,359
Professional Services	\$ 10,011,005	\$ 10,777,085	\$ (766,080)
Repair/Maintenance/Rental	\$ 1,909,724	\$ 1,886,779	\$ 22,945
Transportation/Insurance/Tuition	\$ 17,104,281	\$ 17,410,865	\$ (306,584)
Supplies/Books/Software/Fuel	\$ 2,742,236	\$ 2,122,493	\$ 619,743
Capital	\$ 1,387,652	\$ 1,380,614	\$ 7,038
Bond Interest/Dues/Fees	\$ 3,167,753	\$ 849,906	\$ 2,317,847
Bond Principal/Transfers	\$ 4,380,000	\$ 4,380,000	\$ -

The chart below demonstrates the breakdown of the 2016 - 2017 general fund revenues.

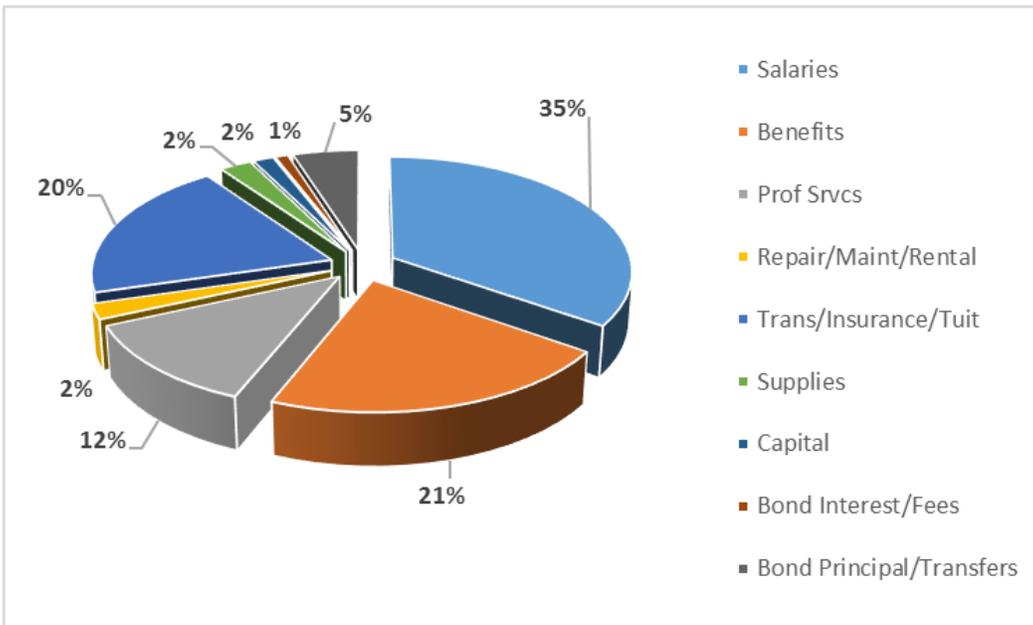


**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

The next chart demonstrates the breakdown of the 2016 - 2017 local revenues.



The chart below demonstrates the breakdown of the 2016 - 2017 general fund expenditures.



**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2017, the District had \$49.0 million in Governmental Activities and \$59 thousand in Business-type Activities invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of \$2.0 million from Governmental Activities and a net decrease of \$18 thousand from Business-type Activities from June 30, 2016.

**Table A-6
CAPITAL ASSETS, NET OF DEPRECIATION
(Amounts Expressed in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Capital Assets:						
Land	\$ 11,036	\$ 11,036	\$ -	\$ -	\$ 11,036	\$ 11,036
Building and improvements, net of depreciation	34,253	36,638	-	-	34,253	36,638
Furniture and equipment, net of depreciation	3,759	3,354	59	77	3,818	3,431
Total Capital Assets Being Depreciated, Net	38,012	39,992	59	77	38,071	40,069
Total Assets, Net	\$ 49,048	\$ 51,028	\$ 59	\$ 77	\$ 49,107	\$ 51,105

Debt Administration

Bond Obligations – As of June 30, 2017, the District has outstanding bond obligations of \$18,445,000.

Other obligations include accrued vacation pay and sick leave for specific employees of the District amounting to \$1,438,882.

FACTORS BEARING ON AVON GROVE SCHOOL DISTRICT'S FUTURE

Factors that will affect the future finances of the District are employee health benefits, PSERS projected retirement rates, Real Estate Tax appeals, and reduced state revenue.

ACT 1 of 2006 provides for the District to limit budget increases to establish an Index that changes from year to year. The budget process is limited unless budget exceptions are approved by the Pennsylvania Department of Education. The Index for the District for the budget process of 2007 - 2008

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2017**

was 5.4 percent. The Index provided by the Pennsylvania Department of Education for the 2018 - 2019 fiscal year has been established at 3.1 percent. This low Index will make it difficult to balance the 2018 - 2019 budget without using a portion of the District's fund balance.

CONTACTING THE SCHOOL FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Avon Grove School District, 375 South Jennersville Road, West Grove, PA 19390.

