



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

Financial Statements  
Year Ended June 30, 2018



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Philadelphia, PA 19103

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## CONTENTS

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INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-Wide Financial Statements</b>	
<i>Statement of Net Position</i>	14
<i>Statement of Activities</i>	15
<b>Fund Financial Statements</b>	
<i>Balance Sheet – Governmental Funds</i>	16
<i>Reconciliation of Governmental Funds Balance Sheet to Net Position             of Governmental Activities on the Statement of Net Position</i>	17
<i>Statement of Revenues, Expenditures and Changes in Fund Balances –             Governmental Funds</i>	18
<i>Reconciliation of Statement of Revenues, Expenditures and Changes in             Fund Balances of Governmental Funds to Change in Net Position             of Governmental Activities on the Statement of Activities</i>	19
<i>Statement of Net Position – Proprietary Funds</i>	20
<i>Statement of Revenues, Expenses and Changes in Net Position –             Proprietary Funds</i>	21
<i>Statement of Cash Flows – Proprietary Funds</i>	22
<i>Statement of Net Position – Fiduciary Funds</i>	23
<i>Statement of Changes in Net Position – Fiduciary Fund</i>	24
Notes to Financial Statements	25
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<i>Budgetary Comparison Schedule – General Fund</i>	52
<i>Schedule of the District's Proportionate Share of the Net Pension Liability - PSERS</i>	53
<i>Schedule of the District's Pension Plan Contributions - PSERS</i>	54
<i>Schedule of Changes in OPEB Liability – Single Employer Plan</i>	55
<i>Schedule of the District's Proportionate Share of the OPEB Liability - PSERS</i>	56
<i>Schedule of the District's OPEB Plan Contributions - PSERS</i>	57

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## CONTENTS

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### SUPPLEMENTARY INFORMATION

<i>Combining Balance Sheet – Capital Projects Fund</i>	58
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Fund</i>	59
<i>Borrowing Base Calculation – General Fund</i>	60
<i>Comparative Schedules of Revenues, Expenditures and Changes in Fund Balances – General Fund</i>	61
<i>Comparative Schedules of Revenues, Expenditures and Changes in Fund Balances – Original Budget and Actual General Fund</i>	62
<i>Comparative Schedules of Revenues and Other Financing Sources – General Fund</i>	64

### SINGLE AUDIT

<i>Schedule of Expenditures of Federal Awards and Certain State Grants</i>	66
<i>Notes to Schedule of Expenditures of Federal Awards and Certain State Grants</i>	69
<i>Summary Schedule of Prior Audit Findings</i>	70

<b>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</b>	71
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<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	73
<i>Schedule of Findings and Questioned Costs</i>	75

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## INDEPENDENT AUDITOR'S REPORT

**Board of School Directors  
Downingtown Area School District  
Downingtown, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Downingtown Area School District, Downingtown, Pennsylvania as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Downingtown Area School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Downingtown Area School District, Downingtown, Pennsylvania as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### **Change In Accounting Principle**

As described in Note 15 to the financial statements, the District changed its method of accounting for its other postemployment benefits as a result of implementing GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". Our opinions are not modified with respect to that matter.

## **Report on Summarized Comparative Information**

We have previously audited Downingtown Area School District's 2017 financial statements, and our report dated December 5, 2017 expressed unmodified opinions on those audited financial statements. 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.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability and pension plan contributions - PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the net OPEB liability and OPEB plan contributions - PSERS on pages 3 through 13 and 52 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Downingtown Area School District's basic financial statements. The combining and individual fund financial statements, the borrowing base calculation and the comparative General Fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

The borrowing base calculation and the comparative General Fund schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of Downingtown Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Downingtown Area School District's internal control over financial reporting and compliance.

**BBD, LLP**

**Philadelphia, Pennsylvania  
December 10, 2018**

# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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The discussion and analysis of Downingtown Area School District's (the "**District**") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements, notes to the financial statements, and supplemental information in this report.

### FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business-type activities, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources of the District resulting in net position at the close of the 2017-2018 fiscal year of \$51,356,694. During the 2017-2018 fiscal year the District had an increase in total net position of \$497,995. The net position of governmental activities increased by \$427,408 and the net position of the business-type activities increased by \$70,587.
  - As of June 30, 2018, the District's governmental funds reported a combined fund balance of \$184,577,943, which is an increase of \$1,408,844 from the prior year.
  - The General Fund reported an excess of revenue over expenditures of \$15,815,153, and other net financing uses of \$15,462,300. The other net financing uses were primarily for transfer to the Capital Projects Fund and Debt Service Fund. This resulted in an increase in fund balance of \$352,853 bringing the cumulative balance to \$17,694,453 at the conclusion of the 2017-2018 fiscal year.
  - General Fund revenues from local sources increased \$1,647,877 over the prior year primarily due to a:
    - Net increase in real estate taxes of \$533,115 driven by a \$1,080,299 increase from assessment growth offset by a \$547,184 net decrease in interim, transfer, and delinquent real estate tax revenue. The real estate tax rate of 27.182 mills remained unchanged for the fifth consecutive year.
    - Net \$1,114,762 increase in all other local source revenues due to an increase in interest income, tuition and student fee revenue.
  - General Fund revenue from state sources decreased \$191,276 over the prior year primarily due to the following:
    - \$2,590,195 decrease in debt service reimbursement. The prior year included a lump sum payment for previous year debt retirement, and a catch-up of previous year Plancon payments which caused the decrease from 2016-2017 to 2017-2018. The debt service reimbursement decrease was offset by a \$1,674,934 increase in the retirement subsidy, caused by an increase in the Public School Employees' Retirement System of Pennsylvania ("**PSERS**") contribution rate, and an increase of \$723,985 mostly attributable to increases in basic and special education subsidies.
  - General Fund revenue from federal sources decreased by \$50,683 primarily due to the prior year including a non-recurring payment from the Federal Emergency Management Agency ("**FEMA**").
  - General Fund expenditures, excluding other financing uses, had a net increase of \$3,830,151 over the prior year primarily due to the following changes:
    - \$6,577,931 increase in employee costs driven by a \$3,332,145 increase in PSERS expense due to a higher employer contribution rate and a \$3,245,786 net increase in salaries and other benefits.
    - \$2,747,780 decrease in other expenditures that includes decreases in special education and professional services costs.
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# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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- During 2017-2018 the Capital Projects Fund had \$9,363,011 in expenditures for facilities, technology and curriculum capital purchases which was funded by a \$9,826,069 transfer from the General Fund.
- During 2017-2018 the Debt Service Fund subsidized \$1,790,800 of the District's debt service. \$6,000,000 was transferred to the Debt Service Fund from the General Fund for future debt service needs.
- Effective 2017-2018, the District was required to comply with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The major impact of GASB Statement No. 75 is to present, on the Statement of Financial Position, certain items related to the District's proportionate liability from its participation in the Commonwealth's Public School Employees Retirement System ("**PSERS**") healthcare insurance premium assistance program, which was not required to be presented in the prior years. Consequently, the implementation of GASB Statement No. 75 resulted in an increase in the deficit in the District's unrestricted net position as of June 30, 2018. For consistency purposes, the June 30, 2017 Statement of Net Position has been restated in the financial statements as if GASB Statement No. 75 had been applied, retroactively.

Elements of GASB Statement No. 75 included within the Statement of Net Position include actuarially determined liabilities for other postemployment benefits single and cost sharing multiple-employer plans of \$14,288,866 and \$13,357,273, respectively, and deferred outflows of \$1,702,879 (primarily changes in actuarial assumptions under the new standard and contributions subsequent to the measurement date – an effective reduction of the liability) and deferred inflows of \$811,403 (difference between expected and actual experience and changes in assumptions, to be recognized as a future reduction in OPEB expense – an effective increase in the liability until fully recognized).

### OVERVIEW OF FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

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

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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

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

### Fund Financial Statements

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

- **Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, or where there is a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the government-wide statements.
- **Fiduciary Funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. These assets are not reflected in the government-wide financial statements because the District cannot use these assets to finance its operations.
- **Notes to the Financial Statements** – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.
- **Other Information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, schedules of the District's proportionate share of the net pension liability and pension plan contributions-PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the net OPEB liability and OPEB plan contributions-PSERS, as well as additional analysis which consists of combining and individual fund financial statements and comparative General Fund schedules.



# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

### FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2017-2018 fiscal year the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$51,356,694. The following table presents condensed information for the Statement of Net Position of the District at June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>ASSETS</b>						
Current assets	\$ 211,009,382	\$ 222,856,278	\$1,656,443	\$1,604,699	\$ 212,665,825	\$ 224,460,977
Capital assets	280,440,716	284,921,048	1,036,421	1,001,485	281,477,137	285,922,533
<b>TOTAL ASSETS</b>	<u>491,450,098</u>	<u>507,777,326</u>	<u>2,692,864</u>	<u>2,606,184</u>	<u>494,142,962</u>	<u>510,383,510</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	61,389,324	72,785,020	54,633	77,383	61,443,957	72,862,403
<b>LIABILITIES</b>						
Current liabilities	31,733,833	37,016,781	368,709	361,651	32,102,542	37,378,432
Noncurrent liabilities	466,750,807	485,023,660	400,424	413,894	467,151,231	485,437,554
<b>TOTAL LIABILITIES</b>	<u>498,484,640</u>	<u>522,040,441</u>	<u>769,133</u>	<u>775,545</u>	<u>499,253,773</u>	<u>522,815,986</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	4,973,580	9,568,111	2,872	3,117	4,976,452	9,571,228
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	162,229,231	154,606,090	1,036,421	1,001,485	163,265,652	155,607,575
Restricted for debt service	14,388,539	12,656,169	-	-	14,388,539	12,656,169
Unrestricted (deficit)	(127,236,568)	(118,308,465)	939,071	903,420	(126,297,497)	(117,405,045)
<b>TOTAL NET POSITION</b>	<u>\$ 49,381,202</u>	<u>\$ 48,953,794</u>	<u>\$1,975,492</u>	<u>\$1,904,905</u>	<u>\$ 51,356,694</u>	<u>\$ 50,858,699</u>

The District's total assets as of June 30, 2018 were \$494,142,962 of which \$187,616,944 or 37.97% consisted of unrestricted cash and investments and \$281,477,137 or 56.96% consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2018 were \$499,253,773 of which \$118,211,485 or 23.68% consisted of general obligation debt used to acquire and construct capital assets and \$323,790,381 or 64.86% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$126,297,497 at June 30, 2018. The District's unrestricted net position decreased by \$8,892,452 during 2017-2018 primarily due to the change in the actuarially determined net pension liability and related deferred outflows and inflows.

A portion of the District's net position reflects its restricted net position which totaled \$14,388,539 as of June 30, 2018. All of the District's restricted net position related to amounts restricted for debt service.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2018, the District's net investment in capital assets, increased by \$7,658,077 because the debt used to acquire the capital assets is being repaid faster than the capital assets are being depreciated and capital assets were purchased with sources other than long-term debt.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

The following table presents condensed information for the Statement of Activities of the District for 2018 and 2017:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
Program services						
Charges for services	\$ 2,779,503	\$ 2,236,746	\$ 3,634,048	\$ 3,649,446	\$ 6,413,551	\$ 5,886,192
Operating grants and contributions	38,851,123	37,063,037	678,017	694,948	39,529,140	37,757,985
Capital grants and contributions	-	-	-	29,795	-	29,795
General revenues						
Property taxes	142,779,614	142,939,832	-	-	142,779,614	142,939,832
Other taxes	19,861,467	19,787,289	-	-	19,861,467	19,787,289
Grants, subsidies and contributions not restricted	18,547,631	18,253,470	-	-	18,547,631	18,253,470
Investment earnings	2,207,119	1,355,551	20,675	7,513	2,227,794	1,363,064
Miscellaneous revenue	452,691	316,753	-	-	452,691	316,753
Gain on sale of capital assets	162,237	182,098	-	-	162,237	182,098
<b>TOTAL REVENUES</b>	<b>225,641,385</b>	<b>222,134,776</b>	<b>4,332,740</b>	<b>4,381,702</b>	<b>229,974,125</b>	<b>226,516,478</b>
<b>EXPENSES</b>						
Instruction	135,973,729	135,715,157	-	-	135,973,729	135,715,157
Instructional student support	18,306,656	17,831,148	-	-	18,306,656	17,831,148
Administrative and financial support	18,175,163	20,238,728	-	-	18,175,163	20,238,728
Operation and maintenance of plant services	15,008,808	14,704,676	-	-	15,008,808	14,704,676
Pupil transportation	11,561,765	11,290,771	-	-	11,561,765	11,290,771
Student activities	4,121,659	4,381,823	-	-	4,121,659	4,381,823
Community services	85,636	85,412	-	-	85,636	85,412
Interest and amortization expense related to noncurrent liabilities	8,115,858	6,691,964	-	-	8,115,858	6,691,964
Unallocated depreciation expense	13,864,703	13,441,596	-	-	13,864,703	13,441,596
Food services	-	-	4,262,153	4,220,332	4,262,153	4,220,332
<b>TOTAL EXPENSES</b>	<b>225,213,977</b>	<b>224,381,275</b>	<b>4,262,153</b>	<b>4,220,332</b>	<b>229,476,130</b>	<b>228,601,607</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 427,408</b>	<b>\$ (2,246,499)</b>	<b>\$ 70,587</b>	<b>\$ 161,370</b>	<b>\$ 497,995</b>	<b>\$ (2,085,129)</b>

