
OFFICIAL STATEMENT

NEW ISSUE - BOOK-ENTRY ONLY

Rating: S&P: "AA" (Stable Outlook) (Underlying)
(See "RATING" herein)

In the opinion of Bond Counsel, the interest on the Bonds (including any original issue discount) (a) is excludable from the gross income of the registered owners thereof for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax. For a more complete discussion of tax exemption, see "TAX MATTERS" and "TAX EXEMPTION" herein

\$36,245,000
AVON GROVE SCHOOL DISTRICT
Chester County, Pennsylvania
General Obligation Bonds, Series of 2018

Dated: Date of Delivery

Due: November 15, as shown on inside front cover

Denomination: Integral multiples of \$5,000

Interest Payable: May 15 and November 15

First Interest Payment: May 15, 2019

Form: Book-Entry Only

Legal Investment for Fiduciaries in Pennsylvania: The Bonds (hereinafter defined) are a legal investment for fiduciaries in the Commonwealth of Pennsylvania under the Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508 as amended and supplemented.

Payable: The General Obligation Bonds, Series of 2018, in the aggregate amount of \$36,245,000 (the "Bonds" or the "Series of 2018 Bonds") of Avon Grove School District, Chester County, Pennsylvania (the "School District") have been authorized for issuance pursuant to the laws of the Commonwealth of Pennsylvania and a resolution of the Board of School Directors of the School District adopted on November 15, 2018 (the "Resolution").

The Bonds are being issued as fully registered Bonds and, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry-only form and purchasers will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., or any other nominee of DTC, is the registered owner of the Bonds, payments of the principal of, redemption premium, if any, and interest on the Bonds will be made by Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as paying agent (the "Paying Agent"), directly to Cede & Co. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of DTC Participants and Indirect Participants. See "**BOOK-ENTRY-ONLY SYSTEM**" herein. The Bonds will be issued and available for purchase in denominations of \$5,000 principal amount and integral multiples thereof.

Optional Redemption: The Bonds are subject to optional redemption prior to maturity.

Purpose: Proceeds of the Bonds will be used to: (1) finance various capital projects of the School District; and (2) pay the costs of issuing the Bonds.

Security: The Bonds are payable from tax and other general revenues of the School District. The School District has covenanted that it will provide in its budget in each fiscal year, and will appropriate from its general revenues in each such fiscal year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from funds in the sinking fund established in the Resolution or from any other of its revenues or funds the principal of and interest on every Bond, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and taxing power, which taxing power, as more fully described in Appendix A under the heading "**TAXING POWERS OF THE SCHOOL DISTRICT - Act 1 of Special Session of 2006 ("The Taxpayer Relief Act (Act 1), as amended")**," includes the power to levy *ad valorem* taxes on all taxable property within the School District, within limitations provided by law.

The Bonds are offered for delivery when, as and if issued by the School District and received by the Underwriter and subject to the approving legal opinion of Kegel Keln Almy & Lord LLP, Lancaster, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain other legal matters will be passed upon for the School District by Unruh, Turner, Burke, & Frees, P.C., West Chester, Pennsylvania, Solicitor to the School District and for the Underwriter by McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, Limited Scope Underwriter's Counsel. PFM Financial Advisors LLC, Harrisburg, Pennsylvania, will act as Financial Advisor to the School District in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery, through the facilities of DTC, on or about December 20, 2018.



RBC Capital Markets

\$36,245,000
AVON GROVE SCHOOL DISTRICT
Chester County, Pennsylvania
General Obligation Bonds, Series of 2018

Dated: Date of Delivery
Due: November 15, as shown below
Denomination: Integral multiples of \$5,000

Interest Payable: May 15 and November 15
First Interest Payment: May 15, 2019
Form: Book-Entry Only

Maturity Schedule

| <u>Principal Payment (November 15)</u> | <u>Principal Amount</u> | <u>Coupon</u> | <u>Initial Offering Price</u> | <u>CUSIP</u> ⁽¹⁾ |
|--|-----------------------------|---------------|-----------------------------------|-----------------------------|
| 2019 | \$ 5,000 | 2.000% | 100.000% | 054055YS1 |
| 2020 | 5,000 | 2.150 | 100.000 | 054055YT9 |
| 2021 | 695,000 | 2.250 | 100.000 | 054055YU6 |
| 2022 | 500,000 | 2.500 | 100.462 | 054055YV4 |
| 2022 | 1,565,000 | 4.000 | 106.021 | 054055YW2 |
| 2023 | 1,340,000 | 2.500 | 100.228 | 054055YY8 |
| 2023 | 1,000,000 | 3.000 | 102.524 | 054055YX0 |
| 2024 | 600,000 | 3.000 | 102.560 | 054055ZA9 |
| 2024 | 1,825,000 | 4.000 | 108.011 | 054055YZ5 |
| 2025 | 500,000 | 3.000 | 102.320 | 054055ZB7 |
| 2025 | 2,015,000 | 4.000 | 108.594 | 054055ZC5 |
| 2026 | 500,000 | 3.000 | 101.336 | 054055ZE1 |
| 2026 | 2,120,000 | 5.000 | 116.731 | 054055ZD3 |
| 2027 | 2,750,000 | 5.000 | 116.035* | 054055ZF8 |
| 2028 | 3,625,000 | 5.000 | 115.420* | 054055ZG6 |
| 2029 | 3,810,000 | 5.000 | 114.657* | 054055ZH4 |
| 2030 | 4,005,000 | 5.000 | 114.127* | 054055ZJ0 |
| 2031 | 4,210,000 | 5.000 | 113.674* | 054055ZK7 |
| 2032 | 4,425,000 | 5.000 | 113.299* | 054055ZL5 |
| 2033 | 750,000 | 5.000 | 112.701* | 054055ZM3 |

(1) The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District and the School District is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. The School District has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

*Yield to Optional Redemption: November 15, 2026

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE SCHOOL DISTRICT OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN THAT GIVEN OR MADE IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, ANY SUCH OTHER INFORMATION OR REPRESENTATION MAY NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT OR THE UNDERWRITER NAMED ON THE COVER PAGE HEREOF (THE "UNDERWRITER").

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THIS OFFICIAL STATEMENT HAS BEEN APPROVED BY THE SCHOOL DISTRICT AND, WHILE THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT HAS BEEN FURNISHED BY THE SCHOOL DISTRICT AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE, SUCH INFORMATION IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS. THE INFORMATION AND EXPRESSIONS OF OPINION SET FORTH IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE UNDER THIS OFFICIAL STATEMENT SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE AFFAIRS OF THE SCHOOL DISTRICT HAVE REMAINED UNCHANGED SINCE THE DATE OF THIS OFFICIAL STATEMENT.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, WITHOUT PRIOR NOTICE.

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

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AVON GROVE SCHOOL DISTRICT
Chester County, Pennsylvania

Board of School Directors

Tracy Lisi President
Bonnie Wolff Vice President
Charles F. Beatty III..... Member
John T. Auerbach..... Member
Wendy Kraft Secretary (Non-Voting Officer)
Daniel Carsley..... Treasurer (Non-Voting Officer)
Jeffrey Billig Member
Rick Dumont Member
Lynn Weber Member
Herman Engel Member
Bill Wood Member

Administrative Staff

Dr. M. Christopher Marchese..... Superintendent
Mr. Daniel Carsley Chief Financial Officer

SCHOOL DISTRICT ADDRESS

375 South Jennersville Road
West Grove, Pennsylvania 19390

BOND COUNSEL

KEGEL KELIN ALMY & LORD LLP
Lancaster, Pennsylvania

SOLICITOR

UNRUH, TURNER, BURKE & FREES, P.C.
West Chester, Pennsylvania

FINANCIAL ADVISOR

PFM FINANCIAL ADVISORS LLC
Harrisburg, Pennsylvania

UNDERWRITER

RBC CAPITAL MARKETS, LLC
Lancaster, Pennsylvania

LIMITED SCOPE UNDERWRITER'S COUNSEL

MCNEES WALLACE & NURICK, LLC
Lancaster, Pennsylvania

PAYING AGENT

MANUFACTURERS AND TRADERS TRUST COMPANY
Harrisburg, Pennsylvania

SUMMARY PAGE

This Summary Statement is subject in all respects to more complete information set forth in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without the entire Official Statement.

Issuer Avon Grove School District, Chester County, Pennsylvania.

Bonds.....General Obligation Bonds, Series of 2018, in the aggregate principal amount of \$36,245,000 (the “Bonds”), dated the date of delivery, maturing in various principal amounts as herein described on November 15 of each of the years 2019 through 2033, with interest payable May 15 and November 15, with the first payment on May 15, 2019.

Optional Redemption.....The Bonds maturing on and after November 15, 2027 are subject to redemption prior to maturity at the option of the School District, as a whole or in part, on November 15, 2026 or on any date thereafter upon payment of the principal amount thereof, together with accrued interest to the date fixed for redemption. If less than all Bonds of any maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent.

Form..... Book-Entry Only.

Application of ProceedsThe Bonds are being issued to provide funds to: (1) finance various capital projects of the School District; and (2) pay the costs of issuing the Bonds.

SecurityThe Bonds are general obligations of Avon Grove School District, Chester County, Pennsylvania, secured by a pledge of its full faith, credit and taxing power (see Appendix A “TAXING POWERS OF THE SCHOOL DISTRICT” herein).

RatingSee "RATING" herein.

OFFICIAL STATEMENT

\$36,245,000

AVON GROVE SCHOOL DISTRICT Chester County, Pennsylvania General Obligation Bonds, Series of 2018

INTRODUCTION

This Official Statement, including its Appendices, is furnished by the Avon Grove School District, Chester County, Pennsylvania (the "School District"), in connection with the offering of its General Obligation Bonds, Series of 2018 (the "Bonds").

The Bonds are being issued pursuant to a resolution of the Board of School Directors of the School District, adopted November 15, 2018 (the "Resolution"), and in accordance with the Act of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth"), known as the Local Government Unit Debt Act as reenacted, amended and supplemented (the "Act").

The information which follows contains summaries of the Resolution, the Bonds, relevant provisions of Commonwealth and federal law, the School District's budget and financial statements and certain agreements or documents related to the Bonds. Such summaries do not purport to be complete, and reference is made specifically to the Resolution, the School District's Budget, the School District's Financial Statements and such agreements and documents, copies of which are on file and available for examination at the offices of the School District. Reference also is made to the Bonds and to the actual cited laws, statutes and regulations.

A description of the School District and information concerning its financial affairs are set forth in Appendix A and Appendix B to this Official Statement.

The Bonds will be issued as fully registered bonds and when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made only in book-entry form, and purchasers will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania (the "Paying Agent") directly to Cede & Co. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of the DTC Participants and the Indirect Participants. See "DESCRIPTION OF THE BONDS" and "BOOK-ENTRY ONLY SYSTEM" herein.

As used herein, the terms "Holder", "Bondowner", "Bondholder" or "Owner" shall mean the registered owner or, in certain cases, the beneficial owner of a Bond. When used with reference to the Bonds while the Bonds are held and available for purchase under the book-entry-only system of DTC, the phrase "registered owner" means DTC or its nominee.

PURPOSE AND PLAN OF FINANCING

The Bonds are being issued to provide funds to: (1) finance various capital projects of the School District; and (2) pay the costs of issuing the Bonds.

SOURCES AND USES OF FUNDS

| | <u>Total</u> |
|--|---------------------|
| Sources of Funds | |
| Par Amount of the Bonds. | \$36,245,000.00 |
| <u>Plus: Net Original Issue Premium/(Discount)</u> | <u>4,216,110.10</u> |
| Total Sources of Funds | \$40,461,110.10 |
| Uses of Funds | |
| Project Fund Requirement | \$40,000,000.00 |
| <u>Issuance Costs</u> ⁽¹⁾ | <u>461,110.10</u> |
| Total Uses of Funds | \$40,461,110.10 |

⁽¹⁾ Includes legal counsel fees and expenses, Financial Advisor fee, underwriting discount, Paying Agent fee, Escrow Agent Fee, printing costs, and miscellaneous fees and expenses.

THE BONDS

General Information Relating to the Bonds

The Bonds are issued as fully registered bonds, without coupons, in the denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds will be dated as of the date of delivery and will bear interest at the rates per annum and will mature in the principal amounts and at the times set forth on the inside cover page of this Official Statement.

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

Payment of Principal and Interest

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

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

Principal of the Bonds will be paid to the registered owners thereof or assigns, when due, upon surrender of the Bonds at the corporate trust office of the Paying Agent located in Lancaster, Pennsylvania.

Interest on the Bonds is payable to the registered owner of a Bond from the most recent interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is registered and authenticated after a Regular Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such succeeding interest payment date, or (c) such Bond is registered and authenticated on or prior to the Regular Record Date preceding May 15, 2019, in which event such Bond shall bear interest from the date of delivery. Interest shall be paid semiannually on May 15 and November 15 of each year, beginning May 15, 2019, until the principal sum is paid. Interest on each Bond is payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth (15th) day (whether or not a business day) next preceding each interest payment date (the "Regular Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the Bond subsequent to such Regular Record Date and prior to such interest payment date. In the event of a default in the payment of interest becoming due on any interest payment date, the

interest so becoming due shall forthwith cease to be payable to the registered owners otherwise entitled thereto as of such date. Whenever moneys become available for the payment of such overdue interest, the Paying Agent shall on behalf of the School District establish a special interest payment date (the "Special Interest Payment Date") on which such overdue interest shall be paid and a special record date (which shall be a business day) relating thereto (the "Special Record Date"), and shall mail a notice of each such date to the registered owners of all Bonds at least ten (10) days prior to the Special Record Date. Such notice shall be mailed to the persons in whose name such Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

If the date for payment of the principal of, and interest on, the Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth or in each of the cities in which the corporate trust or payment office of the Paying Agent is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date of payment.

Transfer, Exchange and Registration of Bonds

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

Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same series, maturity date and interest rate. The School District and the Paying Agent shall not be required to: (i) issue or transfer any Bonds during the period beginning at the opening of business on any Record Date for interest payments and ending at the close of business on such interest payment date; or (ii) issue or transfer any Bonds during a period beginning at the opening of business on the 15th business day next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the date the notice of redemption shall be mailed; or (iii) issue or transfer any Bonds during the period beginning at the opening of business on the first business day next succeeding the business day the Paying Agent determines the registered owners of Bonds to receive notice of any Special Record Date and the close of business on the Special Record Date; or (iv) issue or transfer any Bonds selected or called for redemption.

REDEMPTION PROVISIONS

Optional Redemption

The Bonds stated to mature on and after November 15, 2027 are subject to redemption prior to maturity at the option of the School District, as a whole or in part, on November 15, 2026 or on any date thereafter upon payment of the principal amount thereof, together with accrued interest to the date fixed for redemption. If less than all Bonds of any maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent.

Manner of Redemption

So long as Cede & Co., nominee of DTC, is the registered owner of the Bonds, however, payment of the redemption price shall be made by Cede & Co. in accordance with the existing arrangements by and among

the School District, the Paying Agent and DTC and, if less than all of the Bonds in a particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner on such Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding redemption of Bonds registered in the name of Cede & Co.

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

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

Notice of Redemption

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, however, the School District and the Paying Agent shall send redemption notices only to Cede & Co. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding conveyance of notices and Beneficial Owners.

If at a time of mailing of a notice of redemption the School District has not deposited with the Paying Agent (or, in the case of a refunding, with another bank or depository acting as refunding escrow agent) money sufficient to redeem all Bonds called for redemption, the notice of redemption may state that it is conditional, *i.e.*, that it is subject to the deposit of sufficient redemption money with the Paying Agent not later than the opening of business on the redemption date, and such notice shall be of no effect unless such money is so deposited.

Notice of any redemption shall be given by depositing a copy of the redemption notice in first class mail not less than thirty (30) nor more than forty-five (45) days prior to the date fixed for redemption, addressed to each of the registered owners of any Bonds to be redeemed, at the addresses shown on the registration books kept by the Paying Agent as of the date such Bonds are selected for redemption; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of any Bonds.

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

SECURITY FOR THE BONDS

General Obligations

The Bonds are general obligations of the School District and are payable from the general taxes and revenues of the School District. The taxing powers of the School District are described more fully herein. The School District has covenanted in the Resolution that it will provide in its budget for each fiscal year, and will appropriate in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay, or cause to be paid, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power.

Sinking Fund

In the Resolution, the School District has set forth that a Sinking Fund - General Obligation Bonds, Series of 2018 (the "Sinking Fund"), to be maintained with the Paying Agent (the "Sinking Fund Depository"), and segregated from all other funds of the School District. The School District shall deposit in the Sinking Fund, not later than the date when principal or interest is to become due on the Bonds, an amount sufficient to provide for the payment of interest and principal becoming due on the Bonds.

The Sinking Fund shall be held by the Sinking Fund Depository and separately invested by the Sinking Fund Depository in such securities or shall be deposited in such deposit accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District but subject to withdrawal or collection only by the Sinking Fund Depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent is authorized and directed to pay from the Sinking Funds the principal of and interest on the Bonds when due and payable.

Actions in the Event of Default

In the event the School District defaults in the payment of the principal of or the interest on any of the Bonds after same shall become due, whether at the stated maturity or upon call for prior redemption, and such default shall continue for thirty days, or if the School District fails to comply with any provision of the Bonds or the Resolution, the Act provides that the holders of 25% in aggregate principal amount of the Bonds then outstanding may, upon appropriate action, appoint a trustee to represent the Bondholders. The trustee may, and upon request of the holders of 25% in principal amount of the Bonds then outstanding, and upon being provided with indemnity satisfactory to it, shall take such action on behalf of the Bondholders as is more specifically set forth in the Act. Such representation by the trustee shall be exclusive.

Security for General Obligation Bonds Under Section 633 of the Public School Code of 1949

Section 633 of the Public School Code of 1949 (Act of February 150, 1949, P.L. 30, as amended by Act 150 of 1975) (the "School Code") presently provides that if any school district fails to pay or to provide for the payment of any indebtedness, at the date of maturity or mandatory redemption, or any interest due on such indebtedness, in accordance with the schedule under which the Bonds or Bonds were issued, the Secretary of Education of the Commonwealth shall notify the board of school directors of its obligation and shall withhold from any Commonwealth appropriation due such school district an amount equal to the sum of such principal amount and shall pay over such amount directly to the bank acting as sinking fund depository for the bond issue.

The withholding provisions of Section 633 are not part of any contract with the registered owners of the Bonds and may be amended or repealed by future legislation. The effectiveness of Section 633 may be limited by the

application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

Pennsylvania Budget Adoption

Over the past several years the Commonwealth of Pennsylvania has, from time to time, started its fiscal year without a fully adopted state budget. Under the law, the budget is enacted when the Governor signs the state budget or if the Governor fails to sign and does not veto it, the budget is automatically adopted 10 days after receipt by the Governor. In the state's 2015 fiscal year, a final budget was not enacted until March 27, 2016, which was 270 days into that fiscal year, when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on March 17, 2016.

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

For the 2017-18 fiscal year, the state budget became law, known as Act 1A of 2017, on July 11, 2017 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on June 30, 2017. Act 1A of 2017 did not have any accompanying legislation regarding the potential revenue that would be needed to fund the balance of the 2017-18 Budget at the time of its enactment. On October 25, 2017 the General Assembly adopted House Bill 542 which contained necessary revenue to fund the balance of the previously adopted Act 1A of 2017. On October 30, 2017 the Governor approved and signed House Bill 542 and it became known as Act 43 of 2017. For the current 2018-2019 fiscal year, the Governor signed the budget on June 22, 2018.

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

Act 85 of 2016

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

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

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

1. annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due;

2. the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and
3. the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated on the expiration of the tenth (10th) day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

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

Act 85 of 2016 requires that each school district subject to an intercept statute or intercept agreement must deliver to PDE, in such format as PDE may direct, a copy of the final Official Statement for the relevant bonds or notes or the loan documents relating to the obligations, within thirty (30) days of receipt of the proceeds of the obligations. The School District intends on submitting this information to PDE within the prescribed timeframe following the issuance of the Bonds. Act 85 of 2016 provides that any obligation for which PDE does not receive the required documents shall not be subject to the applicable intercept statute or intercept agreement.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

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

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

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

THE ISSUER AND THE PAYING AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE BONDS (i) PAYMENTS OF THE PRINCIPAL, REDEMPTION PRICE OF AND INTEREST ON THE BONDS, OR (ii) CONFIRMATION OF OWNERSHIP INTERESTS IN THE BONDS, OR (iii) REDEMPTION OR OTHER NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE ISSUER NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT (ii) THE PAYMENT BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF (iii) THE DELIVERY OF ANY NOTICE BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS, OR (v) ANY OTHER ACTION TAKEN BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT.

Discontinuation of Book-Entry System

The book-entry system may be discontinued at any time if DTC determines to resign as securities depository for the Bonds or the Issuer determines to discontinue the book-entry system for the Bonds and provides thirty (30) days' notice of such discontinuation to DTC and Paying Agent. In the event that the book-entry system for the Bonds is discontinued, the following provisions would apply, subject in each case to the further conditions set forth in the Resolution.

If the book-entry system is discontinued, bond Certificates in fully registered form will be delivered to, and registered in the names of, such persons, and in such authorized denominations, as may be designated by DTC, but without any liability on the part of the Issuer or the Paying Agent for the accuracy of such designation. The ownership of the Bonds so delivered (and any Bonds thereafter delivered upon a transfer or exchange described below) shall be registered in registration books to be kept by the Paying Agent at its designated trust office, and the Issuer and the Paying Agent shall be entitled to treat the registered owners of such Bonds as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution.