AVON GROVE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Cash and cash equivalents	\$ 1,538,642	\$ 129,502	\$ 1,668,144	\$ 1,063,219
Investments	34,752,234	279,384	35,031,618	35,291,798
Taxes receivable, net of allowance	1,388,728	-	1,388,728	1,249,769
Due from other governments	2,427,828	119,130	2,546,958	2,555,566
Internal balances	79,221	(79,221)	-	-
Other receivables	-	3,810	3,810	10,584
Inventories	-	51,730	51,730	62,748
Prepaid expenses	56,453	-	56,453	-
Other current assets	142,000	-	142,000	142,000
Land	11,035,789	-	11,035,789	11,035,789
Buildings and improvements	82,942,655	-	82,942,655	82,853,988
Furniture and equipment	10,789,084	677,638	11,466,722	9,836,056
Accumulated depreciation	<u>(55,719,527)</u>	<u>(618,272)</u>	<u>(56,337,799)</u>	<u>(52,620,800)</u>
TOTAL ASSETS	89,433,107	563,701	89,996,808	91,480,717
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred pension contributions	8,900,298	156,686	9,056,984	7,767,641
Deferred pension	12,849,125	226,203	13,075,328	2,141,485
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,749,423	382,889	22,132,312	9,909,126
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$111,182,530</u>	<u>\$ 946,590</u>	<u>\$112,129,120</u>	<u>\$101,389,843</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)				
LIABILITIES:				
Accounts payable	\$ 3,828,836	\$ 1,325	\$ 3,830,161	\$ 1,793,975
Accrued salaries, payroll withholdings, and benefits	6,736,648	5,584	6,742,232	6,499,807
Accrued interest payable	88,324	-	88,324	98,399
Unearned revenues	137,479	42,768	180,247	73,389
Other liabilities	-	-	-	9,441
Long-term liabilities:				
Portion due or payable within one year:				
Bonds payable, net	2,914,792	-	2,914,792	2,854,792
Capital lease payable	30,923	-	30,923	70,680
Accumulated compensated absences	51,009	-	51,009	104,852
Portion due or payable after one year:				
Bonds payable, net	15,945,445	-	15,945,445	18,860,237
Capital lease payable	-	-	-	30,923
Accumulated compensated absences	1,387,873	-	1,387,873	1,244,286
Other post-employment benefit obligations	11,812,644	-	11,812,644	10,989,503
Net pension liability	<u>116,830,255</u>	<u>2,056,745</u>	<u>118,887,000</u>	<u>103,264,000</u>
TOTAL LIABILITIES	159,764,228	2,106,422	161,870,650	145,894,284
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension	972,873	17,127	990,000	635,000
Deferred amounts on bond refunding	167,504	-	167,504	201,004
TOTAL DEFERRED INFLOWS OF RESOURCES	1,140,377	17,127	1,157,504	836,004
NET POSITION (DEFICIT):				
Net investment in capital assets	30,156,841	59,366	30,216,207	29,288,401
Restricted for capital projects	2,251,726	-	2,251,726	1,593,975
Unrestricted (Deficit)	<u>(82,130,642)</u>	<u>(1,236,325)</u>	<u>(83,366,967)</u>	<u>(76,222,821)</u>
TOTAL NET DEFICIT	<u>(49,722,075)</u>	<u>(1,176,959)</u>	<u>(50,899,034)</u>	<u>(45,340,445)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	<u>\$111,182,530</u>	<u>\$ 946,590</u>	<u>\$112,129,120</u>	<u>\$101,389,843</u>

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

**AVON GROVE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)**

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2017	2016
ASSETS				
Cash and cash equivalents	\$ 1,538,642	\$ -	\$ 1,538,642	\$ 962,497
Investments	28,846,167	2,417,631	31,263,798	32,687,542
Taxes receivable, net of allowance	1,388,728	-	1,388,728	1,249,769
Due from other funds	89,134	-	89,134	-
Due from other governments	2,427,828	-	2,427,828	2,439,741
Other receivables	-	-	-	9,935
Prepaid expenditures	56,453	-	56,453	-
Other current assets	142,000	-	142,000	142,000
TOTAL ASSETS	<u>\$ 34,488,952</u>	<u>\$ 2,417,631</u>	<u>\$ 36,906,583</u>	<u>\$ 37,491,484</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 2,977,789	\$ 165,905	\$ 3,143,694	\$ 1,117,479
Accrued salaries, payroll withholdings, and benefits	6,736,648	-	6,736,648	6,492,789
Accumulated compensated absences	51,009	-	51,009	104,852
Due to other funds	211,443	-	211,443	268,816
Unearned revenues	137,479	-	137,479	31,077
Other liabilities	-	-	-	9,441
TOTAL LIABILITIES	<u>10,114,368</u>	<u>165,905</u>	<u>10,280,273</u>	<u>8,024,454</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues - delinquent taxes	1,131,717	-	1,131,717	947,203
Unavailable revenues - rental subsidy	-	-	-	716,282
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,131,717</u>	<u>-</u>	<u>1,131,717</u>	<u>1,663,485</u>
FUND BALANCES:				
Nonspendable	56,453	-	56,453	-
Restricted for capital projects	-	2,251,726	2,251,726	1,593,975
Committed for future retirement contributions	8,633,297	-	8,633,297	10,000,000
Assigned	8,941,880	-	8,941,880	9,088,989
Unassigned	5,611,237	-	5,611,237	7,120,581
TOTAL FUND BALANCES	<u>23,242,867</u>	<u>2,251,726</u>	<u>25,494,593</u>	<u>27,803,545</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 34,488,952</u>	<u>\$ 2,417,631</u>	<u>\$ 36,906,583</u>	<u>\$ 37,491,484</u>

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, 2017**

TOTAL GOVERNMENTAL FUND BALANCES \$ 25,494,593

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	82,942,655	
Furniture and equipment	10,789,084	
Accumulated depreciation	<u>(55,719,527)</u>	49,048,001