The following table presents condensed financial information from the Statement of Activities above on the expenses of the governmental activities of the District by function. The table illustrates both the total and net costs of services. The net amounts are calculated by subtracting restricted operating grants and contributions revenue, and charges for services from the total costs of services. Revenues from unrestricted grants, subsidies and contributions are deducted from the net cost of services to reflect the amount needed to be funded by local revenue sources such as property taxes.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Expenses - Governmental Activities				
Instruction	\$ 135,973,729	\$ 135,715,157	\$ 112,173,811	\$ 114,091,611
Instructional student support	18,306,656	17,831,148	16,270,771	15,896,008
Administrative and financial support	18,175,163	20,238,728	16,408,899	18,647,016
Operation and maintenance of plant services	15,008,808	14,704,676	13,362,804	13,184,115
Pupil transportation	11,561,765	11,290,771	7,625,905	7,409,137
Student activities	4,121,659	4,381,823	2,159,996	2,319,154
Community services	85,636	85,412	85,636	74,520
Interest and amortization expense related to noncurrent liabilities	8,115,858	6,691,964	1,630,826	18,335
Unallocated depreciation expense	13,864,703	13,441,596	13,864,703	13,441,596
<b>TOTAL EXPENSES</b>	<u>\$ 225,213,977</u>	<u>\$ 224,381,275</u>	183,583,351	185,081,492
Less: Grants, subsidies and contributions not restricted			<u>(18,547,631)</u>	<u>(18,253,470)</u>
<b>AMOUNT NEEDED TO BE FUNDED BY     OTHER REVENUE SOURCES</b>			<u>\$ 165,035,720</u>	<u>\$ 166,828,022</u>

The following table reflects condensed financial activities of the food service program, the only business-type activity of the District. The negative net cost of services reflects the amount that total revenues exceeded total expenses.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Expenses - Business-Type Activities				
Food Services	<u>\$4,262,153</u>	<u>\$4,220,332</u>	<u>\$(49,912)</u>	<u>\$(153,857)</u>

## FINANCIAL ANALYSIS OF THE DISTRICT – GOVERNMENTAL FUNDS

### GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2017-2018 fiscal year, the General Fund fund balance was \$17,694,453 representing an increase of \$352,853 from the prior year. The increase in the District's General Fund fund balance is a result of revenue over expenditures of \$15,815,153, offset by other net financing uses of \$15,462,300 primarily for transfers to the Capital Projects Fund and Debt Service Fund. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2017-2018 fiscal year.

At June 30, 2018, the District reported an unassigned fund balance of \$17,650,384. The unassigned fund balance represents 8% of the 2018-2019 General Fund budgeted expenditures which is in accordance with guidelines prescribed by the Pennsylvania Department of Education.

### General Fund Revenues

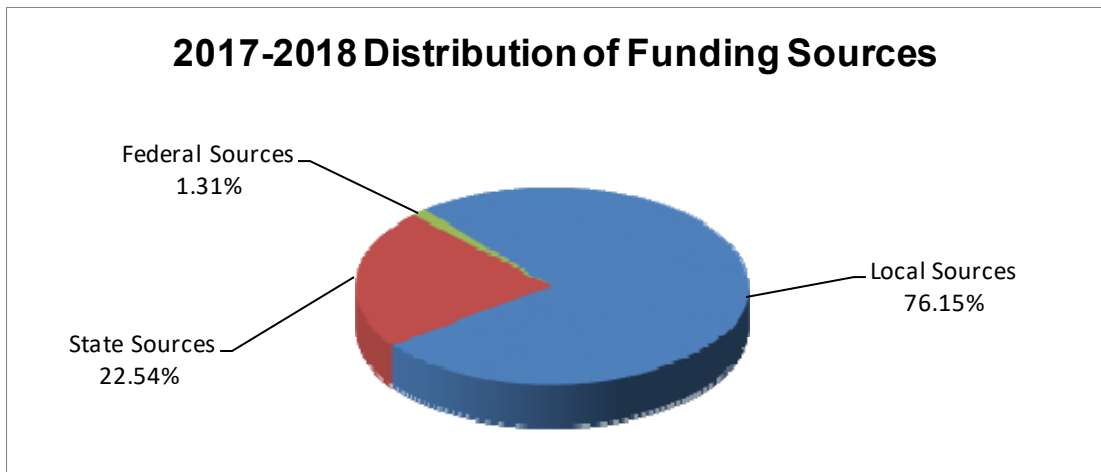
General Fund revenues, which totaled \$222,813,860, increased \$1,405,963 or 0.64% over prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues and 2017-2018 budgeted amounts as follows:

# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

	<u>Revenue 2018</u>	<u>% of Total</u>	<u>Increase (Decrease) From 2017</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Local sources	\$ 169,667,095	76.15%	\$ 1,647,877	\$1,922,080
State sources	50,224,146	22.54%	(191,276)	1,352,627
Federal sources	<u>2,922,619</u>	<u>1.31%</u>	<u>(50,638)</u>	<u>(38,386)</u>
<b>TOTAL REVENUES</b>	<u>\$ 222,813,860</u>	<u>100.00%</u>	<u>\$ 1,405,963</u>	<u>\$3,236,321</u>



Revenue from local sources primarily includes revenue from real estate taxes levied by the District. The increase over prior year is primarily driven by current real estate taxes as a result of assessment growth, and an increase in interest income. State source revenue had a net decrease of \$191,276 compared to 2016-2017 primarily due to a \$2,590,195 decrease in debt service reimbursement which was a result of the prior year including a lump sum payment for previous year debt retirement, and a catch-up of previous year Plancon payments. The debt service reimbursement decrease was offset by a \$1,674,934 increase in the retirement subsidy, caused by an increase in the PSERS contribution rate, and an increase of \$723,985 mostly attributable to increases in basic and special education subsidies. General Fund revenue from federal sources decreased primarily due to the prior year including a non-recurring payment from FEMA.

The positive final budget variance in local revenue was due to revenue from earned income tax, real estate transfer tax, delinquent real estate tax and interest income being higher than budgeted. The positive budget variance in state source revenue was primarily due to basic and special education subsidies being higher than budgeted, and a non-recurring reimbursement on debt retirement.

### **General Fund Expenditures and Other Financing Uses**

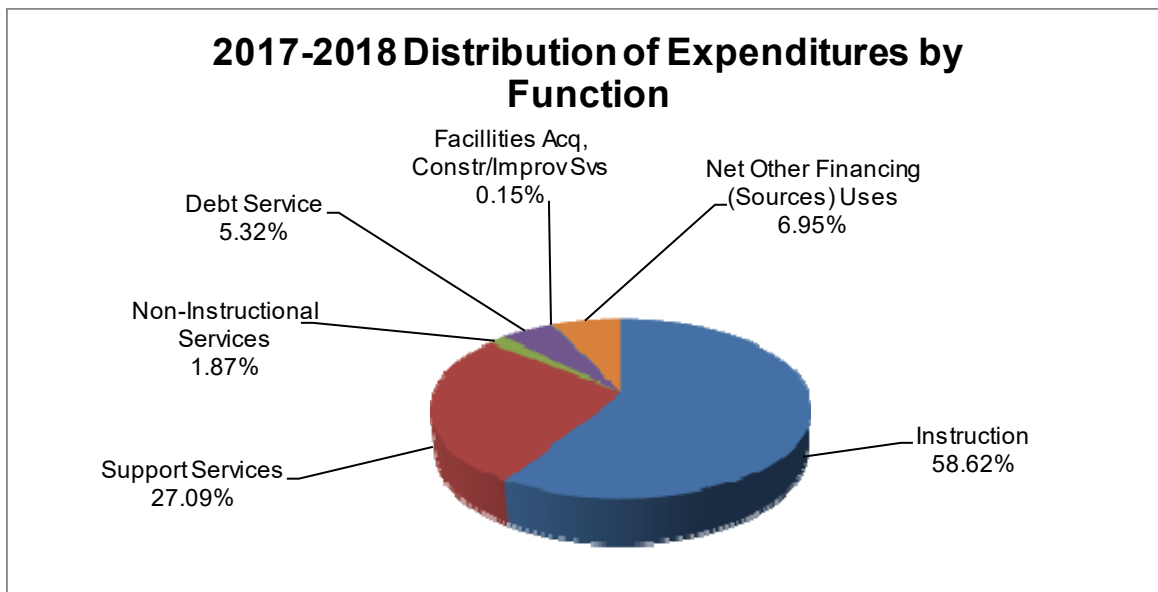
General Fund expenditures and net other financing uses, which total \$222,461,007, decreased \$6,216,650 over the 2016-2017 expenditures, and were a net \$2,883,467 over final budget after transfers to the Capital Projects Fund and Debt Service Fund totaling \$15,826,069 which is included in net other financing uses below. The expenditures are segregated into various programs depending on the functions of the activity. These programs and the costs associated with each are compared to the prior year expenditures and other financing uses, and the final 2017-2018 budgeted amounts as follows:

# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

	<u>Expenditures 2018</u>	<u>% of Total</u>	<u>Increase (Decrease) From 2017</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Instruction	\$ 130,407,874	58.62%	\$ 4,068,380	\$ 8,214,298
Support services	60,274,071	27.09%	(418,587)	3,768,743
Non-instructional services	4,152,500	1.87%	200,153	62,351
Facilities acq, construct/improv scvs	331,257	0.15%	(21,761)	28,743
Debt service	11,833,005	5.32%	1,966	-
Net other financing uses	<u>15,462,300</u>	<u>6.95%</u>	<u>(10,046,801)</u>	<u>(14,957,602)</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$222,461,007</u></b>	<b><u>100.00%</u></b>	<b><u>\$ (6,216,650)</u></b>	<b><u>\$ (2,883,467)</u></b>



The increase in the instruction and non-instructional expenses is primarily due to increases in employee salary and benefit costs. The decrease in support services expenses reflects decreases in special education and professional services costs. The decrease in net other financing uses compared to the prior year is primarily due to a decrease in the amount transferred out of the General Fund into the Capital Projects Fund. The prior year included the transfer of previously assigned fund balance of \$7,269,760 which was not applicable this year.

The positive final budget variances for instruction, support services, and non-instructional services expenses were due primarily to lower salary and benefit costs than budgeted. Contributing to the salary variance was the replacement of budgeted salaries with lower actual salaries for staff replacing retired and terminated employees. Benefit costs were under budget primarily due to lower healthcare claims than anticipated. The net other financing uses variance with final budget variance was caused by the unbudgeted amounts transferred from the General Fund to the Capital Projects Fund and Debt Service Fund totaling \$15,826,069.

# **DOWNINGTOWN AREA SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**

**June 30, 2018**

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### **CAPITAL PROJECTS FUND**

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. As of June 30, 2018, there were no unspent bond proceeds in the Capital Projects Fund. At June 30, 2018, the District reported a fund balance of \$114,873,320, which is an increase over the prior year of \$1,756,348. The change was primarily due to a \$9,826,069 transfer in from the General Fund and interest and other income of \$1,293,292, offset by \$9,363,011 in capital expenditures. The total Capital Projects Fund fund balance as of June 30, 2018 is committed for future capital expenditures.

### **DEBT SERVICE FUND**

The Debt Service Fund accounts for financial resources committed for the payment of long-term debt principal interest and other related costs. During 2017-2018, the Debt Service Fund fund balance decreased by \$700,357 primarily due to net debt service payments. During 2017-2018 the District refinanced \$25,913,489 of bonds including accrued interest with new bonds and cash which was accounted for in the Debt Service Fund. At June 30, 2018, the Debt Service Fund reported a fund balance of \$52,010,170 which will be used for a portion of future debt service needs.

### **CAPITAL ASSETS**

The District's net investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounted to \$281,477,137 net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements, furniture and equipment and vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was \$4,445,396 or 1.55%. The decrease was the result of current year depreciation in excess of current year capital additions.

Current year capital additions were \$9,529,155 and depreciation expense was \$13,974,551.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

### **LONG-TERM DEBT AND NONCURRENT LIABILITIES**

At the end of the current fiscal year, the District had total general obligation debt of \$118,211,485 consisting of \$39,575,000 in bonds payable, \$34,100,000 in notes payable, \$40,069,000 in qualified school construction bonds and net deferred credits of \$4,467,485. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$12,103,473 or 9.29% during the fiscal year.

On July 27, 2017, the District issued \$16,910,000 of general obligation bonds, Series of 2017, the proceeds from which along with a cash contribution of \$7,000,000 were used to advance refund a portion of the District's general obligation bonds, Series of 2009AA, in the amount of \$24,215,000 and to pay for the costs of issuance. The lower interest rates on the new bonds resulted in approximately \$2.2 million in savings on a present value basis.

The District maintains an AAA rating from Moody's and Standard and Poors.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$486,916,247 which exceeds the District's outstanding general obligation debt as of June 30, 2018.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$323,790,381 as of June 30, 2018. The District's net pension liability decreased by \$658,165 or 0.20% during the fiscal year.

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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The District reports a liability for its other post-employment benefits ("**OPEB**") related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District's net OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$27,646,139 as of June 30, 2018. The District's net OPEB liability decreased by \$385,608 or 1.39% during the fiscal year.