TAX EXEMPTION

In the opinion of Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, Bond Counsel, interest on the Bonds (a) is excludible from the gross income of the registered owners thereof for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, (the "Code") and any regulations thereunder, now or hereafter enacted, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludible from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in the gross income of the registered owners thereof retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except for the discussion of original issue discount below, Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

Bond Counsel is of the opinion, based on existing law, that the original issue discount in the selling price of the Bonds, if any, to the extent properly allocable to each holder of such Bonds, is excluded from gross income for

federal income tax purposes with respect to such holder. The original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds were sold. Original issue discount on tax-exempt Bonds accrues on a compound basis. The amount of original issue discount that accrues to holders of such Bonds who acquire the Bonds in this offering during any accrual period generally equals (i) the issue price of such Bonds plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Bonds (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Bonds during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the holder's tax basis in such Bonds. Any gain realized by a holder from a sale, exchange, payment or redemption of a Bond would be treated as gain from the sale or exchange of such Bond.

Prospective purchasers of the Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, except with respect to certain financial institutions (within the meaning of Section 265 (b)(5) of the Code), (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, for taxable years beginning after December 31, 1986, Section 832 (b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) for taxable years beginning after December 31, 1986, interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Bonds.

In the opinion of Bond Counsel, under the existing statutes, regulations and decisions, the interest on the Bonds is exempt from taxation for state and local purposes within the Commonwealth of Pennsylvania. Such exemption, however, does not extend to profits, gains or income derived from the sale, exchange or other disposition of the Bonds, nor to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the interest on the Bonds. Under the laws of the Commonwealth profits, gains, or income derived from the sale, exchange, or other disposition of certain government obligations, including the Bonds, may be subject to state and local taxation within the Commonwealth of Pennsylvania. Pennsylvania Act 68 of 1993 enacted a statutory provision allowing taxation of such profits, gains or income; although the statute is unclear as to its applicability to obligations of political subdivisions, the Pennsylvania Department of Revenue interprets the statute as applicable to obligations of political subdivisions.

The issuer of the Bonds will issue its certificate to the effect that on the basis of the facts, estimates and circumstances in existence on the date of delivery of the Bonds, it is not expected that proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage Bonds" under Section 103 (b)(2) and Section 148 of the Internal Revenue Code of 1986, as amended, or as contemplated by the United States Treasury regulations relating to "arbitrage Bonds".

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the School District has agreed to provide certain continuing disclosure for the benefit of the holders of the Bonds. The form of Continuing Disclosure Certificate (the "Agreement") is attached hereto as Appendix E.

Under the terms of the Agreement, the School District will undertake to file with the Municipal Securities Rulemaking Board ("MSRB") financial and other information concerning the School District (annual audited financial statements, annual budget summary, certain operating information and notice of certain events affecting

the School District), all as set forth in Appendix E. The School District's obligations with respect to continuing disclosure shall terminate upon the prior redemption or payment in full of all of the Bonds.

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

The School District reserves the right to terminate its obligation to provide annual financial and operating information and notices of material events, as set forth above, if and when the School District no longer remains an "obligated person" with respect to the Bonds within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders or beneficial owners of the Bonds and shall be enforceable by the holders or beneficial owners of such Bonds; provided that the Bondholders' right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement for the School District's obligations hereunder and any failure by the School District to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds.

The School District may modify from time to time the specific types of information provided or the format of the presentation of such information, as a result of a change in legal requirements or change in the nature of the School District; provided that any such modification will be done in a manner consistent with the SEC Rule 15c2-12 including amendments thereto and will not, in the opinion of nationally recognized bond counsel, violate the Rule, as amended.

Continuing Disclosure Filing History

Under the School District's existing annual disclosure requirements under the Rule, the School District agreed to provide updates to its audited financial statements, its budgets and other financial and operational information relating to the School District. The School District failed to file in a timely fashion its required audited financial statements for fiscal year ending June 30, 2013. This information has since been filed. The School District has filed a separate notice with EMMA setting forth the School District's failure to timely file such audited financial statement. This notice was not timely filed.

The School District has procedures in place to ensure ongoing timely filings of its continuing disclosure requirements.

RATING

Standard & Poor's has assigned the School District an underlying rating of "AA" (Stable Outlook).

The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agency. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

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

UNDERWRITING

The underwriter of the Bonds is RBC Capital Markets, LLC (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$40,143,966.35 (which consists of the aggregate principal amount of \$36,245,000.00 less an Underwriter's Discount of \$317,143.75, and plus a net

original issue premium of \$4,216,110.10). The Bond Purchase Agreement for the Bonds provides that the Underwriter will purchase all the Bonds, if any are purchased, in accordance with the terms of the Bond Purchase Agreement. The initial public offering price, set forth on the inside cover page of this Official Statement, may be changed by the Underwriter from time to time without any requirement of prior notice. The Underwriter reserves the right to join with other dealers in offering the Bonds to the public, and said Bonds offered to other dealers may be at prices lower than those offered to the public. RBC Capital Markets, LLC may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

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

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MISCELLANEOUS

No Litigation

As of the date of this Official Statement, there is no litigation, of any nature, pending or threatened against the School District to restrain or enjoin the issuance, sale, execution or delivery of the Bonds.

Legal Opinion

The issuance and delivery of the Bonds is subject to the unqualified approving legal opinion of Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, which will be delivered without charge to the Underwriter. Certain legal matters will be passed upon for the School District by Unruh, Turner, Burke & Frees, P.C., West Chester, Pennsylvania, Solicitor to the School District, and for the Underwriter by McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, Limited Scope Underwriter's Counsel.

Other

All references to the provisions of the Act, the Bonds and the Resolution set forth in this Official Statement are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and this Official Statement does not purport to set forth complete statements of any or all such provisions.

All information, estimates and assumptions herein have been obtained from officials of the School District, other governmental bodies, trade and statistical services, and other sources which we believe to be reliable; but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended as such and not representations of fact.

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

AVON GROVE SCHOOL DISTRICT
Chester County, Pennsylvania

By: /s/ Tracy Lisi
President, Board of School Directors

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APPENDIX A

School District Finances

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FINANCIAL REVIEW

The Exhibit below is a summary only and is not intended to be a complete report. For more complete information, the individual financial statements and the 2018-19 Budget of the School District should be reviewed at the Business Office, Avon Grove School District, West Grove, Pennsylvania.

Summary of School District's Financial Condition

The exhibit below is a summary of the School District's General Fund Financial Condition for Fiscal Years indicated. The figures have been arranged in a form believed to be convenient for the purposes of this Official Statement.

Accounting Method

The School District maintains its books and prepares its financial reports according to a modified accrual basis of accounting. Major accrual items are payroll and related benefits payable, taxes receivable and revenues receivable from other governmental units. The School District's financial statements are audited annually by a firm of independent certified public accountants, as required by State law. The firm of Barbacane, Thornton & Company LLP, Wilmington, Delaware serves as the School District's auditor.

Budgeting Process in School Districts under the Taxpayer Relief Act

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

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

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (see "**Act 1 of Special Session 2006 ("Taxpayer Relief Act"), as amended**" herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must either reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under The Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (see "**Act 1 of Special Session 2006 ("Taxpayer Relief Act"), as amended**" herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

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

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the

upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the School Code and Taxpayer Relief Act require only that the proposed annual budget be adopted at least 30 days, and made available for public inspection at least 20 days, prior to adoption of the final budget, and that at least ten (10) days' public notice be given of the board's intent to adopt the final budget. No referendum exceptions are available to a school district adopting such a resolution.

AVON GROVE SCHOOL DISTRICT
Summary of General Fund Financial Condition

| | <u>2014-15</u> <u>Audited</u> | <u>2015-16</u> <u>Audited</u> | <u>2016-17</u> <u>Audited</u> | <u>2017-18</u> <u>Audited</u> | <u>2018-19</u> <u>Budgeted</u> |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| <u>REVENUES</u> | | | | | |
| Local Sources | 50,852,914 | 52,442,684 | 54,099,155 | 56,266,495 | 58,359,827 |
| State Sources | 27,660,747 | 28,427,630 | 30,203,441 | 31,384,469 | 30,400,253 |
| Federal Sources | 1,750,934 | 1,134,685 | 1,191,439 | 1,507,039 | 1,189,000 |
| Other | - | 11,175 | 15,167 | 198,961 | - |
| Total Revenues | 80,264,595 | 82,016,174 | 85,509,202 | 89,356,964 | 89,949,080 |
| <u>EXPENDITURES</u> | | | | | |
| Instructional Services | 51,496,304 | 54,385,577 | 57,874,259 | 58,507,187 | 61,670,101 |
| Support Services | 20,637,486 | 22,635,284 | 24,379,697 | 26,044,658 | 26,144,555 |
| Non-Instructional Services | 1,056,698 | 1,094,319 | 1,167,153 | 1,187,726 | 1,448,636 |
| Capital Outlay | - | - | 182,906 | 22,382 | - |
| Debt Service | 5,597,593 | 4,405,026 | 3,271,890 | 3,270,365 | 4,829,990 |
| Other | - | 1,200,000 | 1,600,000 | 1,850,000 | 2,810,000 |
| Total Expenditures | 78,788,081 | 83,720,206 | 88,475,905 | 90,882,318 | 96,903,282 |
| NET REVENUE (DEFICIT) | 1,476,514 | (1,704,032) | (2,966,703) | (1,525,354) | (6,954,202) |
| Beginning Fund Balance | 26,437,088 | 27,913,602 | 26,209,570 | 23,242,867 | 21,717,513 |
| Fund Balance June 30 | <u>27,913,602</u> | <u>26,209,570</u> | <u>23,242,867</u> | <u>21,717,513</u> | <u>14,763,311</u> |

Source: School District

REVENUE FROM STATE SOURCES

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

A basic instructional subsidy is allocated to all school districts based on (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; and (3) the school district's tax effort, as compared with the tax effort of other school districts in the State. School districts also receive state aid for special education, pupil transportation, vocational education, and health services, among other things.

State law presently provides that the School District will receive reimbursement from the State for a portion of the debt service on the Bonds after said Bonds have received final approval of the Department of Education. State reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Market Value Aid Ratio (MVAR) or Capital Account Reimbursement Fraction (CARF), whichever is higher. The School District's FY 2018-19 MVAR of .5343 is currently higher than its CARF of .4724.

SCHOOL DISTRICT PENSION PROGRAM

School Districts in Pennsylvania are required to participate in a statewide pension program administered by the Public School Employees Retirement System (PSERS). All of the School District's full-time employees, part-time employees who work more than 80 days in a school year, and hourly employees who work over 500 hours a year participate in the program. However, please note a Pennsylvania Supreme Court decision has removed the hourly de minimis requirement for current members of PSERS regarding the purchase of credit for their part-time school service rendered prior to their being members of PSERS, for purposes of increasing their pension benefits.

Beginning July 1, 1976, certain revisions were made in the pension program. The Retirement Board, previously under the Department of Education of the Commonwealth, became an independent agency. However, the program is still guaranteed by the Commonwealth. Currently, each party to the program contributes a fixed percentage of the employee's salary. Employees belonging to the Public School Employees Retirement System ("PSERS") prior to July 22, 1983 contribute 5.25% of their salary, and employees who joined the PSERS on or after July 22, 1983 contribute 6.25% of their salary. On February 17, 2002, Governor Ridge signed Act 9 which created a new membership class that sets the employee contribution rate at 7.50% of the employee's salary for those employees hired on or after July 1, 2001. Act 9 also provides an option for those employees hired prior to July 1, 2001 to elect a contribution rate of 6.50%, if they were hired before July 22, 1983, or 7.50% if they were hired on or after July 22, 1983. Act 120 of 2010 was passed by the General Assembly on November 15 and signed by Governor Rendell on November 23, 2010. The benefit reductions contained in this legislation will only impact individuals who become new members of PSERS on or after July 1, 2011. New members will have the option of selecting one of 2 new classes. The members selecting class T-E will contribute a base rate of 7.5% with "shared risk" contribution levels between 7.5% and 9.5% and a pension multiplier of 2.0%. Members selecting class T-F will contribute a base rate of 10.3% with shared risk contribution levels between 10.3% and 12.3% and a pension multiplier of 2.5%. On December 7, 2016, the PSERS Board certified the employer rate, to be paid by the School District, of 32.57% for the 2017-18 fiscal year. On December 8, 2017 the PSERS Board certified the employer rate, to be paid by the School District, of 33.43% for the 2018-19 fiscal year.

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

In addition to its comprehensive change in available plans for active members, Act 5 also made certain changes to the PSERS Board of Trustees and administrative protocols and created the Public Pension Management

and Asset Investment Review Commission to study and make recommendations to the General Assembly and the Governor regarding investment performance and strategies.

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

Both the School District and the Commonwealth are responsible for paying a portion of the employer’s share. School entities are responsible for paying 100% of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. The School District contributions are made on a quarterly basis and employee contributions are deducted bi-weekly for each pay check and remitted monthly.

The School District’s net annual contributions to PSERS are shown below.

| <u>Fiscal Year</u> | <u>School District Contribution</u> |
|--------------------|-------------------------------------|
| 2013-14 | \$2,588,076 |
| 2014-15 | 3,346,699 |
| 2015-16 | 3,340,694 |
| 2016-17 | 4,285,145 |
| 2017-18 | 4,856,481 |
| 2018-19 | 5,743,714 |

The School District is current in all payments.

PSERS is the 15th largest state-sponsored public defined benefit pension fund in the nation. PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. On July 1, 2019 PSERS will begin administration of a defined contribution plan for new employees. In the fall of 2018, PSERS completed its process of publishing financial statements for the year ended June 30, 2018, in compliance with reporting standards established by the Government Accounting Standards Board’s Statement No. 67 and Statement No. 68. PSERS’ total net position increased by \$3.2 billion from \$53.5 billion at June 30, 2017 to \$56.7 billion at June 30, 2018. The change in total plan net position from June 30, 2016 to June 30, 2017 was an increase of \$3.3 billion from \$50.2 billion at June 30, 2016 to \$53.5 billion at June 30, 2017. The increase in both years was due mostly to net investment income plus member and employer contributions exceeding deductions for benefit and administrative expenses. The Fund’s complete report is available on the PSERS website on the Internet: www.psers.state.pa.us.

Source: PSERS Website.

Other Post-Employment Benefits

The School District provides certain health care benefits for its retirees (commonly referred to as “other post-employment benefits” or “OPEB”). The School District annually appropriates funds to meet its obligation to pay such benefits on a “pay-as-you-go” basis, and has not established any fund or irrevocable trust for the accumulation of assets with which to pay such benefits in future years. For a full description of the plan, please refer to Appendix C - Audited Financial Statements.

LABOR RELATIONS

The School District employs approximately 560 equivalent full-time employees. The teaching staff currently consists of 357 FTE professionals. Teachers in the School District are members of the Pennsylvania State Education

Association (“PSEA”) and the Avon Grove Education Association (“AGEA”), which is the representative bargaining unit. The AGEA contract expires June 30, 2022.

Non-teaching employees of the School District are members of the Avon Grove Education Support Profession Organization (AGESPA), with a contract that expires June 30, 2023.

FUTURE FINANCING

The School District has plans to issue approximately \$87 million of additional debt over the next five years to fund the construction of a new high school and fund renovations to the existing high school for conversion to a middle school.

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DEBT LIMIT AND REMAINING BORROWING CAPACITY

Borrowing Capacity

The borrowing capacity of the School District is set forth under the provisions of the Act, which establishes the debt limits for local government units, including school districts and municipalities. Under the Act, the School District may incur electoral debt in an unlimited amount when such debt is approved by a majority of the School District's voters at either a general or a special election. The combined net outstanding amount of non-electoral debt (debt not approved by the School District's electorate) or lease rental debt may not exceed 225% of the School District's Borrowing Base, as defined in the Act and calculated in the section, "Calculation of Borrowing Base" below.

Calculation of Borrowing Base

| | 2015-16 | 2016-17 | 2017-18 |
|---|-----------------------|-----------------------|-----------------------|
| | <u>Audited</u> | <u>Audited</u> | <u>Audited</u> |
| Total Revenues..... | \$82,016,174 | \$85,509,202 | \$89,356,964 |
| Less: Required Deductions | | | |
| (a) Rental and Sinking Fund Reimbursement..... | 0 | 1,144,338 | 945,992 |
| (b) Revenues for Self-Liquidating Debt | 0 | 0 | 0 |
| (c) Interest Earned on Sinking Funds | 0 | 0 | 0 |
| (d) Grants and Gifts for Capital Projects | 0 | 0 | 0 |
| (e) Sale of Equipment and Non-Recurring Items..... | <u>11,175</u> | <u>15,167</u> | <u>198,961</u> |
| Total Deductions..... | 11,175 | 1,159,505 | 1,144,953 |
| Net Revenues | \$82,004,999 | \$84,349,697 | \$88,212,011 |
| Total Net Revenues for Three Years..... | | | \$254,566,707 |
| Borrowing Base—Average Net Revenues for Three Year Period..... | | | \$84,855,569 |

Source: School District Officials

Calculation of Remaining Borrowing Capacity

| | |
|---|---------------------|
| 1. Computation of Net Non-Electoral Debt and Lease Rental Debt | |
| (a) Outstanding Principal ⁽¹⁾ | \$ 48,935,000 |
| (b) Less: Current Appropriations | 0 |
| (c) Less: Subsidized Debt | 0 |
| (d) Less: Self Liquidating and Self-Sustaining Debt | <u>0</u> |
| (e) Net Non-Electoral and Lease Rental Debt | \$ 48,935,000 |
| 2. Computation of Non-Electoral and Lease Rental Borrowing Capacity | |
| (a) Debt Limitation -- 225% of Borrowing Base | \$ 190,925,030 |
| (b) Less: Net Non-Electoral and Lease Rental Debt..... | <u>(48,935,000)</u> |
| (c) Current Non-electoral and Lease Rental Borrowing Capacity | \$ 141,990,030 |

(1) Includes the Bonds

TAXING POWERS OF THE SCHOOL DISTRICT

The School District, being a school district of the Third Class under the School Code, is empowered by the School Code to levy the following taxes:

An annual tax on assessed valuation of real estate, for general purposes, not exceeding 25 mills, and an annual per capita tax on each resident over 18 years of age, not exceeding \$5.00;

In addition, under Act of January 26, 1966, P.L. (1965) 1606, an amendment to the School Code, the boards of directors of school districts of such class are authorized and directed to levy an additional unlimited (subject to "Act 1" described below) annual tax on assessed valuation of taxable real estate:

1. To pay up to and including the salaries and increments of the teaching and supervisory staff;
2. To pay rentals due any municipality authority, nonprofit corporation or the State Public School Building Authority;
3. To pay interest and principal on any indebtedness incurred under the Debt Act or any prior or subsequent act governing the incurrence of indebtedness of the School District; and
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended ("The Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – "STEB") multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS

The Taxpayer Relief Act (Act 1)

Under Act 1, a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the PDE:

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2012, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2012, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2012; to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees' Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

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

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

The Index applicable to the School District for the current and previous fiscal years is as follows:

| | |
|---------|------|
| 2018-19 | 3.1% |
| 2017-18 | 3.3 |
| 2016-17 | 3.2 |
| 2015-16 | 2.4 |
| 2014-15 | 2.8 |
| 2013-14 | 2.3 |
| 2012-13 | 2.2 |

In accordance with the Taxpayer Relief Act, the Board of School Directors of the School District placed a referendum on the ballot for the May 15, 2007 primary election seeking voter approval to levy (or increase the rate of) an earned income tax or personal income tax and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was not approved by a majority of the voters at the primary election

A board of school directors may submit, but is not required to submit, a further referendum question to the voters at the municipal election in 2009 or any later year seeking approval to levy or increase the rate of an EIT or a PIT for the purpose of further funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate which, when combined with any tax rate authorized at the 2007 primary election, is required to provide the maximum homestead and farmstead exclusions allowable under law.

The fiscal year for Pennsylvania school districts begins July 1st and the fiscal year budgets must be adopted by school boards no later than June 30th.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 1. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 1 NOR A LEGAL INTERPRETATION OF ANY PROVISION OF ACT 1. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 1 AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Status of the Bonds Under Act 1

The Bonds described in this Official Statement do not represent debt that was approved (“incurred”) by the Board of School Directors prior to the effective date of Act 1, therefore the Board of School Directors may not apply to PDE to use the Act 1 referendum exception for previously incurred debt if a tax increase greater than the Index is needed to provide for payment of principal or interest on the Bonds. The School District, however, included sufficient new millage in its current year budget to cover the full amount of the debt service on the Bonds without exceeding the Act I Index (although the actual tax increase may have exceeded the Index as a result of the application of other approved exceptions to the Index.)

Act 24 of 2001

Act 24 of 2001 of the Commonwealth authorizes a board of school directors to schedule a public hearing and conduct a ballot referendum on replacing any existing school district occupation tax with an increase in the local earned income and net profits tax in a revenue neutral manner.