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, net	(18,860,237)	
Capital lease payable	(30,923)	
Accumulated compensated absences	(1,387,873)	
Accrued interest payable	(88,324)	
Other post-employment benefits	(11,812,644)	
Net pension liability	<u>(116,830,255)</u>	(149,010,256)

Internal service funds who serve the governmental activities of the District are reported as proprietary funds at the fund level, but governmental activities at the entity-wide level. 3,004,824

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. 1,131,717

Refunded debt resulted in deferred inflows of resources which will be amortized over the life of new debt but do not represent current rights. (167,504)

Deferred inflows and outflows related to the District's net pension liability are based on the differences between actuarially determined actual and expected District amount of the total pension liability, and pension contributions made to investment returns and changes in the actuarially determined proportion of the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows of resources:		
Deferred pension contributions	8,900,298	
Deferred pension	12,849,125	
Deferred inflows of resources:		
Deferred pension	<u>(972,873)</u>	<u>20,776,550</u>

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (49,722,075)

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, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2017	2016
REVENUES				
Local sources	\$ 54,099,155	\$ 9,188	\$ 54,108,343	\$ 52,444,684
State sources	30,203,441	-	30,203,441	28,427,630
Federal sources	1,191,439	-	1,191,439	1,134,685
TOTAL REVENUES	85,494,035	9,188	85,503,223	82,006,999
EXPENDITURES				
Current:				
Instruction	57,874,259	-	57,874,259	54,385,577
Support services	24,379,697	-	24,379,697	22,635,284
Operation of noninstructional services	1,167,153	-	1,167,153	1,094,319
Capital outlays	182,906	951,437	1,134,343	1,450,019
Debt service	3,271,890	-	3,271,890	4,405,026
TOTAL EXPENDITURES	86,875,905	951,437	87,827,342	83,970,225
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,381,870)	(942,249)	(2,324,119)	(1,963,226)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,600,000	1,600,000	1,200,000
Transfers out	(1,600,000)	-	(1,600,000)	(1,200,000)
Proceeds from asset disposition	15,167	-	15,167	11,175
TOTAL OTHER FINANCING SOURCES (USES)	(1,584,833)	1,600,000	15,167	11,175
NET CHANGE IN FUND BALANCES	(2,966,703)	657,751	(2,308,952)	(1,952,051)
FUND BALANCES, BEGINNING OF YEAR	26,209,570	1,593,975	27,803,545	29,755,596
FUND BALANCES, END OF YEAR	\$ 23,242,867	\$ 2,251,726	\$ 25,494,593	\$ 27,803,545

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, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ (2,308,952)
Capital outlays are reported in governmental funds as expenditures. However, in the statement 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 (\$3,720,540) exceeded capital outlays (\$1,740,898) in the period.		(1,979,642)
Because some revenues 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 revenues decreased by this amount this year.		(531,768)
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. Governmental funds report bond discounts as other financing uses and bond premiums as other financing sources. However, these amounts are reported on the statement of net position as deferred charges and credits and are amortized over the life of the debt. This amount is the net effect of these differences.		2,925,472
Governmental funds report deferred bond refunding option proceeds as other financing sources. However, these amounts are reported on the statement of net position as deferred inflows of resources and amortized over the life of the refunding debt.		33,500
In the statement of activities, compensated absences (vacations and sick leave) 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	\$ (143,587)	
Other post-employment benefits	<u>(823,141)</u>	(966,728)
Activity in the internal service fund is recorded at the fund level in the proprietary funds but is reported in the governmental activities in the entity-wide statements.		1,108,589
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.		10,075
Pension expense in the statement of activities differs from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the District's proportionate share of the expense of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.		<u>(3,693,975)</u>
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES		<u>\$ (5,403,429)</u>

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, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final Budget		
REVENUES				
Local sources	\$54,715,732	\$54,715,732	\$54,099,155	\$ (616,577)
State sources	28,922,030	28,922,030	30,203,441	1,281,411
Federal sources	1,287,269	1,287,269	1,191,439	(95,830)
TOTAL REVENUES	<u>84,925,031</u>	<u>84,925,031</u>	<u>85,494,035</u>	<u>569,004</u>
EXPENDITURES				
Instruction:				
Regular programs	40,411,095	39,701,022	39,887,058	(186,036)
Special programs	14,274,615	14,341,185	14,811,936	(470,751)
Vocational programs	3,081,325	3,081,308	3,081,308	-
Other instructional programs	199,431	122,518	93,957	28,561
Total Instruction	<u>57,966,466</u>	<u>57,246,033</u>	<u>57,874,259</u>	<u>(628,226)</u>
Support services:				
Pupil personnel services	3,892,092	3,922,158	3,710,042	212,116
Instructional staff services	2,387,946	2,771,668	2,541,565	230,103
Administrative services	3,723,098	3,804,537	3,732,847	71,690
Pupil health	870,903	859,464	861,600	(2,136)
Business services	887,824	903,832	869,965	33,867
Operation and maintenance of plant services	3,989,013	4,064,450	3,826,456	237,994
Student transportation services	6,212,816	6,249,521	6,079,552	169,969
Central support services	3,050,099	2,891,188	2,645,325	245,863
Other support services	87,628	89,075	112,345	(23,270)
Total Support Services	<u>25,101,419</u>	<u>25,555,893</u>	<u>24,379,697</u>	<u>1,176,196</u>
Operation of noninstructional services:				
Student activities	1,094,967	1,142,425	1,163,917	(21,492)
Community services	-	-	3,236	(3,236)
Total Operation of Noninstructional Services	<u>1,094,967</u>	<u>1,142,425</u>	<u>1,167,153</u>	<u>(24,728)</u>
Capital outlay	-	214,364	182,906	31,458
Debt service	4,835,000	4,835,000	3,271,890	1,563,110
TOTAL EXPENDITURES	<u>88,997,852</u>	<u>88,993,715</u>	<u>86,875,905</u>	<u>2,117,810</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(4,072,821)</u>	<u>(4,068,684)</u>	<u>(1,381,870)</u>	<u>2,686,814</u>
OTHER FINANCING USES				
Transfer to other funds	(1,600,000)	(1,600,000)	(1,600,000)	-
Proceeds from asset disposition	-	-	15,167	15,167
Budgetary reserve	(874,000)	(874,000)	-	874,000
TOTAL OTHER FINANCING USES	<u>(2,474,000)</u>	<u>(2,474,000)</u>	<u>(1,584,833)</u>	<u>889,167</u>
NET CHANGE IN FUND BALANCE	(6,546,821)	(6,542,684)	(2,966,703)	3,575,981
FUND BALANCE, BEGINNING OF YEAR	<u>26,209,570</u>	<u>26,209,570</u>	<u>26,209,570</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$19,662,749</u>	<u>\$19,666,886</u>	<u>\$23,242,867</u>	<u>\$ 3,575,981</u>