Other noncurrent liabilities consist of the District's liability for compensated absences which totaled \$2,980,148 as of June 30, 2018. These liabilities decreased by \$134,161 or 4.50% during the fiscal year.

The District uses swap contracts that have fixed interest payments made in exchange for variable interest payments received based on an underlying interest rate index. These interest payments received are meant to offset the variable interest cost of the hedged bond. These are considered hedging derivatives instruments, and are used to reduce financial risks, such as offsetting increases in interest rate costs. As of June 30, 2018, the District has two interest rate swaps relating to its general obligation notes, Series of 2006A and 2006C, and general obligation bonds, Series of 2010.

More detailed information about the District's long-term debt and noncurrent liabilities is presented in the notes to the financial statements.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has identified the following factors related to the District's future:

- The District's student enrollment at the beginning of 2018-2019 was 12,933 and is projected to increase 1% to 3% each year over the next few years.
- Over the next three years the District will be constructing a new Uwchlan Hills Elementary school to replace the existing school, and constructing an addition to the STEM Academy.
- In 2018-2019, the District issued new bonds in the amount of \$26,655,000 plus bond issuance premiums to fund the Uwchlan Hills project noted above. In conjunction with that borrowing, the District also refunded \$50,115,000 of existing bonds with new bonds.
- The District adopted a balanced 2018-2019 budget totaling \$220,629,805 without a tax increase for the sixth consecutive year.
- The Pennsylvania law known as Act 1 provides property tax relief for property owners. As part of this legislation, a limit is placed on the real estate tax rate percentage increase that can be levied by the District each year. The percentage limit is known as the Act 1 index. The Act 1 index for 2018-2019 is 2.4% and 2.3% for 2019-2020.
- Increases in the level of state funding that the District will receive in future years is uncertain, as the political decisions influencing the state budgets and level of funding to the District are unpredictable.
- The District's contributions to the Public School Employee's Retirement System ("**PSERS**") will continue to be significant over the next several years. PSERS projects the following future percentages of employee salaries that the District will need to fund:

2018-2019	33.43%
2019-2020	34.79%
2020-2021	35.26%
2021-2022	35.68%
2022-2023	36.32%

The state is expected to continue to reimburse the District for half of these contributions.

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## **DOWNINGTOWN AREA SCHOOL DISTRICT**

### ***MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED***

**June 30, 2018**

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- The District is well positioned to handle any future fiscal challenges due to its strong fund balances, and it will continue to practice prudent fiscal management practices to ensure sufficient funding for its operations and capital spending.

#### **CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard Fazio, Chief Financial Officer, or Michael DeAngelis, Assistant Director of Finance, Downingtown Area School District, 540 Trestle Place, Downingtown, PA 19335.



# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2018 with summarized comparative totals for 2017

	Governmental	Business-type	Totals	
	Activities	Activities	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 37,233,844	\$ 742,826	\$ 37,976,670	\$ 35,163,352
Investments	148,840,274	800,000	149,640,274	158,036,658
Restricted assets				
Cash held by fiscal agent	2,330	-	2,330	487
Investments held by fiscal agent	14,386,209	-	14,386,209	12,655,682
Taxes receivable	2,922,256	-	2,922,256	3,973,951
Due from other governments	5,728,585	14,410	5,742,995	6,054,290
Internal balances	69,830	(69,830)	-	-
Other receivables	1,781,985	166,531	1,948,516	1,563,899
Prepaid expenses	44,069	-	44,069	7,000,000
Inventories	-	2,506	2,506	12,658
<b>Total current assets</b>	<b>211,009,382</b>	<b>1,656,443</b>	<b>212,665,825</b>	<b>224,460,977</b>
<b>NONCURRENT ASSETS</b>				
Capital assets, net	280,440,716	1,036,421	281,477,137	285,922,533
<b>Total assets</b>	<b>491,450,098</b>	<b>2,692,864</b>	<b>494,142,962</b>	<b>510,383,510</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Accumulated decrease in fair value of hedging derivatives	3,455,821	-	3,455,821	5,735,798
Deferred charges OPEB - single employer	923,460	-	923,460	-
Deferred charges on proportionate share of OPEB - PSERS	778,570	849	779,419	715,173
Deferred charges on proportionate share of pension - PSERS	56,231,473	53,784	56,285,257	66,411,432
<b>Total deferred outflows of resources</b>	<b>61,389,324</b>	<b>54,633</b>	<b>61,443,957</b>	<b>72,862,403</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	7,887,910	228,911	8,116,821	8,008,161
Accrued salaries, payroll withholdings and benefits	14,016,129	-	14,016,129	21,830,235
Accrued interest payable	764,241	-	764,241	892,933
Bonds and notes payable - due within one year	8,932,743	-	8,932,743	6,207,804
Unearned revenue	132,810	139,798	272,608	439,299
<b>Total current liabilities</b>	<b>31,733,833</b>	<b>368,709</b>	<b>32,102,542</b>	<b>37,378,432</b>
<b>NONCURRENT LIABILITIES</b>				
Bonds and notes payable - due in more than one year	109,278,742	-	109,278,742	124,107,154
Derivative instrument liability - interest rate swap	3,455,821	-	3,455,821	5,735,798
Compensated absences	2,955,173	24,975	2,980,148	3,114,309
OPEB liability - single employer	14,288,866	-	14,288,866	13,929,581
Net OPEB liability - PSERS	13,342,398	14,875	13,357,273	14,102,166
Net pension liability - PSERS	323,429,807	360,574	323,790,381	324,448,546
<b>Total noncurrent liabilities</b>	<b>466,750,807</b>	<b>400,424</b>	<b>467,151,231</b>	<b>485,437,554</b>
<b>Total liabilities</b>	<b>498,484,640</b>	<b>769,133</b>	<b>499,253,773</b>	<b>522,815,986</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes received in advance	2,208,049	-	2,208,049	6,664,615
Deferred credits OPEB - single employer	189,403	-	189,403	203,972
Deferred credits on proportionate share of OPEB - PSERS	621,307	693	622,000	-
Deferred credits on proportionate share of pension - PSERS	1,954,821	2,179	1,957,000	2,702,641
<b>Total deferred inflows of resources</b>	<b>4,973,580</b>	<b>2,872</b>	<b>4,976,452</b>	<b>9,571,228</b>
<b>NET POSITION</b>				
Net investment in capital assets	162,229,231	1,036,421	163,265,652	155,607,575
Restricted	14,388,539	-	14,388,539	12,656,169
Unrestricted (deficit)	(127,236,568)	939,071	(126,297,497)	(117,405,045)
<b>Total net position</b>	<b>\$ 49,381,202</b>	<b>\$ 1,975,492</b>	<b>\$ 51,356,694</b>	<b>\$ 50,858,699</b>

See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

Year ended June 30, 2018 with summarized comparative totals for 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges	Operating	Capital	Governmental	Business-type	Totals	
		for	Grants and	Grants and			2018	2017
	Services	Contributions	Contributions	Activities	Activities			
<b>GOVERNMENTAL ACTIVITIES</b>								
Instruction	\$ 135,973,729	\$ 255,867	\$ 23,544,051	\$ -	\$ (112,173,811)	\$ -	\$ (112,173,811)	\$ (114,091,611)
Instructional student support	18,306,656	-	2,035,885	-	(16,270,771)	-	(16,270,771)	(15,896,008)
Administrative and financial support services	18,175,163	-	1,766,264	-	(16,408,899)	-	(16,408,899)	(18,647,016)
Operation and maintenance of plant services	15,008,808	593,347	1,052,657	-	(13,362,804)	-	(13,362,804)	(13,184,115)
Pupil transportation	11,561,765	-	3,935,860	-	(7,625,905)	-	(7,625,905)	(7,409,137)
Student activities	4,121,659	1,930,289	31,374	-	(2,159,996)	-	(2,159,996)	(2,319,154)
Community services	85,636	-	-	-	(85,636)	-	(85,636)	(74,520)
Interest and amortization expense related to noncurrent liabilities	8,115,858	-	6,485,032	-	(1,630,826)	-	(1,630,826)	(18,335)
Unallocated depreciation	13,864,703	-	-	-	(13,864,703)	-	(13,864,703)	(13,441,596)
<b>Total governmental activities</b>	<u>225,213,977</u>	<u>2,779,503</u>	<u>38,851,123</u>	<u>-</u>	<u>(183,583,351)</u>	<u>-</u>	<u>(183,583,351)</u>	<u>(185,081,492)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Food service	<u>4,262,153</u>	<u>3,547,173</u>	<u>678,017</u>	<u>86,875</u>	<u>-</u>	<u>49,912</u>	<u>49,912</u>	<u>153,857</u>
<b>Total primary government</b>	<u>\$ 229,476,130</u>	<u>\$ 6,326,676</u>	<u>\$ 39,529,140</u>	<u>\$ 86,875</u>	<u>(183,583,351)</u>	<u>49,912</u>	<u>(183,533,439)</u>	<u>(184,927,635)</u>
<b>GENERAL REVENUES</b>								
Property taxes levied for general purposes					142,779,614	-	142,779,614	142,939,832
Other taxes levied for general purposes					19,861,467	-	19,861,467	19,787,289
Grants and entitlements not restricted to specific programs					18,547,631	-	18,547,631	18,253,470
Investment earnings					2,207,119	20,675	2,227,794	1,363,064
Miscellaneous income					452,691	-	452,691	316,753
Gain on sale of capital assets					162,237	-	162,237	182,098
<b>Total general revenues</b>					<u>184,010,759</u>	<u>20,675</u>	<u>184,031,434</u>	<u>182,842,506</u>
<b>CHANGE IN NET POSITION</b>					427,408	70,587	497,995	(2,085,129)
<b>NET POSITION</b>								
Beginning of year					<u>48,953,794</u>	<u>1,904,905</u>	<u>50,858,699</u>	<u>52,943,828</u>
<b>End of year</b>					<u>\$ 49,381,202</u>	<u>\$ 1,975,492</u>	<u>\$ 51,356,694</u>	<u>\$ 50,858,699</u>

See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018 with summarized comparative totals for 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Totals	
				2018	2017
<b>ASSETS</b>					
Cash	\$ 18,632,928	\$ 18,187,844	413,072	\$ 37,233,844	\$ 34,422,885
Investments	27,757,687	89,874,028	31,208,559	148,840,274	157,236,658
Restricted assets:					
Cash held by fiscal agent	-	-	2,330	2,330	487
Investments held by fiscal agent	-	-	14,386,209	14,386,209	12,655,682
Taxes receivable	2,922,256	-	-	2,922,256	3,973,951
Due from other funds	72,489	9,843,621	6,000,000	15,916,110	25,774,698
Due from other governments	5,728,585	-	-	5,728,585	6,040,702
Other receivables	1,781,985	-	-	1,781,985	1,555,323
Prepaid items	44,069	-	-	44,069	7,000,000
<b>Total assets</b>	<b>\$ 56,939,999</b>	<b>\$ 117,905,493</b>	<b>\$ 52,010,170</b>	<b>\$ 226,855,662</b>	<b>\$ 248,660,386</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 4,855,737	\$ 3,032,173	\$ -	\$ 7,887,910	\$ 7,780,080
Due to other funds	15,846,280	-	-	15,846,280	25,804,108
Accrued salaries, payroll withholdings and benefits	14,016,129	-	-	14,016,129	21,830,235
Unearned revenue	132,810	-	-	132,810	305,729
<b>Total liabilities</b>	<b>34,850,956</b>	<b>3,032,173</b>	<b>-</b>	<b>37,883,129</b>	<b>55,720,152</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes received in advance	2,208,049	-	-	2,208,049	6,664,615
Unavailable revenues - property taxes	2,186,541	-	-	2,186,541	3,106,520
<b>Total deferred inflows</b>	<b>4,394,590</b>	<b>-</b>	<b>-</b>	<b>4,394,590</b>	<b>9,771,135</b>
<b>FUND BALANCES</b>					
Nonspendable					
Prepaid expenditures	44,069	-	-	44,069	7,000,000
Restricted for					
Debt service	-	-	14,388,539	14,388,539	12,656,169
Committed to					
Capital projects	-	114,873,320	-	114,873,320	113,116,972
Debt service	-	-	37,621,631	37,621,631	33,054,358
Unassigned	17,650,384	-	-	17,650,384	17,341,600
<b>Total fund balances</b>	<b>17,694,453</b>	<b>114,873,320</b>	<b>52,010,170</b>	<b>184,577,943</b>	<b>183,169,099</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 56,939,999</b>	<b>\$ 117,905,493</b>	<b>\$ 52,010,170</b>	<b>\$ 226,855,662</b>	<b>\$ 248,660,386</b>

See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

June 30, 2018

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<b>TOTAL GOVERNMENTAL FUND BALANCES</b>		<b>\$ 184,577,943</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.

Capital assets	\$ 430,038,227	
Accumulated depreciation	<u>(149,597,511)</u>	280,440,716

Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.

Deferred outflows of resources - pension and OPEB	57,933,503	
Deferred inflows of resources - pension and OPEB	<u>(2,765,531)</u>	55,167,972

Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred inflows of resources on the governmental funds balance sheet.

2,186,541

Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.