The School District currently does not levy an occupation tax.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 24. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 24 NOR A LEGAL INTERPRETATION OF ANY PROVISION OF ACT 24. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 24 AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Act 48 of 2003 – Limitation on Fund Balances

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unassigned fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

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

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

The total budgeted expenditures in the School District’s budget for the 2018-19 fiscal year including fund transfers and budgeted reserves are \$96,903,282, and the School District’s estimated ending unassigned fund balance as a percentage of total budgeted expenditures for the 2018-19 fiscal year is 4.0%.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 48. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 48 NOR A LEGAL INTERPRETATION OF ANY PROVISIONS OF ACT 48. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 48 AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

TAX REVENUES OF THE SCHOOL DISTRICT

Ten Largest Taxpayers in the School District

The ten largest real estate taxpayers in the School District and their current assessed valuation of their real estate are as follows:

| Name | Type of Property | 2018-19 Assessed Valuation |
|--------------------------------------|----------------------|-------------------------------|
| Jenners Pond Inc |Commercial..... | \$ 36,515,220 |
| Jennersville Hospital LLC |Commercial..... | 18,272,990 |
| London Grove North LP |Commercial..... | 18,013,630 |
| Cabot Kjellerup Realty Trust |Commercial..... | 15,729,000 |
| Penn Devco |Commercial..... | 11,974,660 |
| Jennersville Medical Building LP |Commercial..... | 5,705,080 |
| Chatham Aviv LLC |Commercial..... | 4,996,210 |
| SFIII Vineyard Way LLC |Commercial..... | 2,748,840 |
| Conard Pyle Co |Commercial..... | 2,150,150 |
| Jennersville Professional Center LLC |Commercial..... | 2,000,000 |
| | | \$ 118,105,780 |

Percentage of total School District's 2018-19 assessed valuation 6.16%

Source: School District Officials.

Assessed Valuation and Market Value of Taxable Property

The trend in assessed valuation of real estate in the School District for the past several fiscal years is shown below:

| <u>Year</u> | <u>Assessed Valuation</u> | <u>Market Value</u> | <u>Percentage</u> |
|-------------|-------------------------------|-------------------------|-------------------|
| 2009 | 1,815,998,083 | 3,277,974,879 | 55.4% |
| 2010 | 1,815,104,725 | 3,241,258,438 | 56.0 |
| 2011 | 1,817,944,692 | 3,081,262,190 | 59.0 |
| 2012 | 1,825,365,257 | 3,032,168,201 | 60.2 |
| 2013 | 1,839,399,117 | 3,187,866,754 | 57.7 |
| 2014 | 1,870,450,617 | 3,376,264,652 | 55.4 |
| 2015 | 1,891,686,467 | 3,516,145,849 | 53.8 |
| 2016 | 1,902,271,305 | 3,589,191,142 | 53.0 |
| 2017 | 1,906,085,176 | 3,715,565,645 | 51.3 |

Source: Pennsylvania Tax Equalization Divisions (TED). Market Values are based upon Common Level Ratio for Chester County as reported by TED.

Tax Collection Record

| School Year | Total Flat Billing | Current Year Collections (July - June) ⁽¹⁾ | Current Collections as Percent of Total Flat Billing | Total Current Plus Delinquent Collections ⁽²⁾ | Total Collections as Percent of Total Flat Billing |
|-------------|--------------------|---|--|--|--|
| 2009-10 | \$40,675,933 | \$38,542,854 | 94.76% | \$40,201,991 | 98.83% |
| 2010-11 | 42,308,391 | 40,435,145 | 95.57% | 42,065,693 | 99.43% |
| 2011-12 | 45,308,221 | 43,318,051 | 95.61% | 44,764,522 | 98.80% |
| 2012-13 | 46,651,583 | 44,319,004 | 95.00% | 46,091,764 | 98.80% |
| 2013-14 | 47,068,556 | 45,121,819 | 95.86% | 46,555,065 | 98.91% |
| 2014-15 | 49,106,696 | 47,946,353 | 97.64% | 47,980,519 | 97.71% |
| 2015-16 | 50,574,258 | 49,481,352 | 97.84% | 49,568,747 | 98.01% |
| 2016-17 | 52,626,035 | 51,268,272 | 97.42% | 51,540,049 | 97.94% |
| 2017-18 | 54,162,808 | 53,081,290 | 98.00% | 53,819,503 | 99.37% |
| 2018-19 | 56,111,698 | 49,926,563 | N/A | 49,926,563 | N/A |

Source: School District

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

(2) Includes delinquent realty taxes collected only.

2018 Realty and Non-Realty Tax Rates

| <u>Municipality</u> | <u>Realty Tax (Mills)</u> | | | <u>Per Capita</u> | | <u>Earned Income</u> | | <u>Real Estate Transfer</u> | |
|---------------------|---------------------------|------------------|---------------|-------------------|------------------|----------------------|------------------|-----------------------------|------------------|
| | <u>School</u> | <u>Municipal</u> | <u>County</u> | <u>School</u> | <u>Municipal</u> | <u>School</u> | <u>Municipal</u> | <u>School</u> | <u>Municipal</u> |
| Avondale Borough | 30.69 | 4.000 | 4.369 | \$ 0 | \$0 | 0.00% | 1.00% | 0.50% | 0.50% |
| Franklin Twp. | 30.69 | 2.495 | 4.369 | 0 | 0 | 0.00 | 0.50 | 0.50 | 0.50 |
| London Britain Twp. | 30.69 | 4.675 | 4.369 | 0 | 0 | 0.00 | 0.00 | 0.50 | 0.50 |
| London Grove Twp. | 30.69 | 1.250 | 4.369 | 0 | 0 | 0.00 | 0.75 | 0.50 | 0.50 |
| New London Twp. | 30.69 | 1.000 | 4.369 | 0 | 0 | 0.00 | 0.50 | 0.50 | 0.50 |
| Penn Twp. | 30.69 | 0.530 | 4.369 | 0 | 0 | 0.00 | 0.50 | 0.50 | 0.50 |
| West Grove Borough | 30.69 | 5.000 | 4.369 | 0 | 0 | 0.00 | 1.00 | 0.50 | 0.50 |

| <u>Municipality</u> | <u>(Mills)</u> | | <u>(Mills)</u> | | <u>Local Services Tax</u> | |
|---------------------|----------------|------------------|----------------|------------------|---------------------------|------------------|
| | <u>School</u> | <u>Municipal</u> | <u>School</u> | <u>Municipal</u> | <u>School</u> | <u>Municipal</u> |
| Avondale Borough | 0.00 | 0.00 | 0.00 | 0.00 | \$ 0 | \$ 0 |
| Franklin Twp. | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0 |
| London Britain Twp. | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0 |
| London Grove Twp. | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0 |
| New London Twp. | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0 |
| Penn Twp. | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 52 |
| West Grove Borough | 0.00 | 0.00 | 0.00 | 0.00 | 0 | 0 |

Source: Chester County; Pennsylvania Department of Community and Economic Development (DCED).

DEBT SUMMARY AND RELATED DATA

Outstanding School District Financing

The School District has the following debt outstanding as of November 28, 2018:

| | <u>Date of Issue</u> | <u>Original Amount</u> | <u>Final Maturity</u> | <u>Amount Outstanding</u> | <u>Reimbursement Percentage</u> | <u>Effective Reimbursement</u> ⁽¹⁾ | <u>State Share</u> | <u>Local Share</u> |
|--|----------------------|------------------------|-----------------------|---------------------------|---------------------------------|---|--------------------|--------------------|
| General Obligation ⁽²⁾ | | | | | | | | |
| Series of 2018 | 12/20/18 | 36,245,000 | 11/15/33 | \$ 36,245,000 | 0.00 | 0.00 | 0 | \$ 36,245,000 |
| Series of 2015 | 05/27/15 | 4,115,000 | 08/15/21 | 2,180,000 | 27.31 | 14.59 | 318,100 | 1,861,900 |
| Series of 2014 | 07/22/14 | 9,465,000 | 11/15/21 | 3,820,000 | 24.93 | 13.32 | 508,828 | 3,311,172 |
| Series A of 2012 | 09/14/12 | 7,945,000 | 11/15/27 | 5,820,000 | 0.00 | 0.00 | 0 | 5,820,000 |
| Series of 2012 | 09/14/12 | 2,055,000 | 11/15/22 | 870,000 | 19.35 | 10.34 | 89,947 | 780,053 |
| Total | | | | \$ 48,935,000 | | | \$ 916,875 | \$ 48,018,126 |

(1) The project's Reimbursement Percentage multiplied by the School District's MVAR (.5343).

(2) Includes the Bonds herein

Overlapping Debt

Residents of the School District are also responsible for the following non-electoral debt of the municipalities within the School District and Chester County:

| | <u>Amount Outstanding</u> ⁽¹⁾ | <u>Overlapping Indebtedness</u> |
|------------------------------|--|----------------------------------|
| Avondale Borough..... | \$ 0 | \$ 0 |
| Franklin Township..... | 2,876,000 | 2,876,000 |
| London Britain Township..... | 934,007 | 934,007 |
| London Grove Township..... | 11,584,000 | 11,584,000 |
| New London Township..... | 0 | 0 |
| Penn Township..... | 12,500 | 12,500 |
| West Grove Borough..... | 693,000 | 693,000 |
| Chester County..... | <u>533,915,000</u> | <u>27,153,034</u> ⁽²⁾ |
| Total..... | \$550,014,507 | \$ 43,252,541 |

Source: Recent available data from the Pennsylvania Department of Community and Economic Development (DCED).

(1) Municipal debt approved by DCED for exclusion not included. Amounts as reported by DCED as of October 1, 2018.

(2) The School District's proportionate share, 5.09%, is determined by dividing the School District's reported 2017 assessed value by the total 2017 assessed values of all the municipalities within Chester County.

Financial Factors and Ratios

| | |
|--|-----------------|
| STEB ⁽¹⁾ Market Valuation of Real Estate (2017) | \$3,715,565,645 |
| STEB ⁽¹⁾ Assessed Valuation of Real Estate (2017) | \$1,906,085,176 |
| Common Level Ratio | 51.3 % |
| | |
| Population: 2010 U.S. Census | 30,080 |
| Market Valuation of Real Estate to Population (2010) | \$123,523 |
| Assessed Valuation of Real Estate to Population (2010) | \$63,367 |

(1) Valuations certified July of 2018. Market Value based upon the Common Level Ratios for Chester County as reported by STEB.

Bonded Indebtedness and Overlapping Debt

| | |
|--|-------------------|
| School District General Obligation and Lease Rental ⁽¹⁾ (Direct Debt) | \$48,935,000 |
| | |
| Ratio of School District Direct Debt to: | |
| Market Valuation of Real Estate | 1.32% |
| Assessed Valuation of Real Estate | 2.57% |
| Population (2010) | \$1,627 |
| | |
| Obligations of the Residents of the School District | |
| School District General Obligation and Lease Rental ⁽¹⁾ | \$48,935,000 |
| Townships ⁽²⁾ | 16,099,507 |
| Chester County ⁽²⁾⁽³⁾ | <u>27,153,034</u> |
| Total Obligations | \$92,187,541 |
| | |
| Ratio of Total Obligations to: | |
| Market Valuation of Real Estate | 2.48% |
| Assessed Valuation of Real Estate | 4.84% |
| Population (2010) | \$3,065 |
| | |
| Obligations of the Residents after State Reimbursement | |
| School District General Obligation and Lease Rental | \$48,018,126 |
| Townships ⁽²⁾ | 16,099,507 |
| Chester County ⁽²⁾⁽³⁾ | <u>27,153,034</u> |
| Total Obligations After State Reimbursement | \$91,270,667 |
| | |
| Ratio of Total Obligations after State Reimbursement to: | |
| Market Valuation of Real Estate | 2.46% |
| Assessed Valuation of Real Estate | 4.79% |
| Population (2010) | \$3,034 |

(1) Includes the Bonds

(2) Most recent data available from DCED.

(3) Represents the School District's share (5.09%) of Chester County's total general obligation debt outstanding (\$533,915,000), as of October 1, 2018 per Pennsylvania Department of Community and Economic Development, based upon total assessed valuation.

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APPENDIX B

Description of the School District

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DESCRIPTION OF THE SCHOOL DISTRICT

General

The School District is in West Grove, in southwestern Chester County. It is located in the southeast corner of Pennsylvania. The School District is approximately 15 miles northwest of Wilmington, Delaware, approximately 35 miles southwest of Philadelphia and approximately 30 miles southeast of Lancaster. It is a residential community with some agricultural activity. Chester County is in the Philadelphia, PA-NJ MSA (the “MSA”), a statistical area including Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties in Pennsylvania.

The Avon Grove School Board is comprised of nine voting elected officials and a non voting tenth member (Superintendent). The nine elected officials represent three regions which serve seven municipalities and townships. The board meets both as a full board and in sub-committee formats.

School Facilities

The school plant presently operated by the School District consists of one high school (grades 9-12), one middle school (grades 7-8), one intermediate school (grades 3-6), and one elementary school (grades K-2).

| <u>School Facilities</u> | <u>Grades</u> | <u>Pupil Capacity</u> | <u>2018-19 Enrollment</u> ⁽¹⁾ |
|------------------------------------|---------------|-----------------------|--|
| Penn London | K-2 | 900 | 923 |
| Avon Grove Intermediate School | 3-6 | 1,650 | 1,512 |
| Fred S. Engle Middle | 7-8 | 978 | 847 |
| Avon Grove High | 9-12 | 1,500 | 1,789 |
| Avon Grove Administration Building | - | - | - |
| TOTAL ALL SCHOOLS | | | 5,071 |

Source: School District Officials

(1) As of November 1, 2018

Pupil Enrollment Trends

| <u>School Year</u> | <u>Elementary</u> | <u>Secondary</u> | <u>Total</u> |
|--------------------|-------------------|------------------|--------------|
| 2010-11 | 2,662 | 2,716 | 5,378 |
| 2011-12 | 2,580 | 2,648 | 5,228 |
| 2012-13 | 2,507 | 2,641 | 5,148 |
| 2013-14 | 2,447 | 2,669 | 5,116 |
| 2014-15 | 2,401 | 2,683 | 5,084 |
| 2015-16 | 2,392 | 2,660 | 5,052 |
| 2016-17 | 2,381 | 2,635 | 5,016 |
| 2017-18 | 2,455 | 2,620 | 5,075 |
| 2018-19* | 2,435 | 2,636 | 5,071 |
| 2019-20** | 2,453 | 2,594 | 5,047 |

Source: School District

*As of November 1, 2018

**Projected

Demographic Characteristics

Population

The School District's population increased by 22.2% from 2000 to 2010 and increased by an estimated 1.2% from 2010 to 2014. The table below shows population comparisons for the School District, Chester County, Pennsylvania and the United States.

| | <u>2000</u> | <u>2010</u> | <u>Percentage Change</u> <u>2000 to 2010</u> |
|------------------------------|-------------|-------------|---|
| <i>School District</i> | 23,067 | 30,080 | 3.04% |
| Chester County..... | 433,501 | 498,876 | 12.49 |
| Pennsylvania | 12,281,054 | 12,702,379 | 3.43 |
| U.S. | 281,421,906 | 308,745,538 | 9.70 |

Source: Pennsylvania State Data Center; U.S. Census Bureau, Population Estimates Program.
(1) U.S. Bureau of Census, 2014 American Community Survey 5-year estimates.

Age Composition

| | <u>0-17 Years</u> | <u>18-64 Years</u> | <u>65+ Years</u> | <u>Persons Per Household</u> |
|----------------------|-------------------|--------------------|------------------|------------------------------|
| | <u>2010</u> | <u>2010</u> | <u>2010</u> | <u>2010</u> |
| Chester County | 39.3 | 24.9 | 62.3 | 12.8 |
| Pennsylvania..... | 40.1 | 22.0 | 62.2 | 15.4 |
| U.S..... | 37.2 | 24.0 | 63.0 | 13.0 |

Source: Pennsylvania State Data Center; U.S. Census Bureau, Population Estimates Program.
(1) U.S. Bureau of Census, 2014 American Community Survey 5-year estimates.

Trends in Per Capita Income*

| | <u>2000</u> | <u>2010</u> | <u>Percentage Change</u> <u>2000 to 2010</u> |
|------------------------------|-------------|-------------|---|
| <i>School District</i> | \$26,577 | \$36,265 | 3.51% |
| Chester County..... | 20,601 | 31,627 | 4.88 |
| Pennsylvania | 14,068 | 20,880 | 4.49 |

Source: Pennsylvania State Data Center; U.S. Bureau of Census.

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

Medical Facilities

There are four general acute care hospitals, one long-term acute care hospital, two psychiatric hospitals, one rehabilitation hospital, and one specialty hospital that serve Chester County. The hospitals, their licensed bed capacity and number of employees (full-time and part-time) as are as follows:

| <u>Institution</u> | <u>Location</u> | <u>Licensed Beds</u> | <u>Staff</u> | |
|--|-----------------|----------------------|------------------|------------------|
| | | | <u>Full-time</u> | <u>Part-Time</u> |
| Brandywine Hospital | Coatesville | 171 | 589 | 144 |
| Main Line Hospital- Bryn Mawr | Bryn Mawr | 148 | 411 | 291 |
| Chester County Hospital | West Chester | 248 | 1,402 | 911 |
| Devereux Children's Behavioral Health Center | Malvern | 49 | 72 | 45 |
| Jennersville Regional Hospital | West Grove | 63 | 152 | 106 |
| Lifecare Hospitals of Chester County | West Chester | 39 | 81 | 53 |
| Main Line Hospital - Paoli | Paoli | 231 | 986 | 520 |
| Phoenixville Hospital | Phoenixville | 139 | 760 | 210 |
| St. John Vianney Center | Downingtown | 50 | 48 | 31 |

Source: Pennsylvania Department of Health ("PDH"), Bureau of Health Statistics; 2017 reporting period.
Residents of Chester County also have access to hospitals in the Philadelphia and Wilmington Metropolitan area.

Transportation

U.S. Route 1 is the main highway traveling through the School District. State routes 10, 41, 52, 82, 162, 472, 841, 896, and 926 also traverse the School District. Chester County contains a portion of the Pennsylvania Turnpike, and is served by six commercial airports. Wilmington, Delaware is the nearest major transportation center, providing a Regional Airport, all bus, rail and port services.

In nearby Philadelphia is the Philadelphia International Airport, along with all major rail, bus and trucking lines. The Philadelphia Port is one of the largest fresh water ports in the world.

Higher Education

Chester County contains West Chester University, Immaculata College, Lincoln University, Penn State Great Valley Campus and Valley Forge Christian College.

The Wilmington, Delaware area contains the University of Delaware and 4 other colleges with combined enrollments of over 27,000 students.

Recreation

The County's residents have access to several county and state parks which feature picnicking, fishing, hiking, horseback riding and camping. These include Hibernia County Park, an 800 acre park; Nottinham County Park, a 651 acre park with a 2.6 acre lake; Springton Manor Farm, a 300 acre demonstration farm; Struble Trail, a 2.5 mile walking trail, which parallel the east branch of the Brandywine Creek; Warwick County Park, a 445 acre park, which includes 2 miles of French Creek, (Horse Shoe Trail, which extends from Valley Forge to Harrisburg, joins the trail system of this park); and Struble Lake, a 146 acre lake is owned by the Pennsylvania Fish and Boat Commission, and is associated with Warwick Park. The state parks located within Chester County include Brandywine Battlefield State Park; French Creek State Park, a 7,339 acre park, including the 68 acre Hopewell Lake; Marsh Creek State Park, a 1,700+ park, includes a 55 acre lake; White Clay Creek Preserve; and State Gameland #43, a 1,060 area located near Elverson, is managed by the Pennsylvania Game Commission. Other parks in the area include Hopewell Village National Historic Park, a 214 acre park, is a restored 19th century iron-making community; Valley Forge National Historic Park, a 2,700 acre park, which was the site of George Washington's winter encampment in 1777-1778; Everhart Park; Hoopes Park; and Marshall Square Park. Golfers in the area enjoy the more than 25 public and private courses located in or near Chester County.

ECONOMY

Trends in Chester County Employment and Unemployment

| <u>Year</u> | <u>County Civilian Labor Force</u> | <u>Total Employment</u> | <u>Percentage Unemployed</u> | | |
|-------------|--|-----------------------------|------------------------------|---------------------|-------------|
| | | | <u>County</u> | <u>Pennsylvania</u> | <u>U.S.</u> |
| 2006 | 264,000 | 255,300 | 3.3 | 4.5 | 4.6 |
| 2007 | 266,700 | 258,500 | 3.1 | 4.3 | 4.6 |
| 2008 | 273,900 | 263,000 | 4.0 | 5.3 | 5.8 |
| 2009 | 271,600 | 254,800 | 6.2 | 8.1 | 9.3 |
| 2010 | 264,200 | 246,300 | 6.7 | 8.7 | 9.6 |
| 2011 | 264,500 | 248,400 | 6.1 | 7.9 | 8.9 |
| 2012 | 270,900 | 254,200 | 6.1 | 7.9 | 8.1 |
| 2013 | 271,800 | 256,000 | 5.8 | 7.4 | 7.4 |
| 2014 | 273,700 | 262,300 | 4.2 | 5.8 | 6.2 |
| 2015 | 276,400 | 266,200 | 3.7 | 5.1 | 5.3 |
| 2016 | 281,100 | 270,100 | 3.9 | 5.4 | 4.9 |
| 2017 | 281,100 | 271,100 | 3.6 | 4.9 | 4.4 |

Source: Pennsylvania Department of Labor & Industry; U.S. Bureau of Labor Statistics.