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

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)

	Major Fund		Internal Service Fund	
	Food Service Fund			
	2017	2016	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 129,502	\$ 100,722	\$ -	\$ -
Investments	279,384	293,417	3,488,436	2,310,839
Due from other funds	9,913	7,296	201,530	261,520
Due from other governments	119,130	115,825	-	-
Other receivables	3,810	649	-	-
Inventories	51,730	62,748	-	-
Total Current Assets	<u>593,469</u>	<u>580,657</u>	<u>3,689,966</u>	<u>2,572,359</u>
PROPERTY AND EQUIPMENT:				
Furniture and equipment	677,638	699,203	-	-
Accumulated depreciation	(618,272)	(621,813)	-	-
Net Property and Equipment	<u>59,366</u>	<u>77,390</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>652,835</u>	<u>658,047</u>	<u>3,689,966</u>	<u>2,572,359</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred pension contributions	156,686	134,720	-	-
Deferred pension	226,203	37,141	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>382,889</u>	<u>171,861</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,035,724</u>	<u>\$ 829,908</u>	<u>\$ 3,689,966</u>	<u>\$ 2,572,359</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Accounts payable	\$ 1,325	\$ 372	\$ 685,142	\$ 676,124
Accrued salaries, payroll withholdings, and benefits	5,584	7,018	-	-
Due to other funds	89,134	-	-	-
Unearned revenues	42,768	42,312	-	-
Long-term liabilities				
Portion due or payable after one year:				
Net pension liability	2,056,745	1,790,992	-	-
TOTAL LIABILITIES	<u>2,195,556</u>	<u>1,840,694</u>	<u>685,142</u>	<u>676,124</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension	17,127	11,013	-	-
NET POSITION (DEFICIT):				
Investment in capital assets	59,366	77,390	-	-
Unrestricted (Deficit)	(1,236,325)	(1,099,189)	3,004,824	1,896,235
Total Net Position (Deficit)	<u>(1,176,959)</u>	<u>(1,021,799)</u>	<u>3,004,824</u>	<u>1,896,235</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 1,035,724</u>	<u>\$ 829,908</u>	<u>\$ 3,689,966</u>	<u>\$ 2,572,359</u>

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 FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)

	Major Fund			
	Food Service Fund		Internal Service Fund	
	2017	2016	2017	2016
OPERATING REVENUES				
Food service revenues	\$ 889,189	\$ 896,668	\$ -	\$ -
Charges for health insurance	-	-	7,773,052	7,716,399
Total Operating Revenues	<u>889,189</u>	<u>896,668</u>	<u>7,773,052</u>	<u>7,716,399</u>
OPERATING EXPENSES				
Salaries	562,024	573,203	-	-
Employee benefits	448,790	392,227	6,675,855	7,890,415
Purchased professional and technical services	44,494	32,688	-	-
Other operating expenses	6,147	3,438	-	-
Supplies	938,341	968,181	-	-
Depreciation	12,940	16,215	-	-
Total Operating Expenses	<u>2,012,736</u>	<u>1,985,952</u>	<u>6,675,855</u>	<u>7,890,415</u>
OPERATING (LOSS) INCOME	<u>(1,123,547)</u>	<u>(1,089,284)</u>	<u>1,097,197</u>	<u>(174,016)</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	1,831	696	11,392	3,200
State sources	154,837	133,747	-	-
Federal sources	816,803	783,091	-	-
Loss on disposal of capital assets	(5,084)	-	-	-
Total Nonoperating Revenues	<u>968,387</u>	<u>917,534</u>	<u>11,392</u>	<u>3,200</u>
CHANGE IN NET POSITION	(155,160)	(171,750)	1,108,589	(170,816)
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>(1,021,799)</u>	<u>(850,049)</u>	<u>1,896,235</u>	<u>2,067,051</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ (1,176,959)</u>	<u>\$ (1,021,799)</u>	<u>\$ 3,004,824</u>	<u>\$ 1,896,235</u>

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

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Data for the Year Ended June 30, 2016)