Bonds and notes payable	(118,211,485)	
Compensated absences	(2,955,173)	
OPEB liability - single employer	(14,288,866)	
Net OPEB liability - PSERS	(13,342,398)	
Net pension liability - PSERS	<u>(323,429,807)</u>	(472,227,729)

Accrued interest payable on long-term liabilities is included in the statement of net position, but is excluded from the governmental funds balance sheet until due and payable.

(764,241)

<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 49,381,202</u></b>
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# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2018 with summarized comparative totals for 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Totals	
				2018	2017
<b>REVENUES</b>					
Local sources	\$ 169,667,095	\$ 1,135,877	\$ 2,090,443	\$ 172,893,415	\$ 171,042,188
State sources	50,224,146	-	-	50,224,146	50,415,422
Federal sources	2,922,619	-	-	2,922,619	2,973,257
<b>Total revenues</b>	<u>222,813,860</u>	<u>1,135,877</u>	<u>2,090,443</u>	<u>226,040,180</u>	<u>224,430,867</u>
<b>EXPENDITURES</b>					
Current					
Instruction	130,407,874	2,479,105	-	132,886,979	130,112,846
Support services	60,274,071	428,187	275,781	60,978,039	61,372,762
Operation of noninstructional services	4,152,500	80,664	-	4,233,164	4,230,236
Facilities acquisition, construction and improvement services	331,257	6,375,055	-	6,706,312	4,408,087
Debt service	11,833,005	-	1,790,800	13,623,805	13,572,328
<b>Total expenditures</b>	<u>206,998,707</u>	<u>9,363,011</u>	<u>2,066,581</u>	<u>218,428,299</u>	<u>213,696,259</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>15,815,153</u>	<u>(8,227,134)</u>	<u>23,862</u>	<u>7,611,881</u>	<u>10,734,608</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of/compensation for capital assets	162,237	-	-	162,237	182,098
Refund of prior year expenditures	201,532	157,413	-	358,945	229,765
Refund of prior year revenues	-	-	-	-	(18,937)
Issuance of debt - refunding	-	-	16,910,000	16,910,000	-
Payment of debt - refunding	-	-	(25,913,489)	(25,913,489)	-
Bond premiums	-	-	2,279,270	2,279,270	-
Transfers in (reimbursement)	-	9,363,011	-	9,363,011	15,786,414
Transfers in (non-reimbursement)	-	463,058	6,000,000	6,463,058	16,974,370
Transfers out (reimbursement)	(9,363,011)	-	-	(9,363,011)	(15,786,414)
Transfers out (non-reimbursement)	(6,463,058)	-	-	(6,463,058)	(16,974,370)
<b>Total other financing sources (uses)</b>	<u>(15,462,300)</u>	<u>9,983,482</u>	<u>(724,219)</u>	<u>(6,203,037)</u>	<u>392,926</u>
<b>NET CHANGE IN FUND BALANCES</b>	352,853	1,756,348	(700,357)	1,408,844	11,127,534
<b>FUND BALANCES</b>					
Beginning of year	<u>17,341,600</u>	<u>113,116,972</u>	<u>52,710,527</u>	<u>183,169,099</u>	<u>172,041,565</u>
<b>End of year</b>	<u>\$ 17,694,453</u>	<u>\$ 114,873,320</u>	<u>\$ 52,010,170</u>	<u>\$ 184,577,943</u>	<u>\$ 183,169,099</u>

See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2018

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**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ 1,408,844

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

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

Capital outlay expenditures	\$ 9,384,371	
Depreciation expense	<u>(13,864,703)</u>	(4,480,332)

Because some taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year.

Deferred inflows of resources June 30, 2017	(3,106,520)	
Deferred inflows of resources June 30, 2018	<u>2,186,541</u>	(919,979)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net assets of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of bonds payable	6,520,000	
Issuance of debt - refunding	(16,910,000)	
Payment of debt - refunding	24,215,000	
Proceeds from bond premiums	(2,279,270)	
Amortization of bond premiums and discounts	<u>557,743</u>	12,103,473

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in the governmental funds.

Current year change in accrued interest payable	128,692	
Current year change in compensated absences	135,106	
Current year change in net pension liability - PSERS and deferred outflows and inflows	(8,714,090)	
Current year change in OPEB liability - single employer and deferred outflows and inflows	578,744	
Current year change in net OPEB liability - PSERS and deferred outflows and inflows	<u>186,950</u>	<u>(7,684,598)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 427,408

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See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF NET POSITION - PROPRIETARY FUND

June 30, 2018 with summarized comparative totals for 2017

	<u>Major Fund</u>	
	<u>Food Service Fund</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 742,826	\$ 740,467
Investments	800,000	800,000
Due from other funds	20,211	37,573
Due from other governments	14,410	13,588
Other receivables	166,531	8,576
Inventories	2,506	12,658
<b>Total current assets</b>	<u>1,746,484</u>	<u>1,612,862</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net	1,036,421	1,001,485
<b>Total assets</b>	<u>2,782,905</u>	<u>2,614,347</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred charges on proportionate share of pension - PSERS	53,784	76,587
Deferred charges on proportionate share of OPEB - PSERS	849	796
<b>Total deferred outflows of resources</b>	<u>54,633</u>	<u>77,383</u>
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Accounts payable	228,911	228,081
Due to other funds	90,041	8,163
Unearned revenue	139,798	133,570
<b>Total current liabilities</b>	<u>458,750</u>	<u>369,814</u>
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	24,975	24,030
Net OPEB liability	14,875	15,704
Net pension liability	360,574	374,160
<b>Total noncurrent liabilities</b>	<u>400,424</u>	<u>413,894</u>
<b>Total liabilities</b>	<u>859,174</u>	<u>783,708</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred credits on proportionate share of pension - PSERS	2,179	3,117
Deferred credits on proportionate share of OPEB - PSERS	693	-
<b>Total deferred inflows of resources</b>	<u>2,872</u>	<u>3,117</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,036,421	1,001,485
Unrestricted	939,071	903,420
<b>Total net position</b>	<u>\$ 1,975,492</u>	<u>\$ 1,904,905</u>

See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND

Year ended June 30, 2018 with summarized comparative totals for 2017

	<u>Major Fund</u>	
	<u>Food Service Fund</u>	
	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 3,547,173	\$ 3,649,446
<b>OPERATING EXPENSES</b>		
Salaries	102,959	101,866
Employee benefits	102,089	31,133
Purchased services - food management	2,079,122	2,221,280
Purchased property services	108,436	87,423
Other purchased services	13,416	11,239
Supplies - food costs	1,658,646	1,577,552
Depreciation	109,848	108,037
Other	87,637	81,802
<b>Total operating expenses</b>	<u>4,262,153</u>	<u>4,220,332</u>
<b>Operating loss</b>	<u>(714,980)</u>	<u>(570,886)</u>
<b>NONOPERATING REVENUES</b>		
Earnings on investments	20,675	7,513
State sources	76,142	76,165
Federal sources	601,875	618,783
<b>Total nonoperating revenues</b>	<u>698,692</u>	<u>702,461</u>
<b>Change in net position before capital contribution</b>	(16,288)	131,575
<b>Capital contribution</b>	<u>86,875</u>	<u>29,795</u>
<b>CHANGE IN NET POSITION</b>	70,587	161,370
<b>NET POSITION</b>		
Beginning of year	<u>1,904,905</u>	<u>1,743,535</u>
<b>End of year</b>	<u>\$ 1,975,492</u>	<u>\$ 1,904,905</u>

See accompanying notes



# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year ended June 30, 2018 with summarized comparative totals for 2017

	<b>Major Fund</b>	
	<b>Food Service Fund</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from charges for services	\$ 3,550,752	\$ 3,667,540
Cash payments to employees for services	(196,013)	(188,419)
Cash payments to suppliers for goods and services	(3,773,258)	(3,773,739)
Cash payments for other operating expenses	(87,637)	(81,802)
<b>Net cash used for operating activities</b>	<b><u>(506,156)</u></b>	<b><u>(376,420)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	74,509	77,610
Federal sources	471,240	472,796
<b>Net cash provided by noncapital financing activities</b>	<b><u>545,749</u></b>	<b><u>550,406</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(57,909)	(68,886)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	20,675	7,513
<b>Net increase in cash</b>	<b>2,359</b>	<b>112,613</b>
<b>CASH</b>		
Beginning of year	740,467	627,854
<b>Ending of year</b>	<b><u>\$ 742,826</u></b>	<b><u>\$ 740,467</u></b>
<b>Reconciliation of operating loss to net cash provided by (used for) operating activities:</b>		
Operating loss	\$ (714,980)	\$ (570,886)
<b>Adjustments to reconcile operating loss to net cash provided by (used for) operating activities</b>		
Depreciation	109,848	108,037
Donated commodities used	129,871	150,163
(Increase) decrease in		
Due from other funds	18,937	(18,937)
Other receivables	(157,955)	487
Inventories	10,152	1,040
Deferred outflows of resources	22,750	(33,334)
Increase (decrease) in		
Accounts payable	829	(5,319)
Due to other funds	81,879	(3,192)
Unearned revenue	6,228	17,607
Accrued compensated absences	945	1,462
Net OPEB liability	(829)	-
Net pension liability	(13,586)	(24,214)
Deferred inflows of resources	(245)	666
<b>Net cash used for operating activities</b>	<b><u>\$ (506,156)</u></b>	<b><u>\$ (376,420)</u></b>
<b>SUPPLEMENTAL DISCLOSURE</b>		
<b>Noncash noncapital financing activity</b>		
USDA donated commodities	\$ 129,871	\$ 150,163
<b>Noncash capital and related financing activity</b>		
Capital contribution	\$ 86,875	\$ 29,795

See accompanying notes

**DOWNINGTOWN AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**

**June 30, 2018**

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	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash	<u>\$ 22,504</u>	<u>\$ 572,505</u>
<b>LIABILITIES</b>		
Due to student groups	-	\$ 571,499
Accounts payable	<u>-</u>	<u>1,006</u>
<b>Total liabilities</b>	<u>-</u>	<u>\$ 572,505</u>
<b>NET POSITION</b>		
Net position held in trust for scholarships	<u>\$ 22,504</u>	

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See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year ended June 30, 2018 with summarized comparative totals for 2017

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	<b>Private-Purpose Trust Fund</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>ADDITIONS</b>		
Local contributions	\$ 7,642	\$ 6,390
<b>DEDUCTIONS</b>		
Scholarships awarded and fees paid	<u>13,086</u>	<u>13,140</u>
<b>CHANGE IN NET POSITION</b>	(5,444)	(6,750)
<b>NET POSITION</b>		
Beginning of year	<u>27,948</u>	<u>34,698</u>
<b>End of year</b>	<b><u>\$ 22,504</u></b>	<b><u>\$ 27,948</u></b>

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See accompanying notes

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Downingtown Area School District (the "**District**") operates ten elementary schools, three middle schools and three high schools to provide education and related services to the residents of the Borough of Downingtown and the Townships of East Brandywine, East Cain, Upper Uwchlan, Uwchlan, Wallace, West Bradford and West Pikeland. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

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

#### **Reporting Entity**

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

#### **Basis of Presentation**

##### ***Government-Wide Financial Statements***

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

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

### ***Fund Financial Statements***

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

### ***Governmental Funds***

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

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

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Debt Service Fund is used to account for financial resources committed or restricted for the payment of long-term debt principal, interest and other related costs.

### ***Revenue Recognition***

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### ***Expenditure Recognition***

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### ***Proprietary Funds***

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

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

### ***Fiduciary Funds***

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

### **Cash and Cash Equivalents**

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

### **Investments**

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

### **Fair Value Measurements of Assets and Liabilities**

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

### **Interfund Receivables and Payables**

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

### **Property Taxes**

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

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

The County Board of Assessments determines assessed valuations of property and the District's taxes are billed and collected by a third party tax collector. The tax on real estate for public school purposes for fiscal 2017-2018 was 27.182 mills (\$27.182 for \$1,000 of assessed valuation) for Chester County. The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers within the District have the option of paying in four installments. These installments have the following due dates:

Installment One	- July 31
Installment Two	- August 31
Installment Three	- September 30
Installment Four	- October 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if the second, third and fourth installments are paid subsequent to the due dates.

### **Prepaid Items and Inventories**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

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

### **Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### **Capital Assets**

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

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

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

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 15-50 years, land improvements – 15-40 years and furniture and equipment – 5-20 years.

### **Impairment of Long-Lived Assets**

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2018.

### **Compensated Absences**

District policies permit employees to accumulate earned but unused vacation days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the Governmental Funds financial statements only to the extent they have matured, for example, as a result of employee resignation and retirements.

### **Sick Leave**

Employees that retire under the Pennsylvania School Employees Retirement System ("**PSERS**") are paid at per diem rates ranging from \$40 to \$55 for each unused sick leave day.

### **Accrued Severance**

Administrative personnel that retire under PSERS are eligible to receive a lump sum severance payment at retirement. The payment is based on a formula as follows: 1.5% multiplied by years of service multiplied by highest salary.

### **Vacation and Personal Days**

District employees that work on a twelve month schedule are credited with vacation and personal days at rates which vary with length of service and job classification.

### **Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

### **Fund Equity**

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

#### ***Nonspendable***

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

#### ***Restricted***

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

#### ***Committed***

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action.