Ten Largest Employers in Chester County

| <u>Employer</u> | <u>Product/Service</u> |
|-------------------------------------|-----------------------------|
| Vanguard Group, Inc. | Financial Services |
| QVC Network Inc. | Distribution Center |
| Chester County | County Government |
| Federal Government | Government |
| Chester County Hospital | Healthcare |
| Giant Food Stores LLC | Retail Grocery |
| Main Line Hospitals Inc | Healthcare |
| PA State System of Higher Education | Higher Education |
| The Devereux Foundation | Behavioral Health |
| Downingtown Area School District | Primary/Secondary Education |

Source: Center for Workforce Information and Analysis – Labor & Industry (L & I), 1st Quarter 2018. L & I does not report employee numbers due to employer privacy.

Classification of Employment by Industry
Bucks, Chester, and Montgomery – PA counties

August 2018

NONFARM JOBS – NOT SEASONALLY ADJUSTED

| ESTABLISHMENT DATA | Industry Employment | | | | Net Change From: | |
|---|----------------------------|---------------|---------------|---------------|-------------------------|---------------|
| | Aug-18 | Jul-18 | Jun-18 | Aug-17 | Jul-18 | Aug-17 |
| TOTAL NONFARM | 1,077,200 | 1,081,400 | 1,089,700 | 1,068,300 | -4,200 | 8,900 |
| TOTAL PRIVATE | 1,000,000 | 1,004,400 | 1,005,500 | 992,900 | -4,400 | 7,100 |
| GOODS-PRODUCING | 145,700 | 145,400 | 144,500 | 146,300 | 300 | -600 |
| Mining, Logging and Construction | 55,800 | 55,300 | 53,900 | 54,500 | 500 | 1,300 |
| Manufacturing | 89,900 | 90,100 | 90,600 | 91,800 | -200 | -1,900 |
| Durable Goods | 45,500 | 45,800 | 46,200 | 47,000 | -300 | -1,500 |
| Non-Durable Goods | 44,400 | 44,300 | 44,400 | 44,800 | 100 | -400 |
| Chemical Mfg | 19,500 | 19,600 | 19,600 | 19,700 | -100 | -200 |
| SERVICE-PROVIDING | 931,500 | 936,000 | 945,200 | 922,000 | -4,500 | 9,500 |
| PRIVATE SERVICE-PROVIDING | 854,300 | 859,000 | 861,000 | 846,600 | -4,700 | 7,700 |
| Trade, Transportation, and Utilities | 200,300 | 202,500 | 204,500 | 202,300 | -2,200 | -2,000 |
| Wholesale Trade | 57,400 | 58,100 | 57,300 | 56,800 | -700 | 600 |
| Retail Trade | 115,800 | 117,200 | 118,600 | 118,300 | -1,400 | -2,500 |
| General Merchandise Stores | 17,900 | 17,900 | 17,800 | 18,000 | 0 | -100 |
| Transportation, Warehousing, and Utilities | 27,100 | 27,200 | 28,600 | 27,200 | -100 | -100 |
| Information | 20,100 | 20,500 | 20,600 | 21,400 | -400 | -1,300 |
| Financial Activities | 84,800 | 84,600 | 84,300 | 83,200 | 200 | 1,600 |
| Professional and Business Services | 212,100 | 213,100 | 212,000 | 204,800 | -1,000 | 7,300 |
| Education and Health Services | 193,000 | 194,400 | 195,800 | 189,700 | -1,400 | 3,300 |
| Educational Services | 24,300 | 24,700 | 25,600 | 23,500 | -400 | 800 |
| Health care and social assistance | 168,700 | 169,700 | 170,200 | 166,200 | -1,000 | 2,500 |
| Hospitals | 31,600 | 32,000 | 32,200 | 32,000 | -400 | -400 |
| Leisure and Hospitality | 95,900 | 95,900 | 95,600 | 96,400 | 0 | -500 |
| Accommodation and food services | 72,700 | 72,500 | 73,100 | 72,800 | 200 | -100 |
| Other Services | 48,100 | 48,000 | 48,200 | 48,800 | 100 | -700 |
| Government | 77,200 | 77,000 | 84,200 | 75,400 | 200 | 1,800 |
| Federal Government | 6,000 | 6,000 | 6,000 | 6,000 | 0 | 0 |
| State Government | 9,800 | 10,000 | 10,000 | 8,900 | -200 | 900 |
| Local Government | 61,400 | 61,000 | 68,200 | 60,500 | 400 | 900 |

Source: Pennsylvania Department of Labor & Industry, report completed August 2018

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APPENDIX C

**Audited Financial Statements of the School District,
Fiscal Year Ending June 30, 2018**

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

AUDIT REPORT

JUNE 30, 2018

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AVON GROVE SCHOOL DISTRICT

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AVON GROVE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

November 8, 2018

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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 2 and 19 to the financial statements, the Avon Grove School District has adopted the requirements of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This statement modifies the accounting for the District's other postemployment benefits. As a result, the beginning governmental activities, business-type activities, and food service fund net position has been restated. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Avon Grove School District's June 30, 2017 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 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 17, schedule of the District's proportionate share of the net pension liability on page 63, schedule of District pension contributions on page 64, schedule of the District's proportionate share of the net OPEB liability on page 65, schedule of District OPEB contributions on page 66, schedule of changes in the net OPEB liability and related ratios on page 67, and schedule of District OPEB contributions on page 68 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

Board of School Directors
Avon Grove School District

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 77 and 78 is presented for purposes of additional analysis as required by Title 2 U.S. Code of 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 8, 2018, 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, 2018**

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, 2018. 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 16.

FUTURE FINANCING

The District did not enter into any new financings during the 2017-2018 fiscal year.

FINANCIAL HIGHLIGHTS

During the 2017-2018 fiscal year, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The purpose of this statement is to improve transparency, consistency, and comparability of postemployment benefits other than pensions reported by state and local governments. The implementation of GASB Statement No. 75 has had an impact on the entity-wide statements. The District is now required to report its proportionate share of the net other post-employment benefits ("OPEB") liability attributed to the PSERS Health Insurance Premium Assistance Program, and the net OPEB liability

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

related to healthcare benefits offered to eligible retirees of the District. The adoption of this standard resulted in a decrease in beginning net position of \$13,849,057. The net OPEB liability reported in these financial statements at June 30, 2018 totals \$21,802,004. While the net OPEB liability is significant to the District's financial statements, it is a liability that the District has limited control over. This liability is anticipated to continue to increase in future years as medical costs increase.

Overall, the District ended the 2017-2018 fiscal year with a \$1,661,634 decrease in overall net position. The District's net deficit totaled \$66,409,725 at June 30, 2018. The District's general fund ended the 2017-2018 fiscal year with a decrease in fund balance of \$1,525,354. The deficit is the result of the District budgeting to use a portion of its fund balance for transfers to the Capital Projects Fund and the use of committed fund balance set aside for PSERS retirement contributions several years ago. Table A-5 will provide more detail to the budget vs. actual variances. The 2018-2019 budget approved in June 2018 included the appropriation of \$6,954,202 of fund balance, which has been included in the assigned fund balance of \$9,063,103, along with \$2,108,901 assigned for future capital projects. The general fund reported a positive total fund balance at June 30, 2018 of \$21,717,513.

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 the Food Service Fund and the 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.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

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

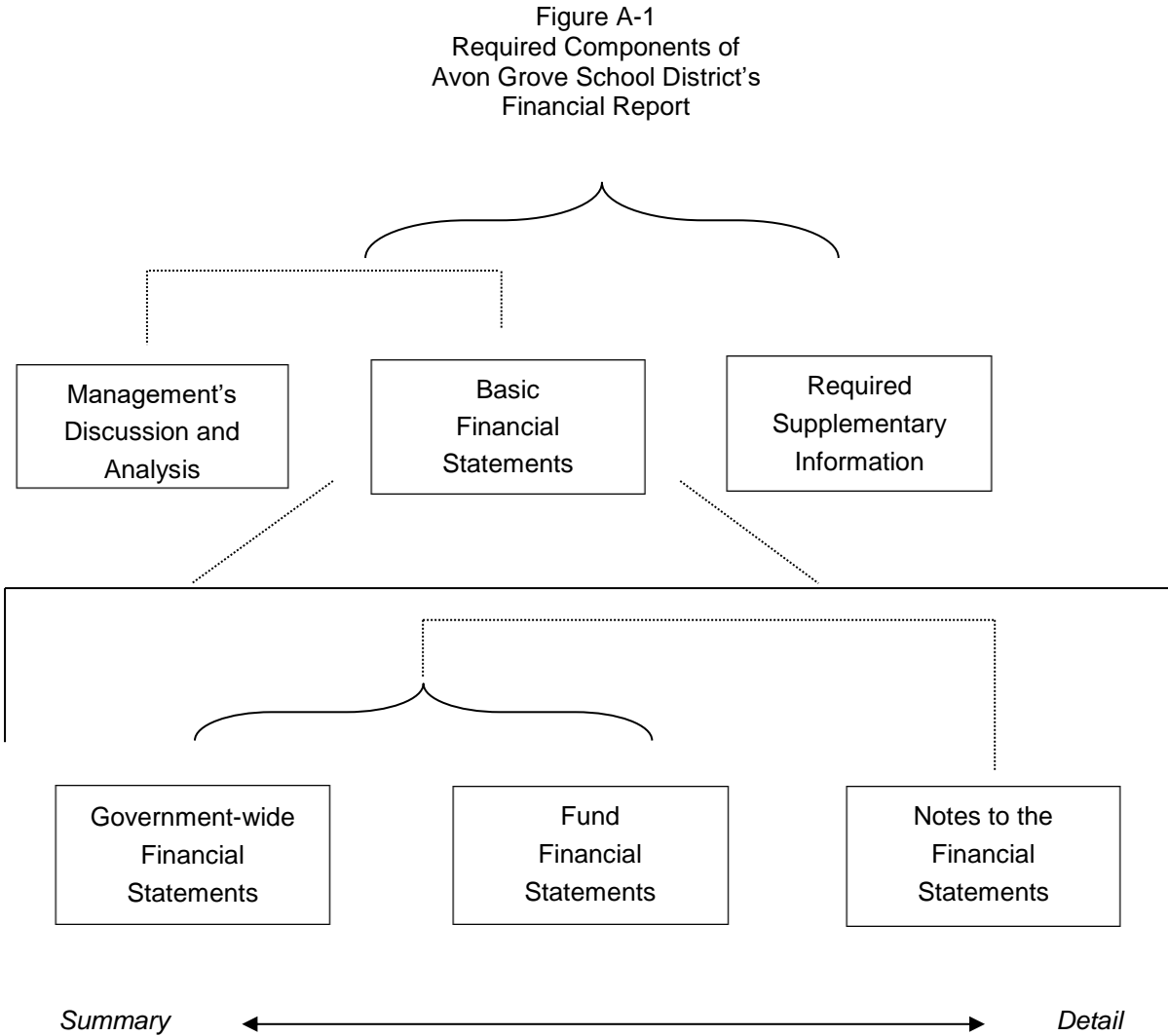


Figure A-2 summarizes the major features of the financial statements, including the portion of the program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

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, 2018**

OVERVIEW OF FINANCIAL STATEMENTS

Impact of GASB Statement No. 68, 71, and 75

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." During the 2017-2018 fiscal year, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The purpose of these statements is to improve the transparency, consistency, and comparability of the pension and other postemployment benefit information reported by state and local governments (e.g. school districts).

The adoption of these statements 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 and OPEB 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. Similarly, the net OPEB liability is the difference between the market value of OPEB fund assets and the actuarial present value of the projected retiree healthcare benefits as of a specified measurement date.

While both the net pension liability and the net OPEB liability are significant to the District's financial statements, they are liabilities the District has limited control over. Over the last five years, the PSERS employer contribution rate has risen significantly, from 5.6 percent in 2010-2011 to 32.57 percent in 2017-2018. These increases are expected to improve the plan's funding level, which will reduce the net pension liability in future years. This rate is anticipated to continue to increase to a level of over 36 percent in future years. In addition, the benefits paid by the District to eligible retirees for retiree healthcare benefits are governed by the collective bargaining agreements and contracts in effect at the time of a given retiree's retirement; until these individuals receive their full benefits and future bargaining agreements and contracts are modified, the District will have very limited control over the value of its net OPEB liability.

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.

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

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.
- To assess the overall health of the District, readers should consider additional factors in conjunction with the information provided in the financial statements, such as changes in the level of funding provided by the Commonwealth, increases in the required PSERS contribution rate, 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

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

proprietary funds. The Food Service Fund is the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows. The District also operates an internal service 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.

A comparative analysis of fiscal years 2018 and 2017 follows:

**Table A-1
STATEMENT OF NET POSITION
Fiscal Years Ended June 30, 2018 and June 30, 2017**

| | Governmental Activities | Business-type Activities | Totals | |
|---|----------------------------|-----------------------------|----------------------|----------------------|
| | | | 2018 | 2017 |
| ASSETS: | | | | |
| Current and other assets | \$ 39,051,519 | \$ 527,943 | \$ 39,579,462 | \$ 40,889,441 |
| Capital assets | 47,426,114 | 47,846 | 47,473,960 | 49,107,367 |
| TOTAL ASSETS | 86,477,633 | 575,789 | 87,053,422 | 89,996,808 |
| Deferred Outflows of Resources | 19,251,623 | 328,717 | 19,580,340 | 22,863,657 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 105,729,256 | \$ 904,506 | \$106,633,762 | \$112,860,465 |
| LIABILITIES: | | | | |
| Current liabilities | \$ 12,783,833 | \$ 70,085 | \$ 12,853,918 | \$ 13,837,688 |
| Long-term liabilities | 149,280,874 | 2,072,921 | 151,353,795 | 162,613,364 |
| TOTAL LIABILITIES | 162,064,707 | 2,143,006 | 164,207,713 | 176,451,052 |
| Deferred Inflows of Resources | 8,774,359 | 61,415 | 8,835,774 | 1,157,504 |
| NET POSITION (DEFICIT): | | | | |
| Net investment in capital assets | 31,428,111 | 47,846 | 31,475,957 | 30,216,207 |
| Restricted | 3,156,548 | - | 3,156,548 | 2,251,726 |
| Unrestricted (Deficit) | (99,694,469) | (1,347,761) | (101,042,230) | (97,216,024) |
| | <u>(65,109,810)</u> | <u>(1,299,915)</u> | <u>(66,409,725)</u> | <u>(64,748,091)</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT) | \$ 105,729,256 | \$ 904,506 | \$106,633,762 | \$112,860,465 |

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

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 includes the effect of the District's net pension and OPEB liabilities as required by GASB No. 68 and 75, respectively. The restricted balances are amounts set aside to fund future projects as may be planned by the District.

The long-term liabilities decreased from the 2016-2017 fiscal year due to decreases in both the net pension liability and the net OPEB liability, as well as principal payments made on the outstanding bonds.

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 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 Year Ended June 30, 2018 and 2017**

| | June 30, 2018 | | June 30, 2017 | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Total Services | Net Services | Total Services | Net Services |
| PROGRAM EXPENSES | | | | |
| Governmental Activities: | | | | |
| Instruction | \$ 63,139,190 | \$ 53,167,028 | \$ 62,755,867 | \$ 53,444,463 |
| Instructional student support | 7,864,407 | 6,436,541 | 7,516,401 | 6,564,280 |
| Administration | 8,301,952 | 6,969,568 | 7,830,347 | 7,194,194 |
| Maintenance | 3,900,125 | 3,710,759 | 4,285,646 | 4,118,390 |
| Pupil transportation | 6,241,785 | 4,050,143 | 6,005,853 | 4,151,274 |
| Student activities | 1,243,781 | 912,001 | 1,701,225 | 1,339,160 |
| Community services | 1,604 | 1,419 | 3,261 | 3,147 |
| Scholarships and awards | 16,187 | 16,187 | - | - |
| Interest and fiscal charges | 300,270 | (50,874) | 302,843 | (125,213) |
| Total Governmental Activities | <u>91,009,301</u> | <u>75,212,772</u> | <u>90,401,443</u> | <u>76,689,695</u> |
| Business-type Activities: | | | | |
| Food service | 2,064,004 | 37,351 | 2,017,820 | 156,991 |
| Total Business-type Activities | <u>2,064,004</u> | <u>37,351</u> | <u>2,017,820</u> | <u>156,991</u> |
| Total Primary Government | <u>\$ 93,073,305</u> | <u>\$ 75,250,123</u> | <u>\$ 92,419,263</u> | <u>\$ 76,846,686</u> |

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

**Table A-3
CHANGES IN NET POSITION
For the Years Ended June 30, 2018 and 2017**

| | Governmental Activities | | Business-type Activities | | Totals | |
|-------------------------------|-------------------------|-----------------------|--------------------------|---------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 581,556 | \$ 602,538 | \$ 983,797 | \$ 889,189 | \$ 1,565,353 | \$ 1,491,727 |
| Operating grants | 15,196,973 | 13,109,210 | 1,042,856 | 971,640 | 16,239,829 | 14,080,850 |
| Capital grants | 18,000 | - | - | - | 18,000 | - |
| Total Program Revenues | <u>15,796,529</u> | <u>13,711,748</u> | <u>2,026,653</u> | <u>1,860,829</u> | <u>17,823,182</u> | <u>15,572,577</u> |
| General Revenues: | | | | | | |
| Taxes | 54,945,536 | 53,296,582 | - | - | 54,945,536 | 53,296,582 |
| Grants and entitlements | 17,781,335 | 17,569,388 | - | - | 17,781,335 | 17,569,388 |
| Investment earnings | 621,753 | 277,826 | 3,784 | 1,831 | 625,537 | 279,657 |
| Miscellaneous | 236,081 | 142,470 | - | - | 236,081 | 142,470 |
| Total General Revenues | <u>73,584,705</u> | <u>71,286,266</u> | <u>3,784</u> | <u>1,831</u> | <u>73,588,489</u> | <u>71,288,097</u> |
| TOTAL REVENUES | <u>89,381,234</u> | <u>84,998,014</u> | <u>2,030,437</u> | <u>1,862,660</u> | <u>91,411,671</u> | <u>86,860,674</u> |
| EXPENSES | | | | | | |
| Program Services: | | | | | | |
| Instruction | 63,139,190 | 62,755,867 | - | - | 63,139,190 | 62,755,867 |
| Support Services: | | | | | | |
| Instructional staff support | 7,864,407 | 7,516,401 | - | - | 7,864,407 | 7,516,401 |
| Administration | 8,301,952 | 7,830,347 | - | - | 8,301,952 | 7,830,347 |
| Maintenance | 3,900,125 | 4,285,646 | - | - | 3,900,125 | 4,285,646 |
| Pupil transportation | 6,241,785 | 6,005,853 | - | - | 6,241,785 | 6,005,853 |
| Student activities | 1,243,781 | 1,701,225 | - | - | 1,243,781 | 1,701,225 |
| Community services | 1,604 | 3,261 | - | - | 1,604 | 3,261 |
| Scholarships and awards | 16,187 | - | - | - | 16,187 | - |
| Interest/fiscal charges | 300,270 | 302,843 | - | - | 300,270 | 302,843 |
| Food service | - | - | 2,064,004 | 2,017,820 | 2,064,004 | 2,017,820 |
| TOTAL EXPENSES | <u>91,009,301</u> | <u>90,401,443</u> | <u>2,064,004</u> | <u>2,017,820</u> | <u>93,073,305</u> | <u>92,419,263</u> |
| CHANGE IN NET POSITION | <u>\$ (1,628,067)</u> | <u>\$ (5,403,429)</u> | <u>\$ (33,567)</u> | <u>\$ (155,160)</u> | <u>\$ (1,661,634)</u> | <u>\$ (5,558,589)</u> |

Fund Balances

At June 30, 2018, the District's governmental funds reported a combined fund balance of \$24,874,061, which is a decrease of \$620,532 from June 30, 2017.

General Fund:

The District ended the 2017-2018 fiscal year with a fund balance of \$21,717,513 in the general fund. Of this amount, \$7,612,908 has been committed for future retirement contributions, \$9,063,103 is

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

assigned for future facilities improvements and next year's budget, and \$4,127,776 is unassigned. The remainder (\$913,726) represents prepaid expenditures which are considered non-spendable.