	Major Fund		Internal Service Fund	
	Food Service Fund			
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 886,483	\$ 897,809	\$ 7,833,042	\$ 7,716,399
Payments to suppliers	(850,622)	(956,647)	(6,666,837)	(6,929,649)
Payments to employees	(864,892)	(943,973)	-	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(829,031)	(1,002,811)	1,166,205	786,750
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State sources	154,877	133,281	-	-
Federal sources	687,070	638,881	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	841,947	772,162	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Earnings on investments	1,831	696	11,392	3,200
Sale (Purchase) of investments	14,033	204,470	(1,177,597)	(789,950)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	15,864	205,166	(1,166,205)	(786,750)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,780	(25,483)	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100,722	126,205	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 129,502	\$ 100,722	\$ -	\$ -
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:				
Operating (loss) income	\$ (1,123,547)	\$ (1,089,284)	\$ 1,097,197	\$ (174,016)
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:				
Depreciation	12,940	16,215	-	-
Donated commodities	126,388	128,633	-	-
Decrease (Increase) in:				
Due from other funds	(2,617)	(7,296)	59,990	953,838
Other receivables	(3,161)	(649)	-	-
Inventories	11,018	(7,458)	-	-
Deferred outflows - pension contributions	(21,966)	(24,766)	-	-
Deferred outflows - pension	(189,062)	(10,180)	-	-
Increase (Decrease) in:				
Accounts payable	953	(2,122)	9,018	184,951
Accrued salaries, payroll withholdings, and benefits	(1,434)	(71,393)	-	-
Due to other funds	89,134	(2,381)	-	(178,023)
Unearned revenues	456	170,889	-	-
Net pension liability	265,753	(104,809)	-	-
Deferred inflows - pension	6,114	1,790	-	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (829,031)	\$ (1,002,811)	\$ 1,166,205	\$ 786,750
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity:				
USDA donated commodities	\$ 126,388	\$ 128,633	\$ -	\$ -

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

AVON GROVE SCHOOL DISTRICT
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017
(With Comparative Data for June 30, 2016)

	2017	2016
ASSETS:		
Cash	\$ 180,907	\$ 157,325
TOTAL ASSETS	\$ 180,907	\$ 157,325
LIABILITIES AND NET POSITION:		
LIABILITIES		
Accounts payable	\$ 180,907	\$ 157,325
NET POSITION	-	-
TOTAL LIABILITIES AND NET POSITION	\$ 180,907	\$ 157,325

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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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, GASB Statement No. 61, and GASB Statement No. 80, 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 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 "net investment in capital assets" 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

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 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 resources measurement 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 District operates two proprietary funds; an enterprise fund and an internal service fund. The principal operating revenues of the District's enterprise fund are food service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses. The District's internal service fund accounts for the District's self-insured healthcare costs. The principal operating revenues are premiums charged to other funds, and the principal operating expenses are payments for healthcare claims and related costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations, and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in 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.

Investments

Investments consist of nonnegotiable certificates of deposit, external investment pools, and treasury bonds backed by the federal government. The investments are recorded at amortized cost. Nonnegotiable certificates of deposit, external investment pools, and treasury bonds are nonparticipating interest earning investment contracts which are exempt from measurement at fair value.

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."

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Taxes receivable are presented net of allowances for estimated uncollectibles of \$15,792. 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

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 year 2016 - 2017 was 29.040 mills (\$29.040 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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 and are amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 expenditures.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position and balance sheet - governmental funds 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/fund balance 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 four items that qualify for reporting in this category. Pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting, are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position. Deferred amounts on the refunding of bonds are reflected as deferred inflows of resources on the entity-wide statement of net position. A portion of the District's delinquent taxes have not been collected within 60 days of year end and, therefore, are not available under modified accrual reporting; as a result, this item is 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. When an expenditure is incurred for which committed, assigned, and unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, then unassigned funds, as needed, unless provided otherwise in commitment or assignment actions.

As of June 30, 2017, fund balances of the governmental funds are classified, if applicable, as follows:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 the 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.

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. 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, 2016, from which the summarized information was derived.

Use of Estimates in the Preparation of Financial Statements

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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, and to 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 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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

Excess of Expenditures Over Appropriations

General fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2017:

Regular programs	\$ 186,036
Special programs	\$ 470,751
Pupil health	\$ 2,136
Other support services	\$ 23,270
Student activities	\$ 21,492
Community services	\$ 3,236

The excess of expenditures over appropriations was financed by underspending in other areas.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank's failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2017, the carrying amount of the District's deposits was \$1,849,051, and the bank balance was \$2,469,725. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$2,219,725 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. During the year ended June 30, 2016, the Pennsylvania Legislature passed Act 10 of 2016, which expanded allowable investments to include commercial paper, bankers' acceptances, and negotiable certificates of deposit that are highly rated by at least two national rating agencies.

The District's investments are in 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, 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 five certificates of deposit with maturity dates of less than one year. The carrying value of the District's investments at June 30, 2017 was \$35,031,618.

Of the investments, \$1,225,000 is invested in non-negotiable certificates of deposits with maturities of less than one year. The remaining \$33,806,618 is invested in 2a7-like pools. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The District has no regulatory oversight for the pools, which are governed by the Board of Trustees. PSDLAF is administered by PMA Financial Network, Inc., and the pool is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. INVEST is administered by the Pennsylvania Treasury.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

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, 2017, PSDLAF and INVEST were rated as AAAM by a nationally recognized statistical rating organization.

NOTE 4 UNEARNED REVENUES

Unearned revenue reported in the governmental and proprietary funds, and at the entity-wide level, resulted from revenue received but not yet earned.