#### ***Assigned***

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Chief Financial Officer or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

#### ***Unassigned***

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### Use of Estimates

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

### Implementation of New Accounting Pronouncements

Effective July 1, 2017, the District adopted the provisions of GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, GASB Statement No. 80 *"Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14"*, GASB Statement No. 81, *"Irrevocable Split-Interest Agreements"*, GASB Statement No. 82, *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73"*; GASB Statement No. 85, *"Omnibus 2017"* and GASB Statement No. 86, *"Certain Debt Extinguishment Issues"*.

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information ("**RSI**") about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 amended the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*.

GASB Statement No. 81 required that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 required that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 required that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 had no impact on the financial statements of the District for the year ended June 30, 2018.

GASB Statement No. 82 addressed issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 85 established accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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GASB Statement No. 86 established standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. GASB Statement No. 86 also amended accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an insubstance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB Statement No. 86 established an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired.

### **New Accounting Pronouncements**

GASB Statement No. 83, "*Certain Asset Retirement Obligations*" will be effective for the District for the year ended June 30, 2019. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations ("**AROs**"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB Statement No. 83.

GASB Statement No. 84, "*Fiduciary Activities*" will be effective for the District for the year ended June 30, 2019. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, "*Leases*" will be effective for the District for the year ended June 30, 2021. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

## (2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### **Budgetary Information**

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to make available for public inspection within 20 days of final adoption the proposed budget. Public notice of the intent to adopt the final budget is required to be done 10 days prior to the adoption date.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the House Education Committee and the Senate Education Committee by September 15.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period.

### (3) DEPOSITS AND INVESTMENTS

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

#### Deposits

##### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2018, the carrying amount of the District's deposits was \$38,574,009 and the bank balance was \$39,163,810. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$34,106,014 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, and is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2018, PSDLAF was rated as AAA by a nationally recognized statistical rating agency.

#### Investments

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

As of June 30, 2018, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>11 – 15</u>
Certificates of deposit	\$101,130,861	\$100,697,861	\$433,000	\$ -	\$ -
PSDLAF collateralized investment pools	48,509,413	48,509,413	-	-	-
U.S. Treasury strips	14,386,209	-	-	11,522,924	2,863,285
	<u>\$164,026,483</u>	<u>\$149,207,274</u>	<u>\$433,000</u>	<u>\$11,522,924</u>	<u>\$2,863,285</u>

PSDLAF collateralized investment pools are fully collateralized by U.S. government agency and treasury obligations and certificates of deposit. PSDLAF collateralized investment pools and U.S. Treasury strips were valued using Level 2 inputs.

##### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral that is in the possession of an outside party. The collateral for all of the District's investments are held by the pledging bank's agent in the District's name. The District had no investments subject to custodial credit risk as of June 30, 2018.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal or state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

### Restricted Deposits and Investments

The District maintains restricted cash and investment balances held by fiscal agents, which are restricted for the repayment of Qualified School Construction Bonds (**See Note 7**). The total carrying amounts and related bank balances of these cash and investment accounts are \$14,388,539 as of June 30, 2018, which are invested in U.S. Treasury securities.

## (4) PROPERTY TAXES

Taxes receivable consisted of the following as of June 30, 2018:

Real estate taxes	\$2,451,160
Real estate transfer taxes	339,985
Earned income taxes	130,158
Local services tax	<u>953</u>
	<u>\$2,922,256</u>

A detailed analysis of current year property tax revenues for the year ended June 30, 2018 are as follows:

Assessed value, July 1, 2017	\$5,431,125,467
Millage rate	<u>0.027182</u>
<b>Gross property tax levy</b>	<b>147,628,852</b>
<b>Add:</b>	
Penalties paid	220,030
<b>Less:</b>	
Discounts	(2,463,366)
Assessment changes and exonerations	(1,434,453)
Property tax relief allocation	(3,939,786)
Taxes uncollected at December 31, 2017 and liened	<u>(2,114,192)</u>
	<u>\$ 137,897,085</u>

## (5) 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>
Capital Projects Fund	\$ 9,826,069	General Fund	\$ 9,826,069
Debt Service Fund	6,000,000	General Fund	6,000,000
Capital Projects Fund	17,552	Food Service Fund	17,552
Food Service Fund	20,211	General Fund	20,211
General Fund	<u>72,489</u>	Food Service Fund	<u>72,489</u>
	<u>\$15,936,321</u>		<u>\$15,936,321</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2018 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund (non-reimbursement)	\$ 463,058	General Fund (non-reimbursement)	\$ 463,058
Capital Projects Fund (reimbursement for technology)	2,311,028	General Fund (reimbursement for technology)	2,311,028
Capital Projects Fund (reimbursement for facilities)	6,375,055	General Fund (reimbursement for facilities)	6,375,055
Capital Projects Fund (reimbursement for curriculum/ other)	676,928	General Fund (reimbursement for curriculum/ other)	676,928
Debt Service Fund (non-reimbursement)	<u>6,000,000</u>	General Fund (non-reimbursement)	<u>6,000,000</u>
	<u>\$15,826,069</u>		<u>\$15,826,069</u>

Transfers from General Fund and Capital Projects Fund represents transfers to subsidize costs associated with the acquisition of capital assets and debt service requirements.

### (6) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Construction in progress	\$ 3,259,628	\$ 9,380,563	\$ 7,561,112	\$ 5,079,079
Land	<u>41,367,984</u>	<u>-</u>	<u>-</u>	<u>41,367,984</u>
<b>Total capital assets not being depreciated</b>	<u>44,627,612</u>	<u>9,380,563</u>	<u>7,561,112</u>	<u>46,447,063</u>
Capital assets being depreciated				
Land improvements	19,870,538	252,585	-	20,123,123
Buildings and improvements	329,006,311	4,442,229	-	333,448,540
Furniture and equipment	<u>30,300,237</u>	<u>2,870,106</u>	<u>3,150,842</u>	<u>30,019,501</u>
<b>Total capital assets being depreciated</b>	<u>379,177,086</u>	<u>7,564,920</u>	<u>3,150,842</u>	<u>383,591,164</u>
<b>Less accumulated depreciation for</b>				
Land improvements	(13,346,529)	(1,048,881)	-	(14,395,410)
Buildings and improvements	(109,445,797)	(7,966,745)	-	(117,412,542)
Furniture and equipment	<u>(16,091,324)</u>	<u>(4,849,077)</u>	<u>(3,150,842)</u>	<u>(17,789,559)</u>
<b>Total accumulated depreciation</b>	<u>(138,883,650)</u>	<u>(13,864,703)</u>	<u>(3,150,842)</u>	<u>(149,597,511)</u>
<b>Total capital assets being depreciated, net</b>	<u>240,293,436</u>	<u>(6,299,783)</u>	<u>-</u>	<u>233,993,653</u>
<b>Governmental activities, net</b>	<u>\$ 284,921,048</u>	<u>\$ 3,080,780</u>	<u>\$ 7,561,112</u>	<u>\$ 280,440,716</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Machinery and equipment	\$ 3,064,153	\$ 144,784	\$ 126,445	\$ 3,082,492
Less accumulated depreciation	<u>(2,062,668)</u>	<u>(109,848)</u>	<u>(126,445)</u>	<u>(2,046,071)</u>
<b>Business-type activities, net</b>	<u>\$ 1,001,485</u>	<u>\$ 34,936</u>	<u>\$ -</u>	<u>\$ 1,036,421</u>

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

<b>Governmental activities</b>	
Unallocated	<u>\$13,864,703</u>
<b>Business-type activities</b>	
Food service	<u>\$ 109,848</u>

As of June 30, 2018, the District had outstanding construction commitments totaling \$1,764,501 for various renovations to District buildings.

### (7) LONG-TERM DEBT

#### General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted resources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2018 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>General obligation bonds</b>				
Series of 2009AA	2.00% - 5.00%	\$67,070,000	11/01/2029	\$ 7,230,000
Series of 2010	Variable	\$23,680,000	05/01/2030	16,115,000
Series of 2017	0.75% - 5.00%	\$16,910,000	11/01/2029	<u>16,230,000</u>
<b>Total general obligation bonds</b>				<u>39,575,000</u>
<b>General obligation notes</b>				
Series of 2006A	Variable	\$19,900,000	08/01/2021	18,900,000
Series of 2006C	Variable	\$15,200,000	08/01/2022	<u>15,200,000</u>
<b>Total general obligation notes</b>				<u>34,100,000</u>
<b>Qualified school construction bonds</b>				
Series of 2010A	5.00%	\$28,303,000	09/01/2027	28,303,000
Series of 2011C	5.088%	\$11,766,000	09/01/2029	<u>11,766,000</u>
<b>Total qualified school construction bonds</b>				<u>40,069,000</u>
<b>Total general obligation debt</b>				<u>\$113,744,000</u>

Variable rate debt bears interest at a rate that is adjusted weekly based upon rates published by the Securities Industry and Financial Markets Association.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Qualified School Construction Bonds

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The QSCB program was created by the American Recovery and Reinvestment Act ("**ARRA**") and allows schools to borrow at nominal or zero percent to fund new construction, renovation and rehabilitation of schools as well as the purchase of land and equipment. The SPSBA issues the bonds through the QSCB program and provides loans to schools for qualified projects. Under the QSCB program SPSBA receives direct interest subsidy payments from the United States Treasury which are then transferred to the borrowers as reimbursement of the interest portion of their loan payments. On October 6, 2010, the District borrowed \$28,303,000 from the SPSBA under the QSCB program. The District is required to deposit \$1,664,882 annually into a sinking fund through the maturity date of September 1, 2027. On November 1, 2011, the District borrowed \$11,766,000 from the SPSBA under the QSCB program. The District is required to deposit \$734,750 annually into a sinking fund through the maturity date of September 1, 2029. Sinking fund deposits are included as restricted assets held by fiscal agent in the accompanying financial statements.

The following summarizes the changes in general obligation debt for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Amount Due Within One Year</u>
<b>Governmental activities</b>					
<b>General obligation bonds</b>					
Series of 2009AA	\$ 36,190,000	\$ -	\$28,960,000	\$ 7,230,000	\$7,230,000
Series of 2010	17,110,000	-	995,000	16,115,000	1,040,000
Series of 2017	-	16,910,000	680,000	16,230,000	5,000
<b>General obligation notes</b>					
Series of 2006A	19,000,000	-	100,000	18,900,000	100,000
Series of 2006C	15,200,000	-	-	15,200,000	-
<b>Qualified school construction     bonds</b>					
Series of 2010A	28,303,000	-	-	28,303,000	-
Series of 2011C	11,766,000	-	-	11,766,000	-
<b>Subtotal</b>	127,569,000	16,910,000	30,735,000	113,744,000	8,375,000
Bond premiums	2,851,839	2,279,270	566,706	4,564,403	566,706
Bond discounts	(105,881)	-	(8,963)	(96,918)	(8,963)
<b>Total general     obligation debt</b>	<u>\$130,314,958</u>	<u>\$19,189,270</u>	<u>\$31,292,743</u>	<u>\$118,211,485</u>	<u>\$8,932,743</u>

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Debt Sinking Fund</u>	<u>Total</u>
2019	\$ 8,375,000	\$ 3,053,627	\$ 2,399,632	\$ 13,828,259
2020	8,615,000	2,646,479	2,399,632	13,661,111
2021	8,940,000	2,268,214	2,399,632	13,607,846
2022	10,575,000	1,843,389	2,399,632	14,818,021
2023	10,905,000	1,378,631	2,399,632	14,683,263
2024-2028	46,373,000	4,106,143	(16,305,040)	34,174,103
2029-2030	19,961,000	421,451	(10,296,500)	10,085,951
	<u>\$113,744,000</u>	<u>\$15,717,934</u>	<u>\$(14,603,380)</u>	<u>\$114,858,554</u>



# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Interest maturities presented are net of the direct interest subsidy payments from the United States Treasury to reimburse interest expense on the District's Series of 2010A and 2011C QSCB bonds. The amount of the subsidy is \$1,965,689 each year through 2022, \$9,828,445 from 2023-2027 and \$2,180,152 from 2028-2030.

### **General Obligation Bonds, Series of 2017**

On July 27, 2017, the District issued \$16,910,000 of general obligation bonds, Series of 2017, the proceeds from which along with a cash contribution of \$7,000,000 were used to advance refund a portion of the District's general obligation bonds, Series of 2009AA, in the amount of \$24,215,000 and to pay for the costs of issuance. The advance refunding resulted in a net debt service reduction of \$9,059,971 over the term of the Series of 2017 bonds ending in 2029-2030. The present value net savings attributable to lower interest rates was \$2,162,443 after factoring in the District's cash contribution.