Capital Projects Fund:

The capital projects 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, 2018 and 2017**

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>Change</u> |
|-----------------------|----------------------|----------------------|---------------------|
| General fund | \$ 21,717,513 | \$ 23,242,867 | \$ (1,525,354) |
| Capital projects fund | <u>3,156,548</u> | <u>2,251,726</u> | <u>904,822</u> |
| Total | <u>\$ 24,874,061</u> | <u>\$ 25,494,593</u> | <u>\$ (620,532)</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, 2018**

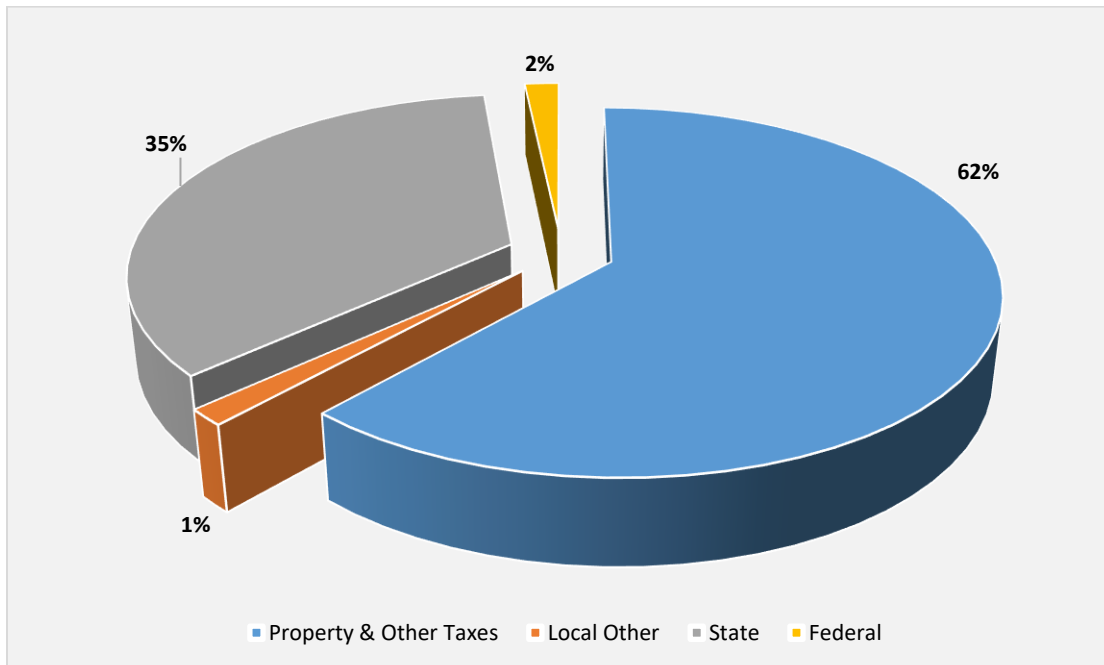
| <u>2017 - 2018</u> | <u>Original Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------------|------------------------|-----------------------|-----------------------|
| REVENUES AND PROCEEDS | \$ 87,336,012 | \$ 89,356,964 | \$ 2,020,952 |
| EXPENDITURES AND TRANSFERS | <u>\$ 93,664,026</u> | <u>\$ 90,882,318</u> | <u>\$ 2,781,708</u> |
| NET | <u>\$ (6,328,014)</u> | <u>\$ (1,525,354)</u> | <u>\$ (4,802,660)</u> |
| Contributing Line Items: | | | |
| <u>Revenues and Proceeds</u> | | | |
| Local revenue | \$ 56,306,977 | \$ 56,266,495 | \$ (40,482) |
| State revenue | \$ 29,838,166 | \$ 31,384,469 | \$ 1,546,303 |
| Federal revenue | \$ 1,190,869 | \$ 1,507,039 | \$ 316,170 |
| Proceeds from asset disposition | \$ - | \$ 198,961 | \$ 198,961 |

**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

**Table A-5
ANALYSIS OF BUDGET VS. ACTUAL REVENUES AND EXPENDITURES
For the Year Ended June 30, 2018**

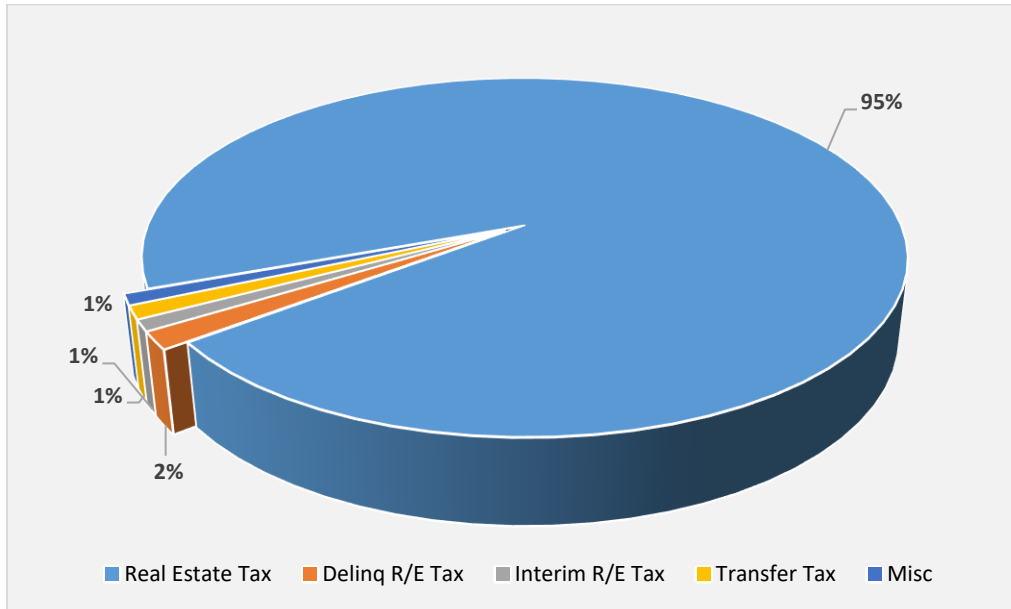
| <u>2017 - 2018</u> | <u>Original Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|------------------------|---------------|-----------------|
| (cont'd) | | | |
| <u>Expenditures and Transfers</u> | | | |
| Salaries | \$ 32,219,706 | \$ 31,938,802 | \$ 280,904 |
| Benefits | \$ 20,274,692 | \$ 19,521,810 | \$ 752,882 |
| Professional services | \$ 9,820,615 | \$ 10,489,491 | \$ (668,876) |
| Repair/maintenance/rental | \$ 2,129,044 | \$ 1,937,545 | \$ 191,499 |
| Transportation/insurance/tuition | \$ 17,434,871 | \$ 17,619,099 | \$ (184,228) |
| Supplies/books/software/fuel | \$ 2,731,970 | \$ 2,215,870 | \$ 516,100 |
| Capital | \$ 1,123,750 | \$ 1,059,945 | \$ 63,805 |
| Bond interest/dues/fees | \$ 3,239,378 | \$ 1,409,756 | \$ 1,829,622 |
| Bond principal/transfers | \$ 4,690,000 | \$ 4,690,000 | \$ - |

The chart below demonstrates the breakdown of the 2017-2018 general fund revenues.

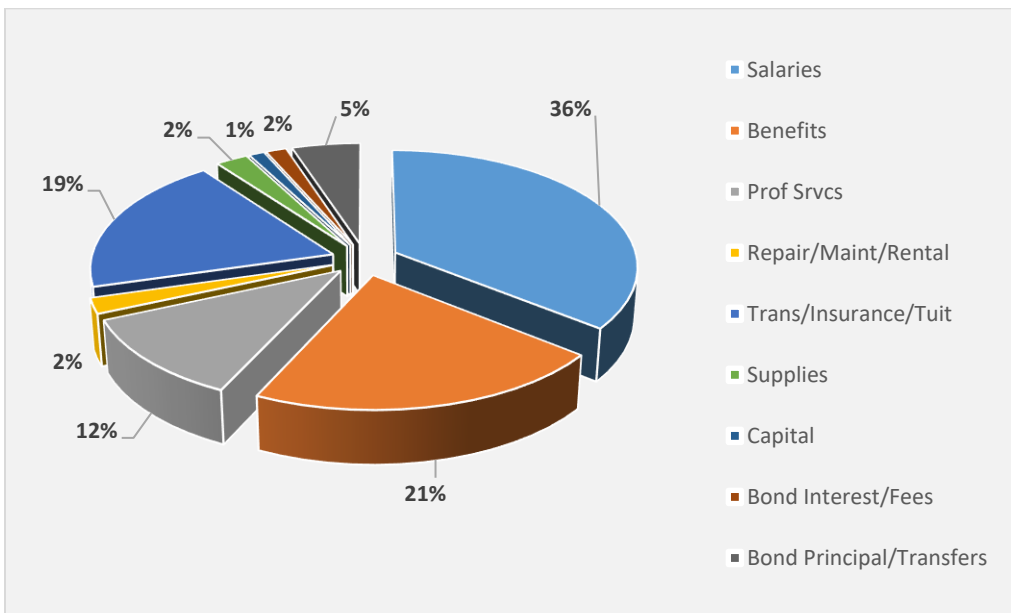


**AVON GROVE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

The next chart demonstrates the breakdown of the 2017-2018 local revenues.



The chart below demonstrates the breakdown of the 2017-2018 general fund expenditures.



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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2018, the District had \$47,426,114 in governmental funds and 47,846 in business-type 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 \$1,621,887 from Governmental Activities and a net decrease of \$11,520 from Business Activities from June 30, 2017.

**Table A-6
CAPITAL ASSETS, NET OF DEPRECIATION**

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|----------------------|--------------------------|------------------|----------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Capital Assets Not Being Depreciated | | | | | | |
| Land | \$ 11,035,789 | \$ 11,035,789 | \$ - | \$ - | \$ 11,035,789 | \$ 11,035,789 |
| Construction-in-progress | 24,404 | - | - | - | 24,404 | - |
| Total Capital Assets Not Being Depreciated | <u>11,060,193</u> | <u>11,035,789</u> | <u>-</u> | <u>-</u> | <u>11,060,193</u> | <u>11,035,789</u> |
| Capital Assets Being Depreciated | | | | | | |
| Buildings and improvements, net of depreciation | 32,231,377 | 34,253,160 | - | - | 32,231,377 | 34,253,160 |
| Furniture and equipment, net of depreciation | 4,134,544 | 3,759,052 | 47,846 | 59,366 | 4,182,390 | 3,818,418 |
| Total Capital Assets Being Depreciated, Net | <u>36,365,921</u> | <u>38,012,212</u> | <u>47,846</u> | <u>59,366</u> | <u>36,413,767</u> | <u>38,071,578</u> |
| Total Assets, Net | <u>\$ 47,426,114</u> | <u>\$ 49,048,001</u> | <u>\$ 47,846</u> | <u>\$ 59,366</u> | <u>\$ 47,473,960</u> | <u>\$ 49,107,367</u> |

Debt Administration

Bond Obligations – As of June 30, 2018, the District has outstanding bond obligations of \$15,605,000.

Other obligations include accrued vacation pay and sick leave for specific employees of the District amounting to \$1,566,295.

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 an establish 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 was 5.4

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED (CONT'D)
JUNE 30, 2018**

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.

In addition, one of the District's largest taxpayers has filed a petition to receive tax exempt status with the Court of Common Pleas of Chester County. Should the petition be granted, the District will lose approximately \$396,000 per year in local tax revenues. The loss of this revenue will need to be compensated for through either increases in other revenue sources or decreases in expenditures.

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, 2018
(With Summarized Comparative Data for June 30, 2017)

| | Governmental Activities | Business-type Activities | Totals | |
|---|----------------------------|-----------------------------|----------------------|----------------------|
| | | | 2018 | 2017* |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 3,517,589 | \$ 188,231 | \$ 3,705,820 | \$ 1,668,144 |
| Investments | 30,221,540 | 283,005 | 30,504,545 | 35,031,618 |
| Taxes receivable, net of allowance | 1,341,600 | - | 1,341,600 | 1,388,728 |
| Due from other governments | 2,654,318 | 147,455 | 2,801,773 | 2,546,958 |
| Internal balances | 149,550 | (149,550) | - | - |
| Other receivables | 111,196 | 3,256 | 114,452 | 3,810 |
| Inventories | - | 55,546 | 55,546 | 51,730 |
| Prepaid expenses | 913,726 | - | 913,726 | 56,453 |
| Other current assets | 142,000 | - | 142,000 | 142,000 |
| Land | 11,035,789 | - | 11,035,789 | 11,035,789 |
| Construction-in-progress | 24,404 | - | 24,404 | - |
| Buildings and improvements, net | 32,231,377 | - | 32,231,377 | 34,253,160 |
| Furniture and equipment, net | 4,134,544 | 47,846 | 4,182,390 | 3,818,418 |
| TOTAL ASSETS | 86,477,633 | 575,789 | 87,053,422 | 89,996,808 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Deferred pension and other postemployment benefits contributions | 10,898,201 | 181,659 | 11,079,860 | 9,788,329 |
| Deferred outflows - pension and other postemployment benefits | 8,353,422 | 147,058 | 8,500,480 | 13,075,328 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 19,251,623 | 328,717 | 19,580,340 | 22,863,657 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$105,729,256 | \$ 904,506 | \$106,633,762 | \$112,860,465 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT) | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 2,539,904 | \$ - | \$ 2,539,904 | \$ 3,830,161 |
| Accrued salaries, payroll withholdings, and benefits | 6,722,849 | 21,140 | 6,743,989 | 6,742,232 |
| Accrued interest payable | 66,524 | - | 66,524 | 88,324 |
| Unearned revenues | 311,525 | 48,945 | 360,470 | 180,247 |
| Other liabilities | 55,524 | - | 55,524 | - |
| Long-term liabilities | | | | |
| Portion due or payable within one year: | | | | |
| Bonds payable, net | 2,989,792 | - | 2,989,792 | 2,914,792 |
| Capital lease payable | 10,587 | - | 10,587 | 30,923 |
| Accumulated compensated absences | 87,128 | - | 87,128 | 51,009 |
| Portion due or payable after one year: | | | | |
| Bonds payable, net | 12,955,652 | - | 12,955,652 | 15,945,445 |
| Capital lease payable | 41,972 | - | 41,972 | - |
| Accumulated compensated absences | 1,479,167 | - | 1,479,167 | 1,387,873 |
| Net other postemployment benefits liability | 21,719,881 | 82,123 | 21,802,004 | 26,393,046 |
| Net pension liability | 113,084,202 | 1,990,798 | 115,075,000 | 118,887,000 |
| TOTAL LIABILITIES | 162,064,707 | 2,143,006 | 164,207,713 | 176,451,052 |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Deferred inflows - pension and other postemployment benefits | 8,640,357 | 61,415 | 8,701,772 | 990,000 |
| Deferred amounts on bond refunding | 134,002 | - | 134,002 | 167,504 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 8,774,359 | 61,415 | 8,835,774 | 1,157,504 |
| NET POSITION (DEFICIT): | | | | |
| Net investment in capital assets | 31,428,111 | 47,846 | 31,475,957 | 30,216,207 |
| Restricted for capital projects | 3,156,548 | - | 3,156,548 | 2,251,726 |
| Unrestricted (Deficit) | (99,694,469) | (1,347,761) | (101,042,230) | (97,216,024) |
| TOTAL NET DEFICIT | (65,109,810) | (1,299,915) | (66,409,725) | (64,748,091) |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT) | \$105,729,256 | \$ 904,506 | \$106,633,762 | \$112,860,465 |

* - Restated

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

**AVON GROVE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With Summarized Comparative Data for the Year Ended June 30, 2017)**

| | Program Revenues | | | | Net (Expense) and Changes in Net Position | | | |
|---|---------------------|----------------------|--------------------------|--------------------------|---|--------------------------|------------------------|------------------------|
| | Expenses | Charges for Services | Operating | Capital | Governmental Activities | Business-type Activities | Totals | |
| | | | Grants and Contributions | Grants and Contributions | | | 2018 | 2017* |
| GOVERNMENTAL ACTIVITIES: | | | | | | | | |
| Instruction | \$63,139,190 | \$ 285,365 | \$ 9,686,797 | \$ - | \$ (53,167,028) | \$ - | \$ (53,167,028) | \$ (53,444,463) |
| Instructional student support | 7,864,407 | - | 1,427,866 | - | (6,436,541) | - | (6,436,541) | (6,564,280) |
| Administrative and financial support services | 8,301,952 | 9,062 | 1,323,322 | - | (6,969,568) | - | (6,969,568) | (7,194,194) |
| Operation and maintenance of plant services | 3,900,125 | 77,978 | 93,388 | 18,000 | (3,710,759) | - | (3,710,759) | (4,118,390) |
| Pupil transportation | 6,241,785 | - | 2,191,642 | - | (4,050,143) | - | (4,050,143) | (4,151,274) |
| Student activities | 1,243,781 | 209,151 | 122,629 | - | (912,001) | - | (912,001) | (1,339,160) |
| Community services | 1,604 | - | 185 | - | (1,419) | - | (1,419) | (3,147) |
| Scholarships and awards | 16,187 | - | - | - | (16,187) | - | (16,187) | - |
| Interest on long-term debt | 300,270 | - | 351,144 | - | 50,874 | - | 50,874 | 125,213 |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>91,009,301</u> | <u>581,556</u> | <u>15,196,973</u> | <u>18,000</u> | <u>(75,212,772)</u> | <u>-</u> | <u>(75,212,772)</u> | <u>(76,689,695)</u> |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | | |
| Food service | 2,064,004 | 983,797 | 1,042,856 | - | - | (37,351) | (37,351) | (156,990) |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>2,064,004</u> | <u>983,797</u> | <u>1,042,856</u> | <u>-</u> | <u>-</u> | <u>(37,351)</u> | <u>(37,351)</u> | <u>(156,990)</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$93,073,305</u> | <u>\$ 1,565,353</u> | <u>\$16,239,829</u> | <u>\$ 18,000</u> | <u>(75,212,772)</u> | <u>(37,351)</u> | <u>(75,250,123)</u> | <u>(76,846,685)</u> |
| GENERAL REVENUES | | | | | | | | |
| Property taxes levied for general purposes | | | | | 53,856,885 | - | 53,856,885 | 52,400,224 |
| Taxes levied for specific purposes | | | | | 1,088,651 | - | 1,088,651 | 896,358 |
| Grants and entitlements not restricted to specific programs | | | | | 17,781,335 | - | 17,781,335 | 17,569,388 |
| Investment earnings | | | | | 621,753 | 3,784 | 625,537 | 279,656 |
| Gain on sale of assets | | | | | 55,241 | - | 55,241 | - |
| Miscellaneous | | | | | 180,840 | - | 180,840 | 142,470 |
| TOTAL GENERAL REVENUES | | | | | <u>73,584,705</u> | <u>3,784</u> | <u>73,588,489</u> | <u>71,288,096</u> |
| CHANGE IN NET POSITION | | | | | (1,628,067) | (33,567) | (1,661,634) | (5,558,589) |
| NET DEFICIT, BEGINNING OF YEAR, RESTATED | | | | | <u>(63,481,743)</u> | <u>(1,266,348)</u> | <u>(64,748,091)</u> | <u>(59,189,502)</u> |
| NET DEFICIT, END OF YEAR | | | | | <u>\$ (65,109,810)</u> | <u>\$ (1,299,915)</u> | <u>\$ (66,409,725)</u> | <u>\$ (64,748,091)</u> |

* - Restated

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

**AVON GROVE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018
(With Summarized Comparative Data for June 30, 2017)**

| | Major Funds | | Totals | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | General Fund | Capital Projects Fund | 2018 | 2017* |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 3,517,589 | \$ - | \$ 3,517,589 | \$ 1,538,642 |
| Investments | 23,734,390 | 3,207,599 | 26,941,989 | 31,263,798 |
| Taxes receivable, net of allowance | 1,341,600 | - | 1,341,600 | 1,388,728 |
| Due from other funds | 190,082 | - | 190,082 | 89,134 |
| Due from other governments | 2,654,318 | - | 2,654,318 | 2,427,828 |
| Other receivables | 111,196 | - | 111,196 | - |
| Prepaid expenditures | 913,726 | - | 913,726 | 56,453 |
| Other current assets | - | - | - | 142,000 |
| TOTAL ASSETS | <u>\$32,462,901</u> | <u>\$ 3,207,599</u> | <u>\$35,670,500</u> | <u>\$36,906,583</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 2,026,435 | \$ 10,519 | \$ 2,036,954 | \$ 3,143,694 |
| Accrued salaries, payroll withholdings, and benefits | 6,722,849 | - | 6,722,849 | 6,736,648 |
| Accumulated compensated absences | 87,128 | - | 87,128 | 51,009 |
| Due to other funds | 434,831 | 40,532 | 475,363 | 211,443 |
| Other liabilities | 55,524 | - | 55,524 | - |
| Unearned revenues | 311,525 | - | 311,525 | 137,479 |
| TOTAL LIABILITIES | <u>9,638,292</u> | <u>51,051</u> | <u>9,689,343</u> | <u>10,280,273</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Unavailable revenues - delinquent taxes | 1,107,096 | - | 1,107,096 | 1,131,717 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>1,107,096</u> | <u>-</u> | <u>1,107,096</u> | <u>1,131,717</u> |
| FUND BALANCES: | | | | |
| Nonspendable | 913,726 | - | 913,726 | 56,453 |
| Restricted for capital projects | - | 3,156,548 | 3,156,548 | 2,251,726 |
| Committed for future retirement contributions | 7,612,908 | - | 7,612,908 | 8,633,297 |
| Assigned | 9,063,103 | - | 9,063,103 | 8,941,880 |
| Unassigned | 4,127,776 | - | 4,127,776 | 5,611,237 |
| TOTAL FUND BALANCES | <u>21,717,513</u> | <u>3,156,548</u> | <u>24,874,061</u> | <u>25,494,593</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$32,462,901</u> | <u>\$ 3,207,599</u> | <u>\$35,670,500</u> | <u>\$36,906,583</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, 2018**

TOTAL GOVERNMENTAL FUND BALANCES \$ 24,874,061

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 | |
| Construction-in-progress | 24,404 | |
| Buildings and improvements | 32,231,377 | |
| Furniture and equipment | <u>4,134,544</u> | 47,426,114 |

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 | (15,945,444) | |
| Capital lease payable | (52,559) | |
| Accumulated compensated absences | (1,479,167) | |
| Accrued interest payable | (66,524) | |
| Net postemployment benefits liability | (21,719,881) | |
| Net pension liability | <u>(113,084,202)</u> | (152,347,777) |