NOTE 5 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$11,035,789	\$ -	\$ -	\$11,035,789
Total Capital Assets Not Being Depreciated	<u>11,035,789</u>	<u>-</u>	<u>-</u>	<u>11,035,789</u>
Capital assets being depreciated:				
Buildings and improvements	82,853,988	88,667	-	82,942,655
Furniture and equipment	9,136,853	1,652,231	-	10,789,084
Total Capital Assets Being Depreciated	<u>91,990,841</u>	<u>1,740,898</u>	<u>-</u>	<u>93,731,739</u>
Less accumulated depreciation for:				
Buildings and improvements	46,215,809	2,473,686	-	48,689,495
Furniture and equipment	5,783,178	1,246,854	-	7,030,032
Total accumulated depreciation	<u>51,998,987</u>	<u>3,720,540</u>	<u>-</u>	<u>55,719,527</u>
Total Capital Assets Being Depreciated, Net	<u>39,991,854</u>	<u>(1,979,642)</u>	<u>-</u>	<u>38,012,212</u>
Governmental Activities Assets, Net	<u>\$51,027,643</u>	<u>\$ (1,979,642)</u>	<u>\$ -</u>	<u>\$49,048,001</u>

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type Activities</u>				
Capital assets being depreciated:				
Furniture and equipment	\$ 699,203	\$ -	\$ 21,565	\$ 677,638
Less accumulated depreciation	<u>621,813</u>	<u>12,940</u>	<u>16,481</u>	<u>618,272</u>
Business-type Capital Assets, Net	<u>\$ 77,390</u>	<u>\$ (12,940)</u>	<u>\$ 5,084</u>	<u>\$ 59,366</u>

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

<u>Governmental Activities:</u>		
Instruction		\$ 1,930,671
Instructional Student Support		35,501
Administrative and financial support services		815,513
Operation and maintenance of plant services		456,883
Student activities		<u>481,972</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 3,720,540</u>
<u>Business-type Activities:</u>		
Food Service		<u>\$ 12,940</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

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

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Food Service Fund	\$ 9,913	General Fund	\$ 211,443
General Fund	89,134	Food Service Fund	<u>89,134</u>
Internal Service Fund	<u>201,530</u>		
	<u>\$ 300,577</u>		<u>\$ 300,577</u>

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses, as well as transfers determined but not made by year end. The balances generally are paid shortly after year end. There was one transfer of \$1,600,000 during the year from the general fund to the capital projects fund for the purpose of funding future capital projects.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due In One Year
Bonds payable	\$ 21,715,029	\$ -	\$2,854,792	\$ 18,860,237	\$2,914,792
Capital lease payable	101,603	-	70,680	30,923	30,923
Accumulated compensated absences	1,349,138	89,744	-	1,438,882	51,009
Other post-employment benefits	10,989,503	823,141	-	11,812,644	-
TOTALS	<u>\$ 34,155,273</u>	<u>\$ 912,885</u>	<u>\$2,925,472</u>	<u>\$ 32,142,686</u>	<u>\$2,996,724</u>

Bonds payable are comprised of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Bonds payable, at face	\$18,445,000	\$21,225,000
Unamortized discount	(97,576)	(115,303)
Unamortized premium	512,813	605,332
Bonds payable, net	<u>\$18,860,237</u>	<u>\$21,715,029</u>

Payments of long-term debt are expected to be funded by the general fund.

General Obligation Bonds

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. \$ 1,285,000

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. 6,970,000

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT (cont'd)

Series of 2014, maturing through November 15, 2021, bearing interest ranging from 0.30% to 4.00%, interest payable semi-annually on May 15 and November 15. This Series of 2014 provided funds to refund a portion of the Series A of 2009 bonds. 6,700,000

Series of 2015, maturing through August 15, 2021, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually on February 15 and August 15. This Series of 2015 provided funds to refund a portion of the Series of 2010 bonds. 3,490,000

TOTAL \$ 18,445,000

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

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2018	\$ 2,840,000	\$ 430,365	\$ 3,270,365
2019	2,915,000	354,990	3,269,990
2020	3,000,000	266,340	3,266,340
2021	3,095,000	181,090	3,276,090
2022	2,370,000	117,590	2,487,590
2023 - 2027	3,520,000	271,140	3,791,140
2028	<u>705,000</u>	<u>8,284</u>	<u>713,284</u>
	<u>\$ 18,445,000</u>	<u>\$ 1,629,799</u>	<u>\$ 20,074,799</u>

NOTE 8 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 that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E"), and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service. Benefits are generally equal to two percent or two and one-half percent, depending upon the membership class, of the member's final average salary as defined in the Code, multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested, and early retirement may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

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

Member Contributions

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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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

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

Members who joined the system after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30 percent (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, the rate of the employer contribution was 30.03 percent of covered payroll, which was comprised of 29.20 percent for pension contributions and 0.83 percent for healthcare premium assistance. The District's pension contribution to PSERS for the year ended June 30, 2017 was \$9,056,984.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2017, the District reported a liability of \$118,887,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.2399 percent, which was an increase of 0.0015 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$12,811,798. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 6,626,000	\$ -
Changes in proportions	1,885,000	-
Changes of assumptions	4,292,000	
Difference between employer contributions and proportionate share of total contributions	272,328	-
Difference between expected and actual experience		990,000
Contributions subsequent to the date of measurement	<u>9,056,984</u>	<u>-</u>
	<u>\$ 22,132,312</u>	<u>\$ 990,000</u>