### **In-Substance Defeasance**

The District has defeased a portion of its general obligation bonds, Series of 2011, by creating a separate irrevocable trust fund. District cash or new debt proceeds have been used to purchase U.S. Government securities that were placed in the trust fund. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2018, the amount of defeased outstanding debt was as follows:

<b><u>Description</u></b>	<b><u>Call Date</u></b>	<b><u>Interest Rates</u></b>	<b><u>Principal Outstanding</u></b>
General obligation bonds Series of 2009AA	05/01/2019	0.75% - 1.25%	\$24,215,000

## (8) DERIVATIVE FINANCIAL INSTRUMENTS

### **Interest Rate Swap Agreements**

The District uses swap contracts that have fixed interest payments made in exchange for variable interest payments received based on an underlying interest rate index. Hedging derivatives instruments are used to reduce financial risks, such as offsetting increases in variable interest rate costs of the hedged item. These derivative instruments are evaluated to determine if they are effective in significantly reducing the identified financial risk at year end. If the derivative is determined to be an effective hedge, its fair value is an asset or liability with a corresponding offset to deferred outflows or inflows of resources on the statement of net position. Deferred outflows or inflows of resources constitute changes in fair values of effectively-hedged derivative instruments. If the derivative instruments are determined to be ineffective, they are considered investment derivatives in which their fair values are recognized against investment income in the statement of activities.

At June 30, 2018, the District had the following derivative financial instruments outstanding:

	<b><u>Changes in Fair Value</u></b>		<b><u>Fair Value at June 30, 2018</u></b>		<b><u>Notional</u></b>
	<b><u>Classification</u></b>	<b><u>Amount</u></b>	<b><u>Classification</u></b>	<b><u>Amount</u></b>	
<b><u>Governmental Activities</u></b>					
Cash flow hedges					
Pay fixed interest rate swaps	Deferred outflows of resources	\$2,279,977	Debt	(\$3,455,821)	\$50,215,000

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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The District currently has two interest rate swap agreements. The District utilized a regression method analysis to evaluate the hedge effectiveness for their interest rate swap portfolio. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the interest rate swap and the item it is hedged against. The analysis confirmed that the changes in cash flows of the interest rate swap instrument substantially offsets the changes in cash flows of the item hedged against and met within reason all required criteria.

### Fair Value

The fair value of the interest rate swaps were derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions. The interest rate swaps were valued based upon Level 2 inputs.

### Objective and Terms of Hedging Derivative Instruments

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay fixed interest rate swaps	Hedge changes in cash flows on the GOB Series of 2006A and 2006C	\$34,100,000	02/01/2011	08/01/2022	Pay 3.5230%; receives 70% of 3-month LIBOR	AA/AA-
Pay fixed interest rate swaps	Hedge changes in cash flows on the GOB Series of 2010	\$16,115,000	11/01/2010	05/01/2030	Pay 3.6949%; receives 70% of 3-month LIBOR	AA/AA-

### Credit Risk

As of June 30, 2018, the District was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and AA- by Standard & Poor's as of June 30, 2018.

### Interest Rate Risk

The District is exposed to interest rate risk on its swap agreements. On the District's pay-fixed interest rate swaps, as the London Inter-Bank Offered Rate (LIBOR) decreases, the District's net payment on the swap increases.

### Basis Risk

The District is exposed to basis risk on its pay-fixed interest rate swaps because the variable rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable rate debt, which is remarketed every week.

### Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

### Swap Payments and Associated Debt

Using rates as of June 30, 2018, debt service requirements for the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

<u>Year ending June 30,</u>	<u>Variable Rate Bonds</u>		<u>Interest Rate Swaps, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2019	\$ 1,140,000	\$1,099,057	\$ 959,908	\$ 3,198,965
2020	8,490,000	924,619	917,601	10,332,221
2021	8,835,000	729,378	754,856	10,319,234
2022	10,490,000	446,358	621,437	11,557,795
2023	10,845,000	313,576	342,213	11,500,789
2024-2028	7,105,000	773,279	719,930	8,598,209
2029-2030	3,310,000	79,560	74,071	3,463,631
	<u>\$50,215,000</u>	<u>\$4,365,827</u>	<u>\$4,390,016</u>	<u>\$58,970,843</u>

### (9) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
<b>Governmental activities</b>				
Compensated absences	\$ 3,090,279	\$ -	\$ 135,106	\$ 2,955,173
OPEB liability	13,929,581	1,478,420	1,119,135	14,288,866
Net OPEB liability – PSERS	14,086,462	-	744,064	13,342,398
Net pension liability	<u>324,074,386</u>	<u>-</u>	<u>644,579</u>	<u>323,429,807</u>
<b>Total governmental activities</b>	<u>355,180,708</u>	<u>1,478,420</u>	<u>2,642,884</u>	<u>354,016,244</u>
<b>Business-type activities</b>				
Compensated absences	24,030	945	-	24,975
Net OPEB liability – PSERS	15,704	-	829	14,875
Net pension liability	<u>374,160</u>	<u>-</u>	<u>13,586</u>	<u>360,574</u>
<b>Total business-type activities</b>	<u>413,894</u>	<u>945</u>	<u>14,415</u>	<u>400,424</u>
<b>Total noncurrent liabilities</b>	<u>\$355,594,602</u>	<u>\$1,479,365</u>	<u>\$2,657,299</u>	<u>\$354,416,668</u>

### (10) OTHER POST-EMPLOYMENT BENEFITS

#### Single-Employer Defined Benefit OPEB Plan

The District's other post-employment benefits ("**OPEB**") include a single-employer defined benefit plan that provides medical, prescription, dental and vision benefits to certain retirees and their spouse. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

#### OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2016:

Active employees	1,323
Vested former participants	2
Terminated OPEB plan members entitled to but not yet receiving benefits	<u>94</u>
Total	<u>1,419</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

### OPEB Liability

The District's OPEB liability has been measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, and by rolling forward the liabilities from the July 1, 2016 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is \$14,288,866, all of which is unfunded. As of June 30, 2018, the OPEB liability of \$14,288,866 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

The District's change in its OPEB liability for the year ended June 30, 2018 was as follows:

<b>Balances as of July 1, 2017</b>	<u>\$13,929,581</u>
<b>Changes for the year:</b>	
Service cost	1,111,126
Interest on total OPEB liability	362,294
Changes in assumptions	(203,972)
Benefit payments	<u>(915,163)</u>
<b>Net changes</b>	<u>359,285</u>
<b>Balances as of June 30, 2018</b>	<u>\$14,288,866</u>

### OPEB Expense and Deferred Outflows Related to OPEB

For the year ended June 30, 2018, the District recognized negative OPEB expense of \$578,744. At June 30, 2018, the District had deferred inflows and outflows of resources related to the OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$189,403
Contributions subsequent to the measurement date	<u>923,460</u>	<u>-</u>
	<u>\$923,460</u>	<u>\$189,403</u>

\$923,460 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other 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	\$ (14,569)
2020	(14,569)
2021	(14,569)
2022	(14,569)
2023	(14,569)
Thereafter	<u>(116,558)</u>
	<u>\$ (189,403)</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Sensitivity of the OPEB Liability to Change in Healthcare Cost Trend Rates

The following presents the OPEB liability for June 30, 2018, calculated using current healthcare cost trends as well as what the OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
OPEB liability	<u>\$12,501,077</u>	<u>\$14,288,866</u>	<u>\$16,454,353</u>

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

The following presents the net OPEB liability of the District calculated using the discount rate of 3.13%, as well as what the OPEB liability would be if it were calculated using the discount rate that is one percentage point lower (2.13%) or 1 percentage point higher (4.13%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>2.13%</u>	<u>3.13%</u>	<u>4.13%</u>
OPEB Liability	<u>\$15,398,901</u>	<u>\$14,288,866</u>	<u>\$13,250,375</u>

### Actuarial Methods and Significant Assumptions

The OPEB Liability as of June 30, 2018, was determined by rolling forward the OPEB Liability as of July 1, 2016 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal
- Discount rate - 3.13% - 20 year high-grade municipal rate index. The discount rate changed from 2.49% to 3.13%.
- Salary growth – an annual rate of 3.50% and for teachers and administrators a merit increase which varies by age from 2.75% to 0.00%
- Assumed healthcare cost trends – 6.00% in 2017, and 5.50% in 2018 through 2023.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect experience and projected using a modified version of the MP-2016 mortality improvement scale.

### Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

PSERS provides health insurance premium assistance which, is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance 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.

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

- Have 24 ½ 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 PSERS' health options program or employer-sponsored health insurance program.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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.

### Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% 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 \$748,419 for the year ended June 30, 2018.

### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$13,357,273 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' 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, 2017, the District's proportion was 0.6556 percent, which was an increase of 0.0009 from its proportion measured as of June 30, 2016. As of June 30, 2018, the net OPEB liability of \$13,342,398 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position and the remaining \$14,875 of the net OPEB liability is recorded as a liability in the proprietary fund statement of net position, and in the business-type activities in the government-wide statement of net position.

For the year ended June 30, 2018, the District recognized negative OPEB expense of \$578,744. 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 in assumptions	\$ -	\$622,000
Net difference between projected and actual investment earnings	14,000	-
Changes in proportions	17,000	-
Contributions subsequent to the measurement date	<u>748,419</u>	<u>-</u>
	<u>\$779,419</u>	<u>\$622,000</u>

\$748,419 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other 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:

2018	\$ (97,000)
2019	(97,000)
2020	(97,000)
2021	(98,000)
2022	(101,000)
Thereafter	<u>(101,000)</u>
	<u>\$(591,000)</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### Actuarial Assumptions

The OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS' 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 % of pay
- Investment return - 3.13% - Standard & Poors 20 year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% 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.

Participation rate:

- Eligible retirees will elect to participate pre age 65 at 50%
- Eligible retirees will elect to participate post age 65 at 70%

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% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 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 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the OPEB 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 health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year.

<u>OPEB – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.40%	0.60%
Fixed income	<u>23.60%</u>	1.50%
	<u>100.00%</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.

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Discount Rate

The discount rate used to measure the OPEB liability was 3.13%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the Standard & Poors 20 year municipal bond rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

### Sensitivity of District's Proportionate Share of the Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual health insurance premium assistance. As of June 30, 2017, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. 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 net OPEB liability for June 30, 2017, calculated using current healthcare cost trends as well as what net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the OPEB liability	<u>\$13,353,785</u>	<u>\$13,357,273</u>	<u>\$13,360,072</u>

### 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%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>2.13%</u>	<u>3.13%</u>	<u>4.13%</u>
District's proportionate share of the OPEB liability	<u>\$15,183,670</u>	<u>\$13,357,273</u>	<u>\$11,840,077</u>

### OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS's website at [www.psers.pa.gov](http://www.psers.pa.gov).

## (11) PENSION PLAN

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



# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### Plan Description

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 PSERS include all full-time public employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.pasers.state.pa.us](http://www.pasers.state.pa.us).

### Benefits Provided

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

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

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

### Contributions

#### Member Contributions

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

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

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

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

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$28,620,257 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$323,790,381 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 PSERS' 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 0.6556 percent, which was an increase of 0.0009 from its proportion measured as of June 30, 2016. As of June 30, 2018, the net pension liability of \$323,429,807 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position and the remaining \$360,574 of the net pension liability is recorded as a liability in the proprietary fund statement of net position, and in the business-type activities in the government-wide statement of net position.

For the year ended June 30, 2018, the District recognized pension expense of \$8,714,090. 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 expected and actual experience	\$ 3,378,000	\$1,957,000
Changes in assumptions	8,796,000	-
Net difference between projected and actual investment earnings	7,503,000	-
Changes in proportions	7,988,000	-
Contributions subsequent to the measurement date	<u>28,620,257</u>	<u>-</u>
	<u>\$56,285,257</u>	<u>\$1,957,000</u>

\$28,620,257 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

### Year ended June 30:

2018	\$ 8,054,000
2019	11,570,000
2020	7,050,000
2021	<u>(966,000)</u>
	<u>\$25,708,000</u>

### Actuarial Assumptions

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

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were 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.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	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 rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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	<u>1% Decrease</u> <u>6.25%</u>	<u>Discount</u> <u>Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	<u>\$398,557,800</u>	<u>\$323,790,381</u>	<u>\$260,665,524</u>

### **Pension Plan Fiduciary Net Position**

Detailed information about the PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS' website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

## (12) JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

### **Technical College High School Brandywine**

The District and two other Chester County school districts participate in the Technical College High School Brandywine Campus ("**TCHS Brandywine**"). The TCHS Brandywine provides vocational-technical training and education to students of the participating school districts. The TCHS Brandywine is controlled by a joint Board comprised of representative school board members of the participating school districts. District oversight of the TCHS Brandywine operations is the responsibility of the joint board. The District's share of operating costs for the TCHS Brandywine fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2017-2018 was \$2,642,768.

The TCHS Brandywine prepares financial statements that are available to the public from their administrative offices.

### **Chester County Intermediate Unit**

The District and the other Chester County school districts are participating members of the Chester County Intermediate Unit (the "**CCIU**"). The CCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the CCIU but the participating districts have no ongoing fiduciary interest or responsibility to the CCIU. The CCIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services.

## (13) CONTINGENCIES AND COMMITMENTS

### **Government Grants and Awards**

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

### **Litigation**

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### (14) RISK MANAGEMENT

#### Other Risks

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

#### Healthcare

The District administers a self-insurance program to provide healthcare and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the General Fund that includes an estimate for claims incurred but not reported through June 30, 2018 as estimated by the District's third party administrator and healthcare benefit consultant.