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. 3,353,432

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. 1,107,096

Refunded debt resulted in deferred inflows of resources which will be amortized over the life of new debt but do not represent current rights. (134,002)

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

| | | |
|---|--------------------|-------------------|
| Deferred outflows of resources: | | |
| Deferred pension and other postemployment benefit contributions | 10,898,201 | |
| Deferred outflows - pension and other postemployment benefits | 8,353,422 | |
| Deferred inflows of resources: | | |
| Deferred inflows - pension and other postemployment benefits | <u>(8,640,357)</u> | <u>10,611,266</u> |

NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (65,109,810)

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, 2018
(With Summarized Comparative Data for the Year Ended June 30, 2017)

| | Major Funds | | Totals | |
|--|----------------------|-----------------------|----------------------|----------------------|
| | General Fund | Capital Projects Fund | 2018 | 2017* |
| REVENUES | | | | |
| Local sources | \$ 56,266,495 | \$ 51,005 | \$ 56,317,500 | \$ 54,108,343 |
| State sources | 31,384,469 | - | 31,384,469 | 30,203,441 |
| Federal sources | 1,507,039 | - | 1,507,039 | 1,191,439 |
| TOTAL REVENUES | <u>89,158,003</u> | <u>51,005</u> | <u>89,209,008</u> | <u>85,503,223</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 58,507,187 | - | 58,507,187 | 57,874,259 |
| Support services | 26,044,658 | 270,694 | 26,315,352 | 24,379,697 |
| Operation of noninstructional services | 1,187,726 | - | 1,187,726 | 1,167,153 |
| Capital outlays | 22,382 | 782,324 | 804,706 | 1,134,343 |
| Debt service | 3,270,365 | - | 3,270,365 | 3,271,890 |
| TOTAL EXPENDITURES | <u>89,032,318</u> | <u>1,053,018</u> | <u>90,085,336</u> | <u>87,827,342</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | <u>125,685</u> | <u>(1,002,013)</u> | <u>(876,328)</u> | <u>(2,324,119)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from extended term financing | - | 56,835 | 56,835 | - |
| Transfers in | - | 1,850,000 | 1,850,000 | 1,600,000 |
| Transfers out | (1,850,000) | - | (1,850,000) | (1,600,000) |
| Proceeds from asset disposition | 198,961 | - | 198,961 | 15,167 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(1,651,039)</u> | <u>1,906,835</u> | <u>255,796</u> | <u>15,167</u> |
| NET CHANGE IN FUND BALANCES | (1,525,354) | 904,822 | (620,532) | (2,308,952) |
| FUND BALANCES, BEGINNING OF YEAR | <u>23,242,867</u> | <u>2,251,726</u> | <u>25,494,593</u> | <u>27,803,545</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 21,717,513</u> | <u>\$ 3,156,548</u> | <u>\$ 24,874,061</u> | <u>\$ 25,494,593</u> |

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, 2018**

| | |
|--|------------------------------|
| NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS | \$ (620,532) |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$3,302,048) exceeded capital outlays (\$1,724,920) in the period. | (1,577,128) |
| When capital assets are disposed of, their residual value is offset against the value of any proceeds received from the disposal. This is the residual value of the disposed assets. | (44,759) |
| 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. | (24,621) |
| 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. | 2,893,157 |
| 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. | 33,502 |
| 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. | (91,294) |
| 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. | 348,608 |
| 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. | 21,800 |
| Pension and OPEB expense in the statement of activities differ from the amount reported in the governmental funds because pension and OPEB expenses are recognized on the statement of activities based on the District's proportionate share of the expense of the pension and OPEB plans, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plans exists. | <u>(2,566,800)</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ (1,628,067)</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, 2018**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variance with Final Budget Positive (Negative) |
|--|----------------------------|----------------------------|----------------------------|---|
| | Original | Final Budget | | |
| REVENUES | | | | |
| Local sources | \$56,306,977 | \$56,306,977 | \$56,266,495 | \$ (40,482) |
| State sources | 29,838,166 | 29,838,166 | 31,384,469 | 1,546,303 |
| Federal sources | 1,190,869 | 1,190,869 | 1,507,039 | 316,170 |
| TOTAL REVENUES | <u>87,336,012</u> | <u>87,336,012</u> | <u>89,158,003</u> | <u>1,821,991</u> |
| EXPENDITURES | | | | |
| Instruction: | | | | |
| Regular programs | 41,675,525 | 41,872,874 | 41,164,413 | 708,461 |
| Special programs | 14,084,895 | 13,919,074 | 13,843,202 | 75,872 |
| Vocational programs | 3,405,633 | 3,431,313 | 3,431,313 | - |
| Other instructional programs | 168,798 | 76,826 | 68,259 | 8,567 |
| Total Instruction | <u>59,334,851</u> | <u>59,300,087</u> | <u>58,507,187</u> | <u>792,900</u> |
| Support services: | | | | |
| Pupil personnel services | 3,912,628 | 3,989,041 | 3,989,041 | - |
| Instructional staff services | 2,667,949 | 2,498,113 | 2,498,113 | - |
| Administrative services | 3,791,190 | 4,149,937 | 4,149,937 | - |
| Pupil health | 798,391 | 892,132 | 892,132 | - |
| Business services | 936,029 | 899,310 | 899,310 | - |
| Operation and maintenance of plant services | 4,096,155 | 3,800,654 | 3,800,654 | - |
| Student transportation services | 6,122,057 | 6,092,608 | 6,092,608 | - |
| Central support services | 3,160,647 | 3,093,865 | 3,093,865 | - |
| Other support services | 87,628 | 191,207 | 628,998 | (437,791) |
| Total Support Services | <u>25,572,674</u> | <u>25,606,867</u> | <u>26,044,658</u> | <u>(437,791)</u> |
| Operation of noninstructional services: | | | | |
| Student activities | 1,176,136 | 1,172,057 | 1,169,998 | 2,059 |
| Community services | - | 1,541 | 1,541 | - |
| Scholarships and Awards | - | 3,109 | 16,187 | (13,078) |
| Total Operation of Noninstructional Services | <u>1,176,136</u> | <u>1,176,707</u> | <u>1,187,726</u> | <u>(11,019)</u> |
| Capital outlay | - | - | 22,382 | (22,382) |
| Debt service | 4,830,365 | 4,830,365 | 3,270,365 | 1,560,000 |
| TOTAL EXPENDITURES | <u>90,914,026</u> | <u>90,914,026</u> | <u>89,032,318</u> | <u>1,881,708</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(3,578,014)</u> | <u>(3,578,014)</u> | <u>125,685</u> | <u>3,703,699</u> |
| OTHER FINANCING USES | | | | |
| Transfer to other funds | (1,850,000) | (1,850,000) | (1,850,000) | - |
| Proceeds from asset disposition | - | - | 198,961 | 198,961 |
| Budgetary reserve | (900,000) | (900,000) | - | 900,000 |
| TOTAL OTHER FINANCING USES | <u>(2,750,000)</u> | <u>(2,750,000)</u> | <u>(1,651,039)</u> | <u>1,098,961</u> |
| NET CHANGE IN FUND BALANCE | (6,328,014) | (6,328,014) | (1,525,354) | 4,802,660 |
| FUND BALANCE, BEGINNING OF YEAR | <u>23,242,867</u> | <u>23,242,867</u> | <u>23,242,867</u> | <u>-</u> |
| FUND BALANCE, END OF YEAR | <u>\$16,914,853</u> | <u>\$16,914,853</u> | <u>\$21,717,513</u> | <u>\$ 4,802,660</u> |

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

**AVON GROVE SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018 AND 2017**

| | Major Fund | | Internal Service Fund | |
|---|---------------------|---------------------|-----------------------|---------------------|
| | Food Service Fund | | | |
| | 2018 | 2017* | 2018 | 2017 |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 188,231 | \$ 129,502 | \$ - | \$ - |
| Investments | 283,005 | 279,384 | 3,279,551 | 3,488,436 |
| Due from other funds | - | 9,913 | 434,831 | 201,530 |
| Due from other governments | 147,455 | 119,130 | - | - |
| Other receivables | 3,256 | 3,810 | - | - |
| Inventories | 55,546 | 51,730 | - | - |
| Other assets | - | - | 142,000 | - |
| Total Current Assets | <u>677,493</u> | <u>593,469</u> | <u>3,856,382</u> | <u>3,689,966</u> |
| PROPERTY AND EQUIPMENT: | | | | |
| Furniture and equipment | 119,461 | 677,638 | - | - |
| Accumulated depreciation | <u>(71,615)</u> | <u>(618,272)</u> | <u>-</u> | <u>-</u> |
| Net Property and Equipment | <u>47,846</u> | <u>59,366</u> | <u>-</u> | <u>-</u> |
| TOTAL ASSETS | <u>725,339</u> | <u>652,835</u> | <u>3,856,382</u> | <u>3,689,966</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Deferred pension and other postemployment benefit contributions | 181,659 | 156,686 | - | - |
| Deferred outflows - pension and other postemployment benefits | 147,058 | 226,203 | - | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>328,717</u> | <u>382,889</u> | <u>-</u> | <u>-</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 1,054,056</u> | <u>\$ 1,035,724</u> | <u>\$ 3,856,382</u> | <u>\$ 3,689,966</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT) | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ - | \$ 1,325 | \$ 502,950 | \$ 685,142 |
| Accrued salaries, payroll withholdings, and benefits | 21,140 | 5,584 | - | - |
| Due to other funds | 149,550 | 89,134 | - | - |
| Unearned revenues | 48,945 | 42,768 | - | - |
| Long-term liabilities | | | | |
| Portion due or payable after one year: | | | | |
| Net other post-employments liability | 82,123 | 89,389 | - | - |
| Net pension liability | <u>1,990,798</u> | <u>2,056,745</u> | <u>-</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>2,292,556</u> | <u>2,284,945</u> | <u>502,950</u> | <u>685,142</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Deferred inflows - pension and other postemployment benefits | <u>61,415</u> | <u>17,127</u> | <u>-</u> | <u>-</u> |
| NET POSITION (DEFICIT): | | | | |
| Investment in capital assets | 47,846 | 59,366 | - | - |
| Unrestricted (Deficit) | <u>(1,347,761)</u> | <u>(1,325,714)</u> | <u>3,353,432</u> | <u>3,004,824</u> |
| Total Net Position (Deficit) | <u>(1,299,915)</u> | <u>(1,266,348)</u> | <u>3,353,432</u> | <u>3,004,824</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT) | <u>\$ 1,054,056</u> | <u>\$ 1,035,724</u> | <u>\$ 3,856,382</u> | <u>\$ 3,689,966</u> |

* - Restated

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 YEARS ENDED JUNE 30, 2018 AND 2017**

| | Major Fund | | | |
|--|-----------------------|-----------------------|-----------------------|---------------------|
| | Food Service Fund | | Internal Service Fund | |
| | 2018 | 2017* | 2018 | 2017 |
| OPERATING REVENUES | | | | |
| Food service revenues | \$ 983,797 | \$ 889,189 | \$ - | \$ - |
| Charges for health insurance | - | - | 6,284,665 | 7,773,052 |
| Total Operating Revenues | <u>983,797</u> | <u>889,189</u> | <u>6,284,665</u> | <u>7,773,052</u> |
| OPERATING EXPENSES | | | | |
| Salaries | 578,834 | 562,024 | - | - |
| Employee benefits | 455,119 | 448,790 | 5,978,702 | 6,675,855 |
| Purchased professional and technical services | 34,705 | 44,494 | - | - |
| Other operating expenses | 4,820 | 6,147 | - | - |
| Supplies | 979,006 | 938,341 | - | - |
| Depreciation | 10,808 | 12,940 | - | - |
| Total Operating Expenses | <u>2,063,292</u> | <u>2,012,736</u> | <u>5,978,702</u> | <u>6,675,855</u> |
| OPERATING (LOSS) INCOME | <u>(1,079,495)</u> | <u>(1,123,547)</u> | <u>305,963</u> | <u>1,097,197</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Earnings on investments | 3,784 | 1,830 | 42,645 | 11,392 |
| State sources | 166,083 | 154,837 | - | - |
| Federal sources | 876,773 | 816,803 | - | - |
| Loss on disposal of capital assets | (712) | (5,083) | - | - |
| Total Nonoperating Revenues | <u>1,045,928</u> | <u>968,387</u> | <u>42,645</u> | <u>11,392</u> |
| CHANGE IN NET POSITION | (33,567) | (155,160) | 348,608 | 1,108,589 |
| NET POSITION (DEFICIT), BEGINNING OF YEAR, RESTATED | <u>(1,266,348)</u> | <u>(1,111,188)</u> | <u>3,004,824</u> | <u>1,896,235</u> |
| NET POSITION (DEFICIT), END OF YEAR | <u>\$ (1,299,915)</u> | <u>\$ (1,266,348)</u> | <u>\$ 3,353,432</u> | <u>\$ 3,004,824</u> |

* - Restated

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

**AVON GROVE SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

| | Major Fund | | Internal Service Fund | |
|---|---------------------|---------------------|-----------------------|---------------------|
| | Food Service Fund | | | |
| | 2018 | 2017 | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 990,528 | \$ 886,484 | \$ 6,051,364 | \$ 7,833,042 |
| Payments to suppliers | (915,010) | (850,622) | (6,302,894) | (6,666,837) |
| Payments to employees | (922,821) | (864,892) | - | - |
| NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES | (847,303) | (829,030) | (251,530) | 1,166,205 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| State sources | 164,488 | 154,878 | - | - |
| Federal sources | 741,381 | 687,069 | - | - |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 905,869 | 841,947 | - | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Earnings on investments | 3,784 | 1,830 | 42,645 | 11,392 |
| (Purchase) Sale of investments | (3,621) | 14,033 | 208,885 | (1,177,597) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 163 | 15,863 | 251,530 | (1,166,205) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 58,729 | 28,780 | - | - |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 129,502 | 100,722 | - | - |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 188,231 | \$ 129,502 | \$ - | \$ - |
| RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating (loss) income | \$ (1,079,495) | \$ (1,123,547) | \$ 305,963 | \$ 1,097,197 |
| Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities: | | | | |
| Depreciation | 10,808 | 12,940 | - | - |
| Donated commodities | 108,662 | 126,388 | - | - |
| Decrease (Increase) in: | | | | |
| Due from other funds | 9,913 | (2,617) | (233,301) | 59,990 |
| Other receivables | 554 | (3,161) | - | - |
| Inventories | (3,816) | 11,018 | - | - |
| Other assets | - | - | (142,000) | - |
| Deferred outflows - pension contributions | (24,973) | (21,966) | - | - |
| Deferred outflows - pension | 79,145 | (189,062) | - | - |
| Increase (Decrease) in: | | | | |
| Accounts payable | (1,325) | 954 | (182,192) | 9,018 |
| Accrued salaries, payroll withholdings, and benefits | 15,556 | (1,434) | - | - |
| Due to other funds | 60,416 | 89,134 | - | - |
| Unearned revenues | 6,177 | 456 | - | - |
| Net other postemployment benefits liability | (7,266) | - | - | - |
| Net pension liability | (65,947) | 265,753 | - | - |
| Deferred inflows - pension | 44,288 | 6,114 | - | - |
| NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES | \$ (847,303) | \$ (829,030) | \$ (251,530) | \$ 1,166,205 |
| SUPPLEMENTAL DISCLOSURE | | | | |
| Noncash noncapital financing activity: | | | | |
| USDA donated commodities | \$ 108,662 | \$ 126,388 | \$ - | \$ - |

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

**AVON GROVE SCHOOL DISTRICT
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|---|---------------------------------|---------------------------------|
| ASSETS: | | |
| Cash | \$ 161,191 | \$ 180,907 |
| Accounts receivable | <u>7</u> | <u>-</u> |
| TOTAL ASSETS | <u><u>\$ 161,198</u></u> | <u><u>\$ 180,907</u></u> |
| | | |
| LIABILITIES AND NET POSITION: | | |
| LIABILITIES | | |
| Accounts payable | \$ 255 | \$ - |
| Due to student groups | <u>160,943</u> | <u>180,907</u> |
| TOTAL LIABILITIES | <u>161,198</u> | <u>180,907</u> |
| | | |
| NET POSITION | <u>-</u> | <u>-</u> |
| | | |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 161,198</u></u> | <u><u>\$ 180,907</u></u> |

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's *Codification of Governmental Accounting and Financial Reporting Standards* ("GASB Codification") 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 \$12,612. 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 2017 - 2018 was 29.77 mills (\$29.77 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 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 and other post-employment benefit contributions made subsequent to the measurement date and, therefore, not reflected in the net pension or net other post-employment benefits liabilities under full accrual basis reporting, are reported as deferred outflows of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension and other post-employment benefit liabilities 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, 2018, 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, 2017, 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Implementation of GASB Statement

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other post-employment benefit liability, or, for multi-employer cost sharing plans, the entity's share of the net other post-employment benefit liability, in the entity's 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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Excess of Expenditures Over Appropriations

General fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2018:

| | |
|-------------------------|------------|
| Other support services | \$ 437,791 |
| Scholarships and awards | \$ 13,078 |
| Capital outlay | \$ 22,382 |

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

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, 2018, the carrying amount of the District's deposits was \$3,867,011, and the bank balance was \$4,451,765. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$4,201,765 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,

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

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, 2018 was \$30,504,545.

Of the investments, \$980,000 is invested in non-negotiable certificates of deposits with maturities of less than one year. The remaining \$29,524,545 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.

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, 2018, 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, 2018 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 |
| Construction-in-progress | - | 24,404 | - | 24,404 |
| Total Capital Assets Not Being Depreciated | <u>11,035,789</u> | <u>24,404</u> | <u>-</u> | <u>11,060,193</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 82,942,655 | 354,832 | 208,721 | 83,088,766 |
| Furniture and equipment | 10,789,084 | 1,345,684 | 2,856,636 | 9,278,132 |
| Total Capital Assets Being Depreciated | <u>93,731,739</u> | <u>1,700,516</u> | <u>3,065,357</u> | <u>92,366,898</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> |
|--|------------------------------|----------------------|------------------|---------------------------|
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 48,689,495 | 2,352,797 | 184,903 | 50,857,389 |
| Furniture and equipment | 7,030,032 | 949,251 | 2,835,695 | 5,143,588 |
| Total accumulated depreciation | <u>55,719,527</u> | <u>3,302,048</u> | <u>3,020,598</u> | <u>56,000,977</u> |
| Total Capital Assets Being Depreciated, Net | <u>38,012,212</u> | <u>(1,601,532)</u> | <u>44,759</u> | <u>36,365,921</u> |
| Governmental Activities Assets, Net | <u>\$49,048,001</u> | <u>\$(1,577,128)</u> | <u>\$ 44,759</u> | <u>\$47,426,114</u> |
| <u>Business-type Activities</u> | | | | |
| Capital assets being depreciated: | | | | |
| Furniture and equipment | \$ 677,638 | \$ - | \$ 558,177 | \$ 119,461 |
| Less accumulated depreciation | <u>618,272</u> | <u>10,808</u> | <u>557,465</u> | <u>71,615</u> |
| Business-type Capital Assets, Net | <u>\$ 59,366</u> | <u>\$(10,808)</u> | <u>\$ 712</u> | <u>\$ 47,846</u> |

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

Governmental Activities:

| | |
|---|---------------|
| Instruction | \$ 2,554,900 |
| Instructional student support | 200,723 |
| Administrative and financial support services | 245,495 |
| Operation and maintenance of plant services | 103,381 |
| Pupil transportation | 165,724 |
| Student activities | <u>31,825</u> |

Total Depreciation Expense - Governmental Activities \$ 3,302,048

Business-type Activities:

| | |
|--------------|------------------|
| Food Service | <u>\$ 10,808</u> |
|--------------|------------------|

NOTE 6 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

| <u>Receivable To</u> | <u>Amount</u> | <u>Payable From</u> | <u>Amount</u> |
|-----------------------|-------------------|-----------------------|-------------------|
| General Fund | \$ 149,550 | Food Service Fund | \$ 149,550 |
| General Fund | 40,532 | Capital Projects Fund | 40,532 |
| Internal Service Fund | <u>434,831</u> | General Fund | <u>434,831</u> |
| | <u>\$ 624,913</u> | | <u>\$ 624,913</u> |

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS (cont'd)

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 \$1,850,000 during the year from the general fund to the capital projects fund for the purpose of funding future capital projects.