An amount of \$9,056,984 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$ 2,684,799
2018	2,684,799
2019	4,062,602
2020	<u>2,653,128</u>
	<u>\$12,085,328</u>

Actuarial Assumptions

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

- Actuarial cost method – Entry age normal, level percentage of pay.
- Investment return – 7.25 percent, including inflation of 2.75 percent.
- Salary increases – Effective average of 5.00 percent, which reflects an allowance for inflation of 2.75 percent, real wage growth of 2.25 percent, and merit or seniority increases of 2.25 percent.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Directors at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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

Discount Rate

The discount used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates which are actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease 6.25%	Current Rate Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 145,431,000	\$ 118,887,000	\$ 96,582,000

Pension Plan Fiduciary Net Position

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

NOTE 9 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, 2017:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 OPERATING LEASES (cont'd)

Year Ending June 30,

2018	\$ 204,870
2019	<u>31,642</u>
	<u>\$ 236,512</u>

Rental expense for the year ended June 30, 2017 was \$225,907.

NOTE 10 CAPITAL LEASE - 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 lease are as follows:

<u>ASSET</u>	
Equipment - Xerox Copier	\$ 309,225
Less: Accumulated depreciation	<u>(309,225)</u>
Equipment, net	<u>\$ -</u>

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

Year Ending June 30,

2018	\$ 66,841
Less: Amount representing interest	<u>(35,918)</u>
Total	<u>\$ 30,923</u>

NOTE 11 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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 JOINT VENTURES (cont'd)

number of students from each district. For fiscal year ended June 30, 2017, the District's share of debt and operating costs was \$3,081,308. 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 12 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.

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 2017, the District contributed \$554,674 to the plan for current premiums, or approximately 70 percent of total premiums. Plan members receiving benefits contributed \$235,773, or approximately 30 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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

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	\$ 1,734,620
Interest on net OPEB obligation	494,528
Adjustment to annual required contribution	<u>(674,662)</u>
Annual OPEB cost (expense)	1,554,486
Contributions made	<u>(731,345)</u>
Increase in net OPEB obligation	823,141
Net OPEB obligation - beginning of year	<u>10,989,503</u>
Net OPEB obligation - end of year	<u>\$ 11,812,644</u>

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]
7/1/2015	\$ -	\$16,351,817	\$16,351,817	0.00%	\$29,286,577	55.83%
1/1/2014	\$ -	\$19,007,470	\$19,007,470	0.00%	\$30,352,509	62.62%
1/1/2012	\$ -	\$25,518,878	\$25,518,878	0.00%	\$30,896,290	82.60%

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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

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 July 1, 2015 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 5.50 percent. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2017 was 25 years.

NOTE 13 FUND BALANCES

As of June 30, 2017, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Restricted:			
Capital projects	\$ -	\$ 2,251,726	\$ 2,251,726
General Fund	56,453	-	56,453
Committed:			
Pension costs	8,633,297	-	8,633,297
Assigned:			
Next year's budget	4,478,014	-	4,478,014
Future projects	4,463,866	-	4,463,866
Unassigned	5,611,237	-	5,611,237
Total Fund Balances	\$ 23,242,867	\$ 2,251,726	\$ 25,494,593

NOTE 14 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 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 2016 - 2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 16 DEFICIT NET POSITION

For governmental activities, business-type activities, and the food service fund, the unrestricted net deficit amounts of \$82,130,642, \$1,236,325, and \$1,236,325, respectively, includes the effect of the deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the District's share of the net pension liability. This is offset by the District's actuarially determined pension liability and the deferred inflows resulting from the differences between projected and actual investment earnings.

NOTE 17 SUBSEQUENT EVENTS

On September 7, 2017, the District sold a wastewater treatment facility for \$100,000. The asset was fully depreciated, resulting in a gain on sale of assets equal to the full sale price.

The District has evaluated all subsequent events through November 9, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**AVON GROVE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Pennsylvania Public School Employees' Retirement System (PSERS)**

	Measurement Date		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.2399%	0.2384%	0.2360%
District's proportion of the net pension liability - dollar value	\$ 118,887,000	\$ 103,264,000	\$ 93,411,000
District's covered employee payroll	\$ 31,066,045	\$ 30,675,916	\$ 30,121,772
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	382.69%	336.63%	310.11%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**AVON GROVE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 9,056,984	\$ 7,766,511	\$ 6,288,563
Contributions in relation to the contractually required contribution	<u>9,056,984</u>	<u>7,766,511</u>	<u>6,288,563</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 31,017,068	\$ 31,066,045	\$ 30,675,916
Contributions as a percentage of covered-employee payroll	29.20%	25.00%	20.50%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT SUPPLEMENT

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

November 9, 2017

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 the Avon Grove School District ("the District"), West Grove, Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Board of Directors
Avon Grove School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

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

November 9, 2017

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

Report on Compliance for Major Federal Program

We have audited the Avon Grove School District's ("the District") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. The 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the District's compliance.

Board of School Directors
Avon Grove School District

Opinion on Major Federal Program

In our opinion, the 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, 2017.

Report on Internal Control Over Compliance

Management of the 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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

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 program:

- 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 the Uniform Guidance?

 Yes X No

Identification of major program:

CFDA Numbers
84.027, 84.173

Name of Federal Program or Cluster
Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

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, 2017**

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 (UNEARNED) REVENUE 7/01/2016	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2017	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Education											
<u>Passed through Pennsylvania Department of Education</u>											
Title I - Grants to Local Education Agencies	I	84.010	013-16-0017	07/01/15-09/30/16	\$ 345,349	\$ 41,301	\$ 37,904	\$ 3,397	\$ 3,397	\$ -	\$ -
Title I - Grants to Local Education Agencies	I	84.010	013-17-0017	07/01/16-09/30/17	363,386	291,532	-	360,845	360,845	69,313	-
Total CFDA #84.010						332,833	37,904	364,242	364,242	69,313	-
Title II - Improving Teacher Quality	I	84.367	020-16-0017	07/01/15-09/30/16	97,416	32,265	32,265	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-17-0017	07/01/16-09/30/17	97,178	68,224	-	68,874	68,874	650	-
Total CFDA #84.367						100,489	32,265	68,874	68,874	650	-
Title III - Language Inst LEP	I	84.365	010-16-0017	07/01/15-09/30/16	117,632	15,509	(2,347)	17,856	17,856	-	-
Title III - Language Inst LEP	I	84.365	010-17-0017	07/01/16-09/30/17	114,053	89,613	-	99,403	99,403	9,790	-
Total CFDA #84.365						105,122	(2,347)	117,259	117,259	9,790	-
<u>Subgrant from U.S. Department of Education</u>											
<u>Passed through Chester County Intermediate Unit</u>											
I.D.E.A. Part B	I	84.027	062-16-0024	07/01/15-06/30/16	525,046	140,012	140,012	-	-	-	-
I.D.E.A. Part B	I	84.027	062-17-0024	07/01/16-06/30/17	548,646	-	-	548,646	548,646	548,646	-
<u>Passed through Lancaster-Lebanon IU 13</u>											
I.D.E.A. Part B	I	84.027	062-16-0033	07/01/16-06/30/17	5,000	4,115	-	4,115	4,115	-	-
Total CFDA #84.027						144,127	140,012	552,761	552,761	548,646	-
<u>Passed through Chester County Intermediate Unit</u>											
I.D.E.A. Part B 619	I	84.173	131-11-0024B	07/01/15-06/30/16	1,675	-	-	577	577	577	-
Total Special Education Cluster						144,127	140,012	553,338	553,338	549,223	-
Total U.S. Department of Education						682,571	207,834	1,103,713	1,103,713	628,976	-
U.S. Department of Agriculture											
<u>Passed through Pennsylvania Department of Agriculture</u>											
National School Lunch Program	I	10.555	N/A	09/01/16-06/30/17	N/A	126,388	-	126,388	126,388	-	-
<u>Passed through Pennsylvania Department of Education</u>											
National School Lunch Program	I	10.555	N/A	09/01/15-06/30/16	N/A	96,442	96,442	-	-	-	-
National School Lunch Program	I	10.555	N/A	09/01/16-06/30/17	N/A	517,104	-	613,854	613,854	96,750	-
Total CFDA #10.555						739,934	96,442	740,242	740,242	96,750	-

Continued on next page.

**AVON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

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 (UNEARNED) REVENUE 7/1/2016	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2017	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
<i>(cont'd)</i>											
U.S. Department of Agriculture											
<u>Passed through Pennsylvania Department of Education</u>											
Breakfast Program	I	10.553	N/A	09/01/15-06/30/16	N/A	11,335	11,335	-	-	-	-
Breakfast Program	I	10.553	N/A	09/01/16-06/30/17	N/A	62,189	-	76,561	76,561	14,372	-
Total CFDA #10.553						<u>73,524</u>	<u>11,335</u>	<u>76,561</u>	<u>76,561</u>	<u>14,372</u>	<u>-</u>
Total Child Nutrition Cluster						<u>813,458</u>	<u>107,777</u>	<u>816,803</u>	<u>816,803</u>	<u>111,122</u>	<u>-</u>
Total U.S. Department of Agriculture						<u>813,458</u>	<u>107,777</u>	<u>816,803</u>	<u>816,803</u>	<u>111,122</u>	<u>-</u>
U.S. Department of Health and Human Services											
<u>Passed through the PA Department of Public Welfare</u>											
Title XIX Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	8,366	7,292	-	8,366	8,366	1,074	-
Total CFDA #93.778						<u>7,292</u>	<u>-</u>	<u>8,366</u>	<u>8,366</u>	<u>1,074</u>	<u>-</u>
Total U.S. Department of Health and Human Services						<u>7,292</u>	<u>-</u>	<u>8,366</u>	<u>8,366</u>	<u>1,074</u>	<u>-</u>
Federal Emergency Management Agency											
<u>Passed through Pennsylvania Emergency Management Agency</u>											
Disaster Grants - Public Assistance	I	97.036	N/A	07/01/16-06/30/17	27,936	27,936	-	27,936	27,936	-	-
Total CFDA #97.036						<u>27,936</u>	<u>-</u>	<u>27,936</u>	<u>27,936</u>	<u>-</u>	<u>-</u>
Total Federal Emergency Management Agency						<u>27,936</u>	<u>-</u>	<u>27,936</u>	<u>27,936</u>	<u>-</u>	<u>-</u>
TOTAL FEDERAL AWARDS						<u>\$ 1,531,257</u>	<u>\$ 315,611</u>	<u>\$ 1,956,818</u>	<u>\$ 1,956,818</u>	<u>\$ 741,172</u>	<u>\$ -</u>

Source Code:

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 2016 - 2017 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, 2017 was \$51,424.

NOTE E INDIRECT COST RATE

The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.