NOTE 7 GENERAL LONG-TERM LIABILITIES

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2018:

| | Balance July 1, 2017 | Additions | Reductions | Balance June 30, 2018 | Amounts Due In One Year |
|----------------------------------|-------------------------|-------------------|---------------------|--------------------------|-------------------------------|
| Bonds payable, net | \$18,860,237 | \$ - | \$2,914,793 | \$15,945,444 | \$2,989,792 |
| Capital lease payable | 30,923 | 56,835 | 35,199 | 52,559 | 10,587 |
| Accumulated compensated absences | 1,438,882 | 127,413 | - | 1,566,295 | 87,128 |
| Net OPEB liability | 26,303,657 | - | 4,583,776 | 21,719,881 | - |
| Net pension liability | 116,830,255 | - | 3,746,053 | 113,084,202 | - |
| TOTALS | <u>\$163,463,954</u> | <u>\$ 184,248</u> | <u>\$11,279,821</u> | <u>\$152,368,381</u> | <u>\$3,087,507</u> |

The following summarizes the changes in the long-term liabilities of business-type activities for the year ended June 30, 2018:

| | Balance July 1, 2017 | Additions | Reductions | Balance June 30, 2018 | Amounts Due In One Year |
|-----------------------|-------------------------|-------------|------------------|--------------------------|-------------------------------|
| Net OPEB liability | \$ 89,389 | \$ - | \$ 7,266 | \$ 82,123 | \$ - |
| Net pension liability | 2,056,745 | - | 65,947 | 1,990,798 | - |
| TOTALS | <u>\$ 2,146,134</u> | <u>\$ -</u> | <u>\$ 73,213</u> | <u>\$ 2,072,921</u> | <u>\$ -</u> |

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Bonds payable are comprised of the following:

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|------------------------|----------------------|----------------------|
| Bonds payable, at face | \$15,605,000 | \$18,445,000 |
| Unamortized discount | (79,850) | (97,576) |
| Unamortized premium | <u>420,294</u> | <u>512,813</u> |
| Bonds payable, net | <u>\$15,945,444</u> | <u>\$18,860,237</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. \$ 1,080,000

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. 6,400,000

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. 5,280,000

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. 2,845,000

TOTAL \$ 15,605,000

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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> |
|-----------------------------|---------------------------------|--------------------------------|-----------------------------|
| 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 | 860,000 | 83,740 | 943,740 |
| 2024 - 2028 | <u>3,365,000</u> | <u>195,684</u> | <u>3,560,684</u> |
| | <u>\$ 15,605,000</u> | <u>\$ 1,199,434</u> | <u>\$ 16,804,434</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 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. Benefit terms may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval.

Benefits Provided

The 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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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.

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 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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, 2018, the rate of the employer contribution was 32.57 percent of covered payroll, which was comprised of 31.74 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, 2018 was \$10,232,968.

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

At June 30, 2018, the District reported a liability of \$115,075,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the District's proportion was 0.2330 percent, which was a decrease of 0.0069 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$12,037,795. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual investment earnings | \$ 2,666,000 | \$ - |
| Changes in proportions | 1,202,000 | 2,507,000 |
| Changes of assumptions | 3,126,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 299,517 | - |
| Difference between expected and actual experience | 1,201,000 | 695,000 |
| Contributions subsequent to the date of measurement | <u>10,232,968</u> | <u>-</u> |
| | <u>\$ 18,727,485</u> | <u>\$ 3,202,000</u> |

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

An amount of \$10,232,968 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, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

| <u>Year Ended June 30,</u> | |
|----------------------------|---------------------|
| 2019 | \$ 1,659,796 |
| 2020 | 2,989,599 |
| 2021 | 1,612,125 |
| 2022 | <u>(969,003)</u> |
| | <u>\$ 5,292,517</u> |

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the system's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 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.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Experience rates were based on a study from July 1, 2010 through June 30, 2015.

The actuarial assumptions used in the June 30, 2017 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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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> |
|-------------------------|--------------------------|---|
| Global public equity | 20.0% | 5.1% |
| Fixed income | 36.0% | 2.6% |
| Commodities | 8.0% | 3.0% |
| Absolute return | 10.0% | 3.4% |
| Risk parity | 10.0% | 3.8% |
| Infrastructure/MLPs | 8.0% | 4.8% |
| Real estate | 10.0% | 3.6% |
| Alternative investments | 15.0% | 6.2% |
| Cash | 3.0% | 0.6% |
| Financing (LIBOR) | (20.0%) | 1.1% |
| | <u>100.0%</u> | |

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, 2017.

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.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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 | \$ 141,647,000 | \$ 115,075,000 | \$ 92,640,000 |

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 AVON GROVE SCHOOL DISTRICT POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The Avon Grove School District Postemployment Benefits Plan ("the District Plan") is a single-employer defined benefit healthcare plan. The District 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 District Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions."

Benefits Provided

The District Plan provides healthcare insurance benefits for retired employees and their dependents. The eligibility requirements and benefits provided are summarized as follows:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 AVON GROVE SCHOOL DISTRICT POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Administrators – retired District administrators with at least ten years of service to the District are eligible to receive benefits upon the date of their retirement into the PSERS and receive medical, prescription drug, dental, and vision insurance at no cost. Retired professional staff and support staff are eligible to receive medical and prescription drug insurance upon their retirement into the PSERS.

Professional staff, retired before July 1, 2013 – retired professional staff are eligible to receive medical and prescription drug insurance benefits. Professional staff retiring before July 1, 2013 pay a percentage of the premium assessed for a single employee ranging from zero to ten percent depending upon the year of retirement, plus twenty to twenty-five percent of the difference between dependent and single employee coverage for their dependent(s), as applicable.

Professional staff, retired on or after July 1, 2013 – retired professional staff are eligible to receive medical and prescription drug insurance benefits. Professional staff retiring on or after July 1, 2013 with thirty years of PSERS credited service, and at least twenty-five years of service to the District pay zero percent of the premium for single employees, plus twenty-five percent of the difference between dependent and single employee coverage for their dependent(s), as applicable.

Support staff – retired support staff are eligible to receive medical and prescription drug insurance benefits. Retired support staff with thirty years of PSERS credited service and at least twenty-five years of service to the District pay the same contribution percentage of the premiums as currently active employees.

At July 1, 2017, the following employees were covered by the benefit terms:

| | |
|---|------------|
| Active participants | 431 |
| Retired participants currently receiving benefits | <u>59</u> |
| | <u>490</u> |

Total OPEB Liability

The District's total OPEB liability of \$17,055,004 was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 AVON GROVE SCHOOL DISTRICT POSTEMPLOYMENT BENEFITS PLAN (cont'd)

- Healthcare cost trend rate – 6.00 percent in 2017, and 5.50 percent for 2018 - 2023. Rates gradually decrease from 5.40 percent in 2024 to 3.90 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Actuarial cost method – Entry age normal.
- Interest rate – 3.13 percent based on the S&P Municipal Bond 20-year High Grade Rate Index at July 1, 2017.
- Salary increases – 2.50 percent cost of living adjustment, 1.00 percent real wage growth, with a merit increase for professional staff and administrators varying from 0.00 percent to 2.75 percent.
- Mortality rates were based upon the rates assumed in the PSERS defined benefit pension plan actuarial valuation; incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

Changes in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|---|---------------------------------|
| Total OPEB Liability – June 30, 2017 | \$ 21,226,046 |
| Changes for the year: | |
| Service cost | 1,079,004 |
| Interest | 545,531 |
| Changes of benefit terms | 483,830 |
| Differences between expected and actual experience | (5,132,266) |
| Changes of assumptions | (415,796) |
| Benefit payment | (731,345) |
| Net changes | <u>(4,171,042)</u> |
| Total OPEB Liability – June 30, 2018 | <u>\$ 17,055,004</u> |

Changes of assumptions include the change in the discount rate from 2.49 percent to 3.13 percent, updates to the healthcare cost trend assumption, and updates in the assumptions for salary, mortality, withdrawal, and retirement based on the PSERS actuarial valuation.

Changes of benefit terms reflect a decrease in the amount paid by retired professional staff for healthcare costs; retired professional staff now pay zero percent of the monthly medical premium for single employee coverage.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 AVON GROVE SCHOOL DISTRICT POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13 percent), or one percentage point higher (4.13 percent) than the current discount rate:

| | 1% Decrease 2.13% | Current Rate Discount Rate 3.13% | 1% Increase 4.13% |
|----------------------|-------------------------|--|-------------------------|
| Total OPEB liability | \$ 18,934,565 | \$ 17,055,004 | \$ 15,400,918 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Costs Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

| | 1% Decrease (5.0% Decreasing to 2.9%) | Current Trend Rates (6.0% Decreasing to 3.9%) | 1% Increase (7.0% Decreasing to 4.9%) |
|----------------------|---|---|---|
| Total OPEB liability | \$ 14,867,048 | \$ 17,055,004 | \$ 19,700,869 |

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,712,075. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Changes of assumptions | \$ - | \$ 386,096 |
| Difference between expected and actual experience | - | 4,765,676 |
| Contributions subsequent to the date of measurement | <u>579,300</u> | <u>-</u> |
| | <u>\$ 579,300</u> | <u>5,151,772</u> |

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 AVON GROVE SCHOOL DISTRICT POSTEMPLOYMENT BENEFITS PLAN (cont'd)

An amount of \$579,300 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a component of OPEB expense in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,

| | |
|------------|-----------------------------|
| 2019 | \$ (396,290) |
| 2020 | (396,290) |
| 2021 | (396,290) |
| 2022 | (396,290) |
| 2023 | (396,290) |
| Thereafter | <u>(3,170,322)</u> |
| | <u><u>\$(5,151,772)</u></u> |

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

As a member of the PSERS, District employees are eligible to participate in the postemployment healthcare program offered and administered by the PSERS.

Health Insurance Premium Assistance Program

The PSERS provides Premium Assistance, which is a governmental cost sharing, multiple-employer other postemployment benefits plan ("OPEB") for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

PSERS retirees can participate in the Premium Assistance program if they satisfy the following criteria:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (cont'd)

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the Health Options Program ("HOP") or employer-sponsored health insurance program

Pension Plan Description

The PSERS is 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 financial report that can be obtained at www.pers.pa.gov.

Benefits Provided

Participating eligible retirees are entitled to receive Premium Assistance Payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees. Benefit terms may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$259,123 for the year ended June 30, 2017.

OPEB Liability and Expense, and Deferred Inflows and Outflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$4,747,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (cont'd)

liability used to calculate the net OPEB liability was determined by rolling forward the system's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB 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, 2018, the District's proportion was 0.2330 percent, which was a decrease of 0.0069 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized a negative OPEB expense of \$77,963. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ - | \$ 221,000 |
| Changes in proportion | - | 127,000 |
| Differences between projected and actual investment earnings | 5,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 963 | - |
| Contributions subsequent to the date of measurement | <u>267,592</u> | <u>-</u> |
| | <u>\$ 273,555</u> | <u>\$ 348,000</u> |

Change in assumption: For current active employees who terminate employment and become eligible for coverage under the plan, it is assumed 50 percent of members will receive coverage prior to age 65 and 70 percent will receive coverage after age 65. Previously, coverage was assumed at 63 percent for all such employees, regardless of age.

An amount of \$267,592 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a component of OPEB expense in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (cont'd)

Year Ended June 30,

| | |
|------------|---------------------|
| 2019 | \$ (56,840) |
| 2020 | (56,840) |
| 2021 | (56,840) |
| 2022 | (56,840) |
| 2023 | (56,840) |
| Thereafter | <u>(57,837)</u> |
| | <u>\$ (342,037)</u> |

Actuarial Assumptions

The total OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS system's total OPEB liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age normal, level percent of pay
- Investment return – 3.13 percent based on the S&P 20-year Municipal Bond Rate
- Salary growth – Effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Experience rates were based on a study from July 1, 2010 through June 30, 2015.
- Participation rate:
 - Eligible retirees will elect to participate pre-age 65 at 50 percent
 - Eligible retirees will elect to participate post-age 65 at 70 percent

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost method: amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value
- Participation rate: 63 percent of eligible retirees are assumed to elect Premium Assistance.

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (cont'd)

- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25 percent males and 75 percent females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Cash | 76.4% | 0.6% |
| Fixed income | 23.6% | 1.5% |
| | <u>100.0%</u> | |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13 percent. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (cont'd)

position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13 percent which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the system's net OPEB liability for June 30, 2017, calculated using current healthcare cost trends as well as what the system's net OPEB liability would be if its health cost trends were one percentage point lower or one percentage point higher than the current rate:

| | <u>1% Decrease</u> | <u>Current Trend Rates</u> | <u>1% Increase</u> |
|--|------------------------|--------------------------------|------------------------|
| District's proportionate share of the net OPEB liability | \$ 4,746,000 | \$ 4,747,000 | \$ 4,748,000 |

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13 percent) or one percentage-point higher (4.13 percent) than the current rate:

| | <u>1% Decrease 2.13%</u> | <u>Current Rate Discount Rate 3.13%</u> | <u>1% Increase 4.13%</u> |
|--|----------------------------------|---|----------------------------------|
| District's proportionate share of the net OPEB liability | \$ 5,396,000 | \$ 4,747,000 | \$ 4,208,000 |

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (cont'd)

OPEB Plan Fiduciary Net Position

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

NOTE 11 SUMMARY OF NET OPEB LIABILITY AND DEFERRED INFLOWS AND OUTFLOWS RELATED TO PENSIONS AND OPEB

The District's aggregate net OPEB liability is as follows:

| | <u>Net OPEB Liability</u> |
|----------------------------|-------------------------------|
| District Plan (See Note 9) | \$ 17,055,004 |
| PSERS Plan (See Note 10) | <u>4,747,000</u> |
| Total | <u>\$ 21,802,004</u> |

The District's aggregate deferred inflows and outflows of resources related to pensions and OPEB are as follows:

| | <u>Deferred Outflows of Resources - Contributions</u> | <u>Other Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|-----------------------------------|---|---|--|
| Pension – PSERS (See Note 8) | \$ 10,232,968 | \$ 8,494,517 | \$ 3,202,000 |
| OPEB – District Plan (See Note 9) | 579,300 | - | 5,151,772 |
| OPEB – PSERS (See Note 10) | <u>267,592</u> | <u>5,963</u> | <u>348,000</u> |
| Total | <u>\$ 11,079,860</u> | <u>\$ 8,500,480</u> | <u>\$ 8,701,772</u> |

NOTE 12 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, 2018:

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 OPERATING LEASES (cont'd)

Year Ending June 30,

| | |
|------|-------------------|
| 2019 | \$ 142,195 |
| 2020 | 118,274 |
| 2021 | 118,274 |
| 2022 | 67,441 |
| 2023 | <u>28,637</u> |
| | <u>\$ 474,821</u> |

Rental expense for the year ended June 30, 2018 was \$297,686.

NOTE 13 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:

| | |
|------------------------------------|------------------|
| ASSET | |
| Equipment – Konica Minolta Copiers | \$ 56,835 |
| Less: Accumulated depreciation | <u>(5,210)</u> |
| Equipment, net | <u>\$ 51,625</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

Year Ending June 30,

| | |
|------------------------------------|------------------|
| 2019 | \$ 12,678 |
| 2020 | 12,678 |
| 2021 | 12,678 |
| 2022 | 12,678 |
| 2023 | 7,396 |
| Less: Amount representing interest | <u>(5,549)</u> |
| Total | <u>\$ 52,559</u> |

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 JOINT VENTURES

The District is a participating member of the Center for Arts Technology ("the Vo-Tech"). The Vo-Tech is run by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of the debt and operating costs of the Vo-Tech based on the number of students from each district. For fiscal year ended June 30, 2018, the District's share of debt and operating costs was \$3,431,313. 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 15 FUND BALANCES

As of June 30, 2018, fund balances are composed of the following:

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|--------------------------|-------------------------|----------------------------------|---|
| Nonspendable: | | | |
| Prepaid expenditures | \$ 913,726 | \$ - | \$ 913,726 |
| Restricted: | | | |
| Capital projects | - | 3,156,548 | 3,156,548 |
| Committed: | | | |
| Pension costs | 7,612,908 | - | 7,612,908 |
| Assigned: | | | |
| Subsequent year's budget | 6,954,202 | - | 6,954,202 |
| Future projects | 2,108,901 | - | 2,108,901 |
| Unassigned | <u>4,127,776</u> | <u>-</u> | <u>4,127,776</u> |
| Total Fund Balances | <u>\$ 21,717,513</u> | <u>\$ 3,156,548</u> | <u>\$ 24,874,061</u> |

NOTE 16 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

AVON GROVE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 17 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2017 - 2018 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 18 DEFICIT NET POSITION

For governmental activities, business-type activities, and the food service fund, the unrestricted net deficit amounts of \$99,694,469, \$1,347,761, and \$1,347,761, respectively, includes the effect of the deferring the recognition of pension and post-retirement benefit contributions made subsequent to the measurement date of the net pension and net other post-employment benefits liabilities, 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 19 PRIOR PERIOD ADJUSTMENTS

The District has decreased its July 1, 2016 net position in the governmental activities by \$13,759,668 due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The District recorded a beginning net OPEB liability of \$26,303,657 and deferred outflows of resources of \$731,345. The previously reported \$11,812,644 OPEB liability as of June 30, 2017 is no longer recognized due to the change in accounting principle.

The District has decreased its July 1, 2016 net position by \$89,389 in the business-type activities and food service fund due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The District recorded and a beginning net OPEB liability of \$89,389.

NOTE 20 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 8, 2018, 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, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
| District's proportion of the net pension liability | 0.2330% | 0.2399% | 0.2384% | 0.2360% |
| District's proportion of the net pension liability - dollar value | \$ 115,075,000 | \$ 118,887,000 | \$ 103,264,000 | \$ 93,411,000 |
| District's covered employee payroll | \$ 31,017,068 | \$ 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 | 371.01% | 382.69% | 336.63% | 310.11% |
| Plan fiduciary net position as a percentage of the total pension liability | 51.84% | 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 PENSION CONTRIBUTIONS
Pennsylvania Public School Employees' Retirement System (PSERS)**

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Contractually required contribution | \$ 10,232,968 | \$ 9,056,984 | \$ 7,766,511 | \$ 6,288,563 |
| Contributions in relation to the contractually required contribution | <u>10,232,968</u> | <u>9,056,984</u> | <u>7,766,511</u> | <u>6,288,563</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 32,239,975 | \$ 31,017,068 | \$ 31,066,045 | \$ 30,675,916 |
| Contributions as a percentage of covered-employee payroll | 31.74% | 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.

**AVON GROVE SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - PSERS**

| | MEASUREMENT DATE |
|--|---------------------|
| | June 30, 2017 |
| District's proportion of the net OPEB liability | 0.2330% |
| District's proportion of the net OPEB liability - dollar value | \$ 4,747,000 |
| District's covered employee payroll | \$ 31,025,329 |
| District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll | 15.30% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 5.73% |

In accordance with GASB Statement No. 75, 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 OPEB CONTRIBUTIONS - PSERS**

| | June 30, 2018 |
|---|---------------|
| Contractually required contribution | \$ 267,592 |
| Contributions in related to the contractually required contribution | 267,592 |
| Contribution excess | \$ - |
| District's covered employee payroll | \$ 32,240,000 |
| Contributions as a percentage of covered-employee payroll | 0.83% |

In accordance with GASB Statement No. 75, 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 CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS -
SINGLE EMPLOYER PLAN**

| | MEASUREMENT DATE |
|---|---------------------|
| | July 1, 2017 |
| TOTAL OPEB LIABILITY | |
| Service cost | \$ 1,079,004 |
| Interest | 545,531 |
| Changes of benefit terms | 483,830 |
| Differences between expected and actual experience | (5,132,266) |
| Changes of assumptions | (415,796) |
| Benefit payments | (731,345) |
| NET CHANGE IN TOTAL OPEB LIABILITY | (4,171,042) |
| TOTAL OPEB LIABILITY, BEGINNING OF YEAR | 21,226,046 |
| TOTAL OPEB LIABILITY, END OF YEAR | \$ 17,055,004 |
| <u>PLAN FIDUCIARY NET POSITION</u> | |
| PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR | \$ - |
| PLAN FIDUCIARY NET POSITION, END OF YEAR | \$ - |
| DISTRICT'S NET OPEB LIABILITY | \$ 17,055,004 |
| Plan fiduciary net position as a percentage of total OPEB liability | 0.00% |
| Covered employee payroll | \$ 30,046,491 |
| District's net OPEB liability as a percentage of covered payroll | 56.76% |

NOTES TO SCHEDULE

Changes of Assumptions

The discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

Changes of Benefit Terms

Teachers now pay 0% of the monthly medical premium for single coverage post-retirement.

In accordance with GASB Statement No. 75, 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 - SINGLE EMPLOYER PLAN**

| <u>Year</u> | <u>Actuarial Determined Contribution</u> | <u>Contributions from Employer</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered Employee Payroll</u> | <u>Contributions as a Percentage of Payroll</u> |
|-------------|--|--|---|---|---|
| 2018 | \$ 579,300 | \$ 579,300 | \$ - | \$ 30,046,491 | 1.93% |

Notes to Schedule:

In accordance with GASB Statement No. 75, 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.

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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 8, 2018

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, 2018, 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 8, 2018.

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

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

November 8, 2018

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, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and recommendations as item 2018-001. Our opinion on the major federal program is not modified with respect to this matter.

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.

Board of School Directors
Avon Grove School District

The Avon Grove School District's response to the compliance finding identified in our audit are described in the accompanying management's response following the schedule of findings and recommendations. Avon Grove School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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?

 X Yes No

Identification of major program:

CFDA Numbers
10.553, 10.555

Name of Federal Program or Cluster
Child Nutrition 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

2018-001 – ELEGIBILITY DETERMINATION

Condition

During our current year audit, we noted an instance where the income eligibility determination for students to receive free or reduced lunch was not performed correctly.

Criteria

Free and reduced lunch applications are a critical component of the Child Nutrition Program, as it allows families who have limited income to receive assistance in providing meals to their children while at school.

Cause

The District does not have controls in place to review free and reduced lunch application prior to final processing.

AVON GROVE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Effect

The District misclassified a student as being eligible for free lunch; however the student should have been classified as reduced based on their household income.

Recommendation

We recommend that the District put a policy in place that will allow for the application information to be reviewed prior to being submitted in order to prevent future errors in the free or reduced determination.

Management's Response

See management's response on page 80.

**AVON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

| Federal Grantor/Pass-through Grantor Project Title | SOURCE CODE | FEDERAL CFDA NUMBER | PASS-THROUGH GRANTOR'S NUMBER | GRANT PERIOD BEGINNING/ ENDING DATES | GRANT AMOUNT | TOTAL RECEIVED FOR YEAR | ACCRUED (DEFERRED) REVENUE 7/01/2017 | REVENUE RECOGNIZED | EXPENDITURES | ACCRUED (DEFERRED) REVENUE 06/30/18 | PASSED THROUGH TO SUB-RECIPIENTS |
|--|-------------|---------------------|-------------------------------|--------------------------------------|--------------|-------------------------|--------------------------------------|--------------------|------------------|-------------------------------------|----------------------------------|
| U.S. Department of Education | | | | | | | | | | | |
| <u>Passed through Pennsylvania Department of Education</u> | | | | | | | | | | | |
| Title I - Grants to Local Education Agencies | I | 84.010 | 013-17-0017 | 08/24/16-09/30/17 | \$ 363,385 | \$ 71,853 | \$ 69,313 | \$ 2,540 | \$ 2,540 | \$ - | \$ - |
| Title I - Grants to Local Education Agencies | I | 84.010 | 013-18-0017 | 08/30/17-09/30/18 | 316,610 | 226,150 | - | 291,797 | 291,797 | 65,647 | - |
| Total CFDA #84.010 | | | | | | 298,003 | 69,313 | 294,337 | 294,337 | 65,647 | - |
| Title II - Improving Teacher Quality | I | 84.367 | 020-17-0017 | 08/24/16-09/30/17 | 95,178 | 13,477 | 650 | 26,304 | 26,304 | 13,477 | - |
| Title II - Improving Teacher Quality | I | 84.367 | 020-18-0017 | 08/30/17-09/30/18 | 94,314 | 60,630 | - | 73,904 | 73,904 | 13,274 | - |
| Total CFDA #84.367 | | | | | | 74,107 | 650 | 100,208 | 100,208 | 26,751 | - |
| Title III - Language Inst LEP | I | 84.365 | 010-16-0017 | 07/28/15-09/30/17 | 117,632 | 1,315 | - | 1,315 | 1,315 | - | - |
| Title III - Language Inst LEP | I | 84.365 | 010-17-0017 | 08/24/16-09/30/18 | 114,053 | 24,440 | 9,790 | 14,650 | 14,650 | - | - |
| Title III - Language Inst LEP | I | 84.365 | 010-18-0017 | 08/30/17-09/30/18 | 96,265 | 75,637 | - | 84,527 | 84,527 | 8,890 | - |
| Total CFDA #84.365 | | | | | | 101,392 | 9,790 | 100,492 | 100,492 | 8,890 | - |
| Title IV - Student Support and Academic Enrichment | I | 84.424 | 144-18-0017 | 08/30/17-09/30/18 | 10,000 | 3,571 | - | - | - | (3,571) | - |
| Total CFDA #84.424 | | | | | | 3,571 | - | - | - | (3,571) | - |
| <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 | 062-17-0024 | 07/01/16-09/30/17 | 548,646 | 548,646 | 548,646 | - | - | - | - |
| I.D.E.A. Part B | I | 84.027 | 062-18-0024 | 07/01/17-09/30/18 | 533,447 | 355,631 | - | 533,447 | 533,447 | 177,816 | - |
| | | | | | | 904,277 | 548,646 | 533,447 | 533,447 | 177,816 | - |
| <u>Passed through Chester County Intermediate Unit</u> | | | | | | | | | | | |
| I.D.E.A. Part B 619 | I | 84.173 | 131-170024B | 07/01/16-06/30/17 | 577 | 577 | 577 | - | - | - | - |
| I.D.E.A. Part B 619 | I | 84.173 | 131-180024B | 07/01/17-06/30/18 | 1,764 | - | - | 1,764 | 1,764 | 1,764 | - |
| Total CFDA #84.173 | | | | | | 577 | 577 | 1,764 | 1,764 | 1,764 | - |
| Total Special Education Cluster | | | | | | 904,854 | 549,223 | 535,211 | 535,211 | 179,580 | - |
| Total U.S. Department of Education | | | | | | 1,381,927 | 628,976 | 1,030,248 | 1,030,248 | 277,297 | - |
| U.S. Department of Agriculture | | | | | | | | | | | |
| <u>National School Lunch Program</u> | | | | | | | | | | | |
| Value of USDA Donated Commodities | I | 10.555 | N/A | 07/01/17-06/30/18 | N/A | 108,662 | - | 108,662 | 108,662 | - | - |
| <u>Passed through Pennsylvania Department of Education</u> | | | | | | | | | | | |
| National School Lunch Program | I | 10.555 | N/A | 07/01/16-06/30/17 | N/A | 96,750 | 96,750 | - | - | - | - |
| National School Lunch Program | I | 10.555 | N/A | 07/01/17-06/30/18 | N/A | 565,362 | - | 686,013 | 686,013 | 120,651 | - |
| Total CFDA #10.555 | | | | | | 662,112 | 96,750 | 686,013 | 686,013 | 120,651 | - |
| Breakfast Program | I | 10.553 | N/A | 07/01/16-06/30/17 | N/A | 14,372 | 14,372 | - | - | - | - |
| Breakfast Program | I | 10.553 | N/A | 07/01/17-06/30/18 | N/A | 64,897 | - | 82,098 | 82,098 | 17,201 | - |
| Total CFDA #10.553 | | | | | | 79,269 | 14,372 | 82,098 | 82,098 | 17,201 | - |
| Total Child Nutrition Cluster | | | | | | 850,043 | 111,122 | 876,773 | 876,773 | 137,852 | - |
| Total U.S. Department of Agriculture | | | | | | 850,043 | 111,122 | 876,773 | 876,773 | 137,852 | - |

**AVON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

| Federal Grantor/Pass-through Grantor Project Title | SOURCE CODE | FEDERAL CFDA NUMBER | PASS-THROUGH GRANTOR'S NUMBER | GRANT PERIOD BEGINNING/ENDING DATES | GRANT AMOUNT | TOTAL RECEIVED FOR YEAR | ACCRUED (DEFERRED) REVENUE 7/01/2017 | REVENUE RECOGNIZED | EXPENDITURES | ACCRUED (DEFERRED) REVENUE 06/30/18 | PASSED THROUGH TO SUB-RECIPIENTS |
|---|-------------|---------------------|-------------------------------|-------------------------------------|--------------|-------------------------|--------------------------------------|---------------------|---------------------|-------------------------------------|----------------------------------|
| U.S. Department of Health and Human Services | | | | | | | | | | | |
| Passed through PA Department of Public Welfare | | | | | | | | | | | |
| Title XIX Medical Assistance Program | I | 93.778 | N/A | 07/01/17-06/30/18 | 7,659 | 3,891 | 1,074 | 7,659 | 7,659 | 4,842 | - |
| Total CFDA #93.778 | | | | | | <u>3,891</u> | <u>1,074</u> | <u>7,659</u> | <u>7,659</u> | <u>4,842</u> | <u>-</u> |
| Total U.S. Department of Health and Human Services | | | | | | <u>3,891</u> | <u>1,074</u> | <u>7,659</u> | <u>7,659</u> | <u>4,842</u> | <u>-</u> |
| TOTAL FEDERAL AWARDS | | | | | | <u>\$ 2,235,861</u> | <u>\$ 741,172</u> | <u>\$ 1,914,680</u> | <u>\$ 1,914,680</u> | <u>\$ 419,991</u> | <u>\$ -</u> |

Source Codes:

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 USDA Donated Commodities, represent surplus food consumed by the District during the 2017 - 2018 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, 2018 was \$469,132.

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.



Avon Grove School District

375 S. Jennersville Road • West Grove, Pennsylvania 19390

Phone: 610-869-2441 Fax: 610-869-8651



AVON GROVE SCHOOL DISTRICT MANAGEMENT'S RESPONSE TO FINDING

2018-001 ELIGIBILITY DETERMINATION

Management is in agreement with this finding. The District has reviewed the applicable policies and procedures for free and reduced lunch eligibility with employees involved in the process and will explore potential additional control steps if determined to be necessary. Implementation will be complete on or before December 31, 2018.

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APPENDIX D

Proposed Form of Opinion of Bond Counsel

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**AVON GROVE SCHOOL DISTRICT
CHESTER COUNTY, PENNSYLVANIA
\$36,245,000 GENERAL OBLIGATION BONDS, SERIES OF 2018**

OPINION

We have acted as Bond Counsel in connection with the issuance by Avon Grove School District, Chester County, Pennsylvania (the "School District"), of the \$36,245,000 General Obligation Bonds, Series of 2018 dated December 20, 2018 (the "Bonds").

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds are issued in accordance and in compliance with the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as codified by the Act of December 19, 1996 (53 Pa. Cons. Stat. Chs. 80-82), ("the Act"), without the assent of the electors, and pursuant to a resolution adopted by the Board of School Directors of the School District on November 15, 2018.

2. The Bonds are a valid and binding obligation of the School District.

3. The School District has established with the Paying Agent, as Sinking Fund Depository, a sinking fund in which it has covenanted to deposit amounts sufficient to pay the principal of and interest on the Bonds as the same become due and payable and, to the extent required, to apply such amounts to such purposes.

4. The School District has further covenanted that, subject to statutory restrictions and limitations, it will include in its budget for each fiscal year in which the Bonds are outstanding, and will appropriate in each such fiscal year, the amount of the debt service on the Bonds for such year, that it will duly and punctually pay or cause to be paid, the principal of and interest on the Bonds at the dates and place and in the manner stated on the Bonds; and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power. For purposes of such payments, the School District has covenanted that it will exercise its ad valorem taxing power, within limitations provided by law, upon all taxable property within the School District. The Bonds are additionally secured by the "state aid intercept" provisions of Section 633 of the Public School Code of 1949, as amended by Act 150 of 1975.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the School District comply with all requirements of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder, that must be satisfied subsequent to the issuance of the Bonds, in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The School District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive

to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds and the interest thereon will be free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of certain government obligations, including the Bonds, may be subject to state and local taxation within the Commonwealth of Pennsylvania.

The rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

Very truly yours,

Kegel Kelin Almy & Lord LLP

December 20, 2018

APPENDIX E

Proposed Form of Continuing Disclosure Certificate

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**AVON GROVE SCHOOL DISTRICT
CHESTER COUNTY, PENNSYLVANIA**

**\$36,245,000 GENERAL OBLIGATION BONDS, SERIES OF 2018
DATED, ISSUED AND DELIVERED DECEMBER 20, 2018**

CONTINUING DISCLOSURE AGREEMENT

This agreement (the "Agreement") is executed as one of the closing documents for the \$36,245,000 General Obligation Bonds, Series of 2018 (the "Bonds") in accordance with the provisions of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934.

The undersigned are officers of the Board of School Directors of Avon Grove School District (the "School District"), a Pennsylvania governmental unit, and hereby certify on behalf of the School District as follows:

Section 1. Undertaking to file current information with MSRB. The School District agrees, in accordance with the Rule, to provide or cause to be provided, to the Municipal Securities Rulemaking Board ("MSRB") as designated by the Commission in accordance with the Rule, the following annual financial information and operating data commencing with the fiscal year ended June 30, 2018:

a. A copy of its budget and audited financial statements, prepared in accordance with the guidelines adopted by the Governmental Accounting Standard Board and the American Institute of Certified Public Accountants' Audit Guide, Audits of State and Local Government, containing the:

- (i) Combined balance sheet of all fund types and account groups; and
- (ii) Combined statement of revenues, expenditures and changes in fund balances - all governmental fund types and expendable trust funds.

b. An update of the following information in the Official Statement for the Bonds dated November 28, 2018:

(i) a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the current fiscal year (may be contained within the budget or audit for the current fiscal year without need for further cross reference);

(ii) the total assessed value and market value of all taxable real estate for the current fiscal year (may be contained within the budget or audit for the current fiscal year without need for further cross reference);

(iii) the real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as millage rate and an aggregate

dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections, (3) the amount of real estate taxes collected that represented taxes levied in prior years, and (4) the total amount of real estate taxes collected (may be contained within the budget or audit for the current fiscal year without the need for further cross reference);. and

(iv) the taxes and millage rates imposed for the current fiscal year (may be contained within the budget or audit for the current fiscal year without need for further cross reference).

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

Section 2. Modification of types of information and format of information permitted. The School District reserves the right to modify from time to time the specific types of information provided, the time period within which the information must be filed, the format of the presentation of such information, or any other requirements hereunder, in its sole discretion, so long as such modification or amendment would have been allowed under the Rule at the time of the undertaking. Any such modification will be done in a manner consistent with the Rule at the time of the undertaking, and will not substantially impair the interest of the holders of the Bonds.

Section 3. Time period within which annual information must be filed. The annual information and operating data described above in Section 1 must be provided within 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2019. Such information shall be made available, in addition to the MSRB, to the Paying Agent for the Bonds and to each holder of Bonds who makes request for such information. In the event that no such audited financial statement is available within 270 days of the close of the fiscal year, the School District shall provide an unaudited statement, and shall thereafter provide an audited financial statement for the same period as soon as available. Upon receipt of the audited financial statement, the School District will promptly file it.

Section 4. Notice of failure to comply with annual information updates. The School District agrees to provide or cause to be provided, in a timely manner, to the Paying Agent for the Bonds, and to the MSRB, notice of a failure by the School District to provide the annual financial information described in Section 1 above on or prior to the date set forth in Section 3 above.

Section 5. Event disclosure. The School District agrees to provide or cause to be provided to the MSRB, in a timely manner, not to exceed ten (10) days after occurrence, notice of the occurrence of any of the following events with respect to the Bonds:

- a. Principal and interest payment delinquencies;
- b. Non-payment related defaults, if material;
- c. Unscheduled draws on debt service reserves reflecting financial difficulties;

- d. Unscheduled draws on credit enhancements reflecting financial difficulties;
- e. Substitution of any credit or liquidity providers, or their failure to perform;
- f. Adverse tax opinions, IRS notices or material events affecting the tax status
of the Bonds;
- g. Modifications to rights of holders of the Bonds, if material;
- h. Bond calls, if material, and tender offers;
- i. Defeasances;
- j. Release, substitution, or sale of property securing repayment of the Bonds, if
material;
- k. Rating changes;
- l. Bankruptcy, insolvency, receivership or similar event of the School District
(which is considered to occur when any of the following occur: appointment of a receiver, fiscal
agent or similar officer for the School District in a proceeding under the U.S. Bankruptcy Code or in
any other proceeding under state or federal law in which a court or governmental authority has
assumed jurisdiction over substantially all of the assets or business of the School District, or if such
jurisdiction has been assumed by leaving the existing governing body and officials or officers in
possession but subject to the supervision and orders of a court or governmental authority, or the
entry of any order confirming a plan of reorganization, arrangement or liquidation by a court or
governmental authority having supervision or jurisdiction over substantially all of the assets or
business of the School District);
- m. Merger, consolidation or acquisition involving the School District, if
material; or
- n. Appointment of successor or additional trustee or the change of name of a
trustee, if material.
- o. Incurrence of a financial obligation of the School District, if material, or
agreement to covenants, events of default, remedies, priority rights, or other similar terms of a
financial obligation of the School District, any of which affect security holders, if material; and
- p. Default, event of acceleration, termination event, modification of terms, or
other similar events under the terms of the financial obligation of the School District, any of which
reflect financial difficulties.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the School District, such other event is material with respect to the Bonds, but the School District does not commit to provide any such notice of the occurrence of any material event except those events listed above.

Section 6. Termination of reporting obligation. The School District's obligations under this Agreement shall terminate upon the redemption or payment in full of all of the Bonds.

Section 7. Enforcement. The School District agrees that its undertakings pursuant to this Agreement are intended to be for the benefit of the holders of the Bonds (including beneficial owners thereof) and shall be enforceable by the holders of the Bonds or the Paying Agent for the Bonds on behalf of such holders; provided that the holders of the Bonds, or in lieu thereof, the Paying Agent's right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the School District's obligations hereunder, and any failure by the School District to comply with the provisions of this undertaking shall not be an event of default, with respect to the Bonds.

Section 8. Amendment; waiver. Notwithstanding any other provision of this Agreement, the School District may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is supported by an opinion of Bond Counsel, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

IN WITNESS WHEREOF, the undersigned officers of the School District, being duly authorized, have executed this certificate in the name of and on behalf of the School District and in our own names and on our own behalf, the day and year of the issuance and delivery of the Bonds set forth above.

AVON GROVE SCHOOL DISTRICT

By: Mary D. Kim
President

Attest: Wendy Lee Kratz
Secretary

(SEAL)

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APPENDIX F

Bond Amortization Schedule

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\$36,245,000
AVON GROVE SCHOOL DISTRICT
Chester County, Pennsylvania
General Obligation Bonds, Series of 2018

Dated: Date of Delivery
Due: November 15, as shown below
Denomination: Integral multiples of \$5,000

Interest Payable: May 15 and November 15
First Interest Payment: May 15, 2019
Form: Book-Entry Only

Maturity Schedule

| <u>Date</u> | <u>Maturing Principal</u> | <u>Interest Rate</u> | <u>Semiannual Interest</u> | <u>Semiannual Debt Service</u> | <u>Fiscal Year Ended 30-Jun</u> | <u>Fiscal Annual Debt Service</u> |
|-------------------|---------------------------|----------------------|----------------------------|--------------------------------|---------------------------------|-----------------------------------|
| May 15, 2019 | | | \$ 660,875.76 | \$ 660,875.76 | 2019 | \$ 660,875.76 |
| November 15, 2019 | \$ 5,000 | 2.000% | 820,397.50 | 825,397.50 | | |
| May 15, 2020 | | | 820,347.50 | 820,347.50 | 2020 | 1,645,745.00 |
| November 15, 2020 | 5,000 | 2.150% | 820,347.50 | 825,347.50 | | |
| May 15, 2021 | | | 820,293.75 | 820,293.75 | 2021 | 1,645,641.25 |
| November 15, 2021 | 695,000 | 2.250% | 820,293.75 | 1,515,293.75 | | |
| May 15, 2022 | | | 812,475.00 | 812,475.00 | 2022 | 2,327,768.75 |
| November 15, 2022 | 500,000 | 2.500% | | 500,000.00 | | |
| November 15, 2022 | 1,565,000 | 4.000% | 812,475.00 | 2,377,475.00 | | |
| May 15, 2023 | | | 774,925.00 | 774,925.00 | 2023 | 3,652,400.00 |
| November 15, 2023 | 1,340,000 | 2.500% | | 1,340,000.00 | | |
| November 15, 2023 | 1,000,000 | 3.000% | 774,925.00 | 1,774,925.00 | | |
| May 15, 2024 | | | 743,175.00 | 743,175.00 | 2024 | 3,858,100.00 |
| November 15, 2024 | 600,000 | 3.000% | | 600,000.00 | | |
| November 15, 2024 | 1,825,000 | 4.000% | 743,175.00 | 2,568,175.00 | | |
| May 15, 2025 | | | 697,675.00 | 697,675.00 | 2025 | 3,865,850.00 |
| November 15, 2025 | 2,015,000 | 4.000% | | 2,015,000.00 | | |
| November 15, 2025 | 500,000 | 3.000% | 697,675.00 | 1,197,675.00 | | |
| May 15, 2026 | | | 649,875.00 | 649,875.00 | 2026 | 3,862,550.00 |
| November 15, 2026 | 500,000 | 3.000% | | 500,000.00 | | |
| November 15, 2026 | 2,120,000 | 5.000% | 649,875.00 | 2,769,875.00 | | |
| May 15, 2027 | | | 589,375.00 | 589,375.00 | 2027 | 3,859,250.00 |
| November 15, 2027 | 2,750,000 | 5.000% | 589,375.00 | 3,339,375.00 | | |
| May 15, 2028 | | | 520,625.00 | 520,625.00 | 2028 | 3,860,000.00 |
| November 15, 2028 | 3,625,000 | 5.000% | 520,625.00 | 4,145,625.00 | | |
| May 15, 2029 | | | 430,000.00 | 430,000.00 | 2029 | 4,575,625.00 |
| November 15, 2029 | 3,810,000 | 5.000% | 430,000.00 | 4,240,000.00 | | |
| May 15, 2030 | | | 334,750.00 | 334,750.00 | 2030 | 4,574,750.00 |
| November 15, 2030 | 4,005,000 | 5.000% | 334,750.00 | 4,339,750.00 | | |
| May 15, 2031 | | | 234,625.00 | 234,625.00 | 2031 | 4,574,375.00 |
| November 15, 2031 | 4,210,000 | 5.000% | 234,625.00 | 4,444,625.00 | | |
| May 15, 2032 | | | 129,375.00 | 129,375.00 | 2032 | 4,574,000.00 |
| November 15, 2032 | 4,425,000 | 5.000% | 129,375.00 | 4,554,375.00 | | |
| May 15, 2033 | | | 18,750.00 | 18,750.00 | 2033 | 4,573,125.00 |
| November 15, 2033 | 750,000 | 5.000% | 18,750.00 | 768,750.00 | | |
| May 15, 2034 | | | | | 2034 | 768,750.00 |
| TOTAL | \$ 36,245,000 | | \$ 16,633,805.76 | \$ 52,878,805.76 | | \$ 52,878,805.76 |

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