The following table presents the self-insurance healthcare claims liability and the related changes in the claims liability for the year ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Insurance claims liability – beginning of year	\$ 3,274,483	\$ 2,174,302
Current year insurance claims and changes in estimates	15,660,118	15,807,278
Insurance claims paid	<u>(14,268,368)</u>	<u>(14,707,097)</u>
Insurance claims liability – end of year	<u>\$ 4,666,233</u>	<u>\$ 3,274,483</u>

#### Workers' Compensation

The District and other participating Pennsylvania school districts and educational agencies participate in the School District Insurance Consortium ("**SDIC**"), which is a voluntary trust. The District and the other participating members pay premiums to SDIC for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating members and pooling workers' compensation and occupational disease insurance risks, reserves claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of SDIC that the SDIC will utilize funds contributed by the participating members, which shall be held in trust by SDIC, to provide self-insurance and reimbursements to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2018, the District is not aware of any additional assessments relating to SDIC.

### (15) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the District made a prior period adjustment to record its OPEB liability and deferred outflows of resources related to employer OPEB contributions. This prior period adjustment and its effect on net position at June 30, 2016 are summarized in the following table:

# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
Net position at June 30, 2016, as previously stated	\$ 70,843,677	\$1,758,443	\$ 72,602,120
Prior period adjustment to			
To adjust single employer OPEB liability to reflect unfunded actuarial liability	(6,067,327)	-	(6,067,327)
To record PSERS net OPEB liability	(14,086,462)	(15,704)	(14,102,166)
To record deferred inflows of resources related to single employer OPEB liability	(203,972)	-	(203,972)
To record deferred outflows of resources related to PSERS net OPEB liability	<u>714,377</u>	<u>796</u>	<u>715,173</u>
Net position at June 30, 2016, as restated	<u>\$ 51,200,293</u>	<u>\$1,743,535</u>	<u>\$ 52,943,828</u>

### (16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2018, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in the financial statements.

On November 14, 2018, the District issued general obligation bonds, Series A, B and C of 2018 totaling \$73,910,000.

Proceeds from the general obligation bonds, Series of 2018A, in the amount of \$14,635,000 plus bond issuance premiums, were used to refund the District's outstanding general obligation bonds, Series of 2010 in the amount of \$16,115,000.

Proceeds from the general obligation bonds, Series of 2018B, in the amount of \$32,620,000 plus bond issuance premiums, were used to refund the District's outstanding general obligation notes, Series A and B of 2006 in the amount of \$34,000,000.

Proceeds from the general obligation bonds, Series of 2018C, in the amount of \$26,655,000 plus bond issuance premiums, are to be used to pay the costs of planning, designing, acquiring, constructing, furnishing and equipping additions and improvements to the District's Uwchlan Hills Elementary School and, to the extent of remaining funds, other buildings and facilities of the District.

The issuance of general obligation bonds, Series A and B of 2018 which refunded general obligation bonds, Series of 2010 and general obligation notes, Series A and B of 2006 will reduce future debt service payments by \$3,657,367 over the life of the general obligation bonds ending in 2029-2030.

In connection with the issuance of the general obligation bonds, Series A and B of 2018 the District made a cash contribution of \$2,760,000 to terminate the interest rate swaps related to the general obligation bonds, Series of 2010 and general obligation notes, Series A and B of 2006.

**REQUIRED SUPPLEMENTARY INFORMATION**

# DOWNINGTOWN AREA SCHOOL DISTRICT

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 167,346,585	\$ 167,745,015	\$ 169,667,095	\$ 1,922,080
State sources	48,250,113	48,871,519	50,224,146	1,352,627
Federal sources	1,128,000	2,961,005	2,922,619	(38,386)
<b>Total revenues</b>	<u>216,724,698</u>	<u>219,577,539</u>	<u>222,813,860</u>	<u>3,236,321</u>
<b>EXPENDITURES</b>				
<b>Instruction</b>				
Regular programs	101,187,500	100,397,347	94,482,875	5,914,472
Special programs	30,756,460	30,811,074	28,808,958	2,002,116
Vocational programs	5,708,799	5,698,987	5,657,676	41,311
Other instructional programs	1,674,763	1,674,763	1,422,288	252,475
Non-public school programs	5,000	40,000	36,077	3,923
<b>Total instruction</b>	<u>139,332,522</u>	<u>138,622,171</u>	<u>130,407,874</u>	<u>8,214,297</u>
<b>Support services</b>				
Pupil support services	7,875,328	7,887,820	7,795,655	92,165
Instructional staff services	5,921,418	6,277,226	6,231,579	45,647
Administrative services	12,175,347	12,400,518	10,636,060	1,764,458
Pupil health	3,022,009	2,964,847	2,825,577	139,270
Business services	2,254,580	2,229,685	2,159,612	70,073
Operation and maintenance of plant services	14,998,184	14,975,856	14,018,196	957,660
Student transportation services	11,821,037	11,826,811	11,543,650	283,161
Support services - central	4,570,483	4,765,145	4,348,992	416,153
Other support services	92,500	714,906	714,750	156
<b>Total support services</b>	<u>62,730,886</u>	<u>64,042,814</u>	<u>60,274,071</u>	<u>3,768,743</u>
<b>Operation of noninstructional services</b>				
Student activities	3,674,876	4,128,135	4,066,865	61,270
Community services	81,716	86,716	85,635	1,081
<b>Total operation of noninstructional services</b>	<u>3,756,592</u>	<u>4,214,851</u>	<u>4,152,500</u>	<u>62,351</u>
<b>Facilities acquisition, construction and improvement services</b>				
	360,000	360,000	331,257	28,743
<b>Debt service</b>				
	10,090,000	11,833,005	11,833,005	-
<b>Total expenditures</b>	<u>216,270,000</u>	<u>219,072,841</u>	<u>206,998,707</u>	<u>12,074,134</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>454,698</u>	<u>504,698</u>	<u>15,815,153</u>	<u>15,310,455</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of/compensation for capital assets	45,302	45,302	162,237	116,935
Refund of prior year expenditures	-	40,000	201,532	161,532
Refund of prior year revenues	-	(90,000)	-	90,000
Transfers out (reimbursement)	-	-	(9,363,011)	(9,363,011)
Transfers out (non-reimbursement)	-	-	(6,463,058)	(6,463,058)
Budgetary reserve	(500,000)	(500,000)	-	500,000
<b>Total other financing sources (uses)</b>	<u>(454,698)</u>	<u>(504,698)</u>	<u>(15,462,300)</u>	<u>(14,957,602)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>352,853</u>	<u>\$ 352,853</u>
<b>FUND BALANCE</b>				
Beginning of year			17,341,600	
<b>End of year</b>			<u>\$ 17,694,453</u>	



# DOWNINGTOWN AREA SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PSERS

Year ended June 30

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.6556%	0.6547%	0.6410%	0.6259%
District's proportionate share of the net pension liability	\$ 323,790,381	\$ 324,448,546	\$ 277,651,000	\$ 247,735,000
District's covered-employee payroll	\$ 87,291,671	\$ 84,793,744	\$ 82,474,947	\$ 79,863,944
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371%	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	52%	50%	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 25,076,097	\$ 20,829,000	\$ 16,551,000	\$ 12,468,000
Contributions in relation to the contractually required contribution	<u>25,076,097</u>	<u>20,829,000</u>	<u>16,551,000</u>	<u>12,468,000</u>
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 87,291,671	\$ 84,793,744	\$ 82,474,947	\$ 79,863,944
Contributions as a percentage of covered-employee payroll	29%	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

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	<b><u>2018</u></b>
<b>TOTAL OPEB LIABILITY</b>	
Service cost	\$ 1,116,126
Interest on total OPEB liability	362,294
Changes of assumptions	(203,972)
Benefit payments	<u>(915,163)</u>
<b>Net change in total OPEB liability</b>	359,285
<b>Total OPEB liability, beginning</b>	<u>13,929,581</u>
<b>Total OPEB liability, ending</b>	<b><u>\$ 14,288,866</u></b>
<b>Fiduciary net position as a % of total OPEB liability</b>	0.00%
<b>Covered payroll</b>	\$ 83,688,223
<b>Net OPEB liability as a % of covered payroll</b>	17%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

# DOWNINGTOWN AREA SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OPEB LIABILITY -PSERS

Year ended June 30

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	<u>2017</u>
District's proportion of the net OPEB liability	0.6556%
District's proportionate share of the net OPEB liability	\$ 13,357,273
District's covered-employee payroll	\$ 87,291,671
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15%
Plan fiduciary net position as a percentage of the total OPEB liability	6%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**DOWNTOWN AREA SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS**

**Year ended June 30**

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	<u><b>2017</b></u>
Contractually required contribution	\$ 724,818
Contributions in relation to the contractually required contribution	<u>\$ 724,818</u>
Contribution deficiency (excess)	-
District's covered-employee payroll	\$ 87,291,671
Contributions as a percentage of covered-employee payroll	1%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

## **SUPPLEMENTARY INFORMATION**

**DOWNINGTOWN AREA SCHOOL DISTRICT**

**COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND**

**June 30, 2018**

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	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 1,840,823	\$ 16,347,021	\$ 18,187,844
Investments	23,820,443	66,053,585	89,874,028
Due from other funds	-	9,843,621	9,843,621
<b>Total assets</b>	<u>\$ 25,661,266</u>	<u>\$ 92,244,227</u>	<u>\$ 117,905,493</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 236	\$ 3,031,937	\$ 3,032,173
 <b>FUND BALANCES</b>			
Committed to			
Capital projects	<u>25,661,030</u>	<u>89,212,290</u>	<u>114,873,320</u>
<b>Total fund balances</b>	<u>25,661,030</u>	<u>89,212,290</u>	<u>114,873,320</u>
 <b>Total liabilities and fund balances</b>	 <u>\$ 25,661,266</u>	 <u>\$ 92,244,227</u>	 <u>\$ 117,905,493</u>

**DOWNINGTOWN AREA SCHOOL DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUND**

Year ended June 30, 2018

	<b>Capital Reserve Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b>REVENUES</b>			
Local sources	\$ 309,557	\$ 826,320	\$ 1,135,877
<b>EXPENDITURES</b>			
Current			
Instruction	-	2,479,105	2,479,105
Support services	-	428,187	428,187
Operation of noninstructional services	-	80,664	80,664
Facilities acquisition, construction and improvement services	-	6,375,055	6,375,055
<b>Total expenditures</b>	<u>-</u>	<u>9,363,011</u>	<u>9,363,011</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>309,557</u>	<u>(8,536,691)</u>	<u>(8,227,134)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refund of prior year expenditures	-	157,413	157,413
Transfers in (reimbursement)	-	9,363,011	9,363,011
Transfers in (non-reimbursement)	-	463,058	463,058
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>9,983,482</u>	<u>9,983,482</u>
<b>NET CHANGE IN FUND BALANCES</b>	309,557	1,446,791	1,756,348
<b>FUND BALANCES</b>			
Beginning of year	<u>25,351,473</u>	<u>87,765,499</u>	<u>113,116,972</u>
<b>End of year</b>	<u>\$ 25,661,030</u>	<u>\$ 89,212,290</u>	<u>\$ 114,873,320</u>



**DOWNINGTOWN AREA SCHOOL DISTRICT**

**BORROWING BASE CALCULATION - GENERAL FUND**

Year ended June 30,

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	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Gross revenues received - General Fund</b>	<u>\$ 211,968,925</u>	<u>\$ 221,407,897</u>	<u>\$ 222,813,860</u>
<b>Deductions pursuant to Section 102 (c)(16) of Act 185 of 1972;</b>			
(i) Subsidy - rentals and sinking fund payments	591,455	4,746,576	1,630,989
(ii) Non-recurring receipts	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total deductions</b>	<u>591,455</u>	<u>4,746,576</u>	<u>1,630,989</u>
<b>TOTAL REVENUES AS DEFINED IN SECTION (102(c)(16) OF ACT 185 OF 1972</b>	<u>\$ 211,377,470</u>	<u>\$ 216,661,321</u>	<u>\$ 221,182,871</u>
<b>TOTAL REVENUES FOR PAST THREE YEARS</b>	<u>\$ 613,214,077</u>	<u>\$ 631,852,367</u>	<u>\$ 649,221,662</u>
<b>BORROWING BASE - AVERAGE ANNUAL REVENUES</b>	<u>\$ 204,404,692</u>	<u>\$ 210,617,456</u>	<u>\$ 216,407,221</u>
<b>DEBT LIMIT - 225% OF BORROWING BASE</b>	<u>\$ 459,910,558</u>	<u>\$ 473,889,275</u>	<u>\$ 486,916,247</u>

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# DOWNINGTOWN AREA SCHOOL DISTRICT

## COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND

June 30,

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>REVENUES</b>										
Local sources	\$169,667,095	\$168,019,218	\$165,798,902	\$161,347,717	\$158,062,114	\$155,165,778	\$150,471,909	\$146,373,855	\$144,795,089	\$141,835,270
State sources	50,224,146	50,415,422	43,445,079	40,489,476	38,795,263	35,850,554	36,203,487	34,875,076	34,458,093	35,339,348
Federal sources	2,922,619	2,973,257	2,724,944	2,758,810	3,057,783	3,012,007	3,140,124	5,757,006	3,925,070	919,583
<b>Total revenues</b>	<u>222,813,860</u>	<u>221,407,897</u>	<u>211,968,925</u>	<u>204,596,003</u>	<u>199,915,160</u>	<u>194,028,339</u>	<u>189,815,520</u>	<u>187,005,937</u>	<u>183,178,252</u>	<u>178,094,201</u>
<b>EXPENDITURES</b>										
Instruction	130,407,874	126,339,494	122,852,991	114,337,036	107,576,872	102,566,445	100,946,540	101,266,153	99,285,913	94,539,968
Support services	60,274,071	60,692,658	58,164,456	54,859,555	50,494,222	47,672,427	46,149,161	48,032,336	45,981,821	45,689,080
Operation of noninstructional services	4,152,500	3,952,347	3,781,391	3,742,258	3,418,070	3,405,943	3,234,836	3,353,499	1,081,001	1,163,735
Facilities acquisition, construction and improvement services	331,257	353,018	311,756	187,621	300,250	1,558,131	3,000,000	-	-	-
Debt service	11,833,005	11,831,039	13,361,677	13,887,128	16,801,219	27,185,883	26,836,505	18,287,185	18,786,810	19,078,257
<b>Total expenditures</b>	<u>206,998,707</u>	<u>203,168,556</u>	<u>198,472,271</u>	<u>187,013,598</u>	<u>178,590,633</u>	<u>182,388,829</u>	<u>180,167,042</u>	<u>170,939,173</u>	<u>165,135,545</u>	<u>160,471,040</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>15,815,153</u>	<u>18,239,341</u>	<u>13,496,654</u>	<u>17,582,405</u>	<u>21,324,527</u>	<u>11,639,510</u>	<u>9,648,478</u>	<u>16,066,764</u>	<u>18,042,707</u>	<u>17,623,161</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	-	-	-	-	-	-	-	-	-	56,767
Transfers out	(15,826,069)	(25,760,784)	(13,127,754)	(19,572,644)	(25,071,254)	(20,745,138)	(21,931,206)	(6,374,284)	(16,367,662)	(17,294,983)
Sale of/compensation for capital assets	162,237	182,098	45,414	37,165	17,064	3,675	16,100	-	-	-
Proceeds from extended-term financing	-	-	-	-	-	-	-	713,040	-	-
Refunds of prior years expenditures (revenues)	201,532	69,585	(76,904)	119,098	239,113	384	(10,642)	36,170	55,209	165,470
<b>Total other financing sources (uses)</b>	<u>(15,462,300)</u>	<u>(25,509,101)</u>	<u>(13,159,244)</u>	<u>(19,416,381)</u>	<u>(24,815,077)</u>	<u>(20,741,079)</u>	<u>(21,925,748)</u>	<u>(5,625,074)</u>	<u>(16,312,453)</u>	<u>(17,072,746)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>352,853</u>	<u>(7,269,760)</u>	<u>337,410</u>	<u>(1,833,976)</u>	<u>(3,490,550)</u>	<u>(9,101,569)</u>	<u>(12,277,270)</u>	<u>10,441,690</u>	<u>1,730,254</u>	<u>550,415</u>
<b>FUND BALANCE</b>										
Beginning of year	17,341,600	24,611,360	24,273,950	26,107,926	29,598,476	38,700,045	50,977,315	40,180,859	38,450,605	37,733,000
Prior period adjustment	-	-	-	-	-	-	-	354,766	-	167,190
<b>Fund balance as restated</b>	<u>17,341,600</u>	<u>24,611,360</u>	<u>24,273,950</u>	<u>26,107,926</u>	<u>29,598,476</u>	<u>38,700,045</u>	<u>50,977,315</u>	<u>40,535,625</u>	<u>38,450,605</u>	<u>37,900,190</u>
<b>End of year</b>	<u>\$ 17,694,453</u>	<u>\$ 17,341,600</u>	<u>\$ 24,611,360</u>	<u>\$ 24,273,950</u>	<u>\$ 26,107,926</u>	<u>\$ 29,598,476</u>	<u>\$ 38,700,045</u>	<u>\$ 50,977,315</u>	<u>\$ 40,180,859</u>	<u>\$ 38,450,605</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ORIGINAL BUDGET AND ACTUAL GENERAL FUND

June 30,

	2018		2017		2016		2015		2014	
	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual
<b>REVENUES</b>										
Local sources	\$ 167,346,585	\$ 169,667,095	\$ 163,745,222	\$ 168,019,218	\$ 158,782,552	\$ 165,798,902	\$ 155,097,493	\$ 161,347,717	\$ 151,319,934	\$ 158,062,114
State sources	48,250,113	50,224,146	46,198,778	50,415,422	43,095,448	43,445,079	40,717,507	40,489,476	38,440,601	38,795,263
Federal sources	1,128,000	2,922,619	1,168,000	2,973,257	925,000	2,724,944	1,020,000	2,758,810	1,419,465	3,057,783
<b>Total revenues</b>	<b>216,724,698</b>	<b>222,813,860</b>	<b>211,112,000</b>	<b>221,407,897</b>	<b>202,803,000</b>	<b>211,968,925</b>	<b>196,835,000</b>	<b>204,596,003</b>	<b>191,180,000</b>	<b>199,915,160</b>
<b>EXPENDITURES</b>										
Regular programs	101,187,500	94,482,875	97,996,065	90,304,527	93,665,914	88,830,399	90,286,288	82,933,616	84,642,863	77,480,067
Special programs	30,756,460	28,808,958	29,791,057	28,905,873	27,734,555	26,945,686	25,849,778	24,485,681	24,118,246	22,947,710
Vocational programs	5,708,799	5,657,676	6,270,044	5,553,718	6,157,309	5,661,706	5,394,047	5,367,294	6,302,373	5,723,326
Other instructional programs	1,674,763	1,422,288	1,744,527	1,557,847	1,582,643	1,413,430	1,824,222	1,550,445	1,982,521	1,425,769
Nonpublic school programs	5,000	36,077	12,000	17,529	15,000	1,770	-	-	-	-
Pupil personnel services	7,875,328	7,795,655	7,480,586	7,443,942	7,022,511	7,033,625	6,646,435	6,644,737	6,099,362	6,045,437
Instructional staff services	5,921,418	6,231,579	5,738,259	6,262,051	5,521,646	5,525,255	5,608,033	5,159,824	5,463,142	4,420,735
Administrative services	12,175,347	10,636,060	12,104,043	12,550,594	11,449,044	11,436,417	10,821,188	10,594,845	10,170,156	9,479,748
Pupil health	3,022,009	2,825,577	2,876,200	2,791,701	2,846,521	2,583,197	3,010,261	2,569,803	2,829,823	2,600,594
Business services	2,254,580	2,159,612	2,041,382	1,981,294	1,895,079	1,692,735	1,563,524	1,687,424	1,411,977	1,375,160
Operation and maintenance of plant services	14,998,184	14,018,196	14,851,685	14,116,920	14,335,773	14,599,437	13,604,300	13,749,844	12,681,294	13,085,122
Student transportation services	11,821,037	11,543,650	11,371,606	11,259,811	11,084,751	11,378,180	11,118,147	10,926,856	10,048,899	10,031,148
Central and other support services	4,662,983	5,063,742	4,387,526	4,286,345	4,143,691	3,915,610	4,093,679	3,526,222	3,637,940	3,456,278
Student activities	3,674,876	4,066,865	3,493,302	3,874,670	3,299,563	3,706,256	3,244,593	3,675,858	3,114,404	3,400,821
Community services	81,716	85,635	83,718	77,677	44,000	75,135	52,250	66,400	51,000	17,249
Facilities acquisition, construction and improvement	360,000	331,257	350,000	353,018	485,000	311,756	1,468,255	187,621	300,000	300,250
Debt service	10,090,000	11,833,005	10,020,000	11,831,039	15,500,000	13,361,677	16,190,000	13,887,128	15,586,000	16,801,219
<b>Total expenditures</b>	<b>216,270,000</b>	<b>206,998,707</b>	<b>210,612,000</b>	<b>203,168,556</b>	<b>206,783,000</b>	<b>198,472,271</b>	<b>200,775,000</b>	<b>187,013,598</b>	<b>188,440,000</b>	<b>178,590,633</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>454,698</b>	<b>15,815,153</b>	<b>500,000</b>	<b>18,239,341</b>	<b>(3,980,000)</b>	<b>13,496,654</b>	<b>(3,940,000)</b>	<b>17,582,405</b>	<b>2,740,000</b>	<b>21,324,527</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Sale of/compensation for capital assets	45,302	162,237	-	182,098	-	45,414	-	37,165	-	17,064
Proceeds from extended-term financing	-	-	-	-	-	-	-	-	-	-
Refund of prior year expenditures (revenues)	-	201,532	-	69,585	(20,000)	(76,904)	(60,000)	119,098	(60,000)	239,113
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	(15,826,069)	-	(25,760,784)	-	(13,127,754)	-	(19,572,644)	(6,000,000)	(25,071,254)
Budgetary reserve	(500,000)	-	(500,000)	-	(500,000)	-	(500,000)	-	(500,000)	-
<b>Total other financing sources (uses)</b>	<b>(454,698)</b>	<b>(15,462,300)</b>	<b>(500,000)</b>	<b>(25,509,101)</b>	<b>(520,000)</b>	<b>(13,159,244)</b>	<b>(560,000)</b>	<b>(19,416,381)</b>	<b>(6,560,000)</b>	<b>(24,815,077)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>352,853</b>	<b>-</b>	<b>(7,269,760)</b>	<b>(4,500,000)</b>	<b>337,410</b>	<b>(4,500,000)</b>	<b>(1,833,976)</b>	<b>(3,820,000)</b>	<b>(3,490,550)</b>
<b>FUND BALANCE</b>										
Beginning of year	25,561,600	17,341,600	24,500,000	24,611,360	26,500,000	24,273,950	56,606,800	26,107,926	51,820,000	29,598,476
Prior period adjustment	-	-	-	-	-	-	-	-	-	-
<b>Fund balance as restated</b>	<b>25,561,600</b>	<b>17,341,600</b>	<b>24,500,000</b>	<b>24,611,360</b>	<b>26,500,000</b>	<b>24,273,950</b>	<b>56,606,800</b>	<b>26,107,926</b>	<b>51,820,000</b>	<b>29,598,476</b>
<b>End of year</b>	<b>\$ 25,561,600</b>	<b>\$ 17,694,453</b>	<b>\$ 24,500,000</b>	<b>\$ 17,341,600</b>	<b>\$ 22,000,000</b>	<b>\$ 24,611,360</b>	<b>\$ 52,106,800</b>	<b>\$ 24,273,950</b>	<b>\$ 48,000,000</b>	<b>\$ 26,107,926</b>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ORIGINAL BUDGET AND ACTUAL GENERAL FUND

June 30,

	2013		2012		2011		2010		2009	
	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual
<b>REVENUES</b>										
Local sources	\$ 151,697,123	\$ 155,165,778	\$ 148,233,912	\$ 150,471,909	\$ 147,481,628	\$ 146,373,855	\$ 143,943,049	\$ 144,795,089	\$ 140,037,014	\$ 141,835,270
State sources	36,648,877	35,850,554	34,933,500	36,203,487	37,898,372	34,875,076	35,462,351	34,458,093	35,809,986	35,339,348
Federal sources	1,458,000	3,012,007	1,549,025	3,140,124	2,412,000	5,757,006	3,454,600	3,925,070	1,003,000	919,583
<b>Total revenues</b>	<b>189,804,000</b>	<b>194,028,339</b>	<b>184,716,437</b>	<b>189,815,520</b>	<b>187,792,000</b>	<b>187,005,937</b>	<b>182,860,000</b>	<b>183,178,252</b>	<b>176,850,000</b>	<b>178,094,201</b>
<b>EXPENDITURES</b>										
Regular programs	83,498,254	73,925,443	76,800,064	71,789,600	74,462,903	69,548,479	73,480,639	67,953,524	72,201,942	65,273,933
Special programs	24,799,582	21,085,193	24,431,112	21,050,519	25,523,433	23,042,260	23,705,229	22,562,603	22,055,877	20,982,932
Vocational programs	6,571,773	6,176,446	7,064,327	6,538,896	6,969,898	7,045,387	6,900,721	6,928,052	6,710,990	6,713,526
Other instructional programs	1,636,066	1,379,363	1,508,031	1,567,525	1,796,365	1,630,027	1,834,071	1,841,734	1,950,670	1,569,577
Nonpublic school programs	-	-	-	-	-	-	-	-	-	-
Pupil personnel services	5,706,891	5,728,429	5,492,904	5,298,326	5,395,672	5,264,519	5,238,427	4,901,664	4,987,874	4,614,338
Instructional staff services	5,085,592	4,460,467	5,450,065	4,289,526	5,651,230	4,752,581	5,477,349	4,399,932	5,272,455	4,405,856
Administrative services	9,173,297	8,826,275	8,654,446	8,290,794	8,952,895	9,139,590	8,924,838	8,107,959	8,754,497	8,179,295
Pupil health	2,738,077	2,633,840	2,490,275	2,516,052	1,562,265	1,473,162	1,521,437	1,402,657	1,422,257	1,352,018
Business services	1,263,848	1,298,612	1,182,131	1,137,795	1,231,514	1,215,356	1,066,887	1,212,783	1,081,921	1,206,691
Operation and maintenance of plant services	12,960,461	11,694,446	13,141,927	11,409,836	14,217,981	13,121,864	13,962,806	13,319,612	13,653,560	13,930,075
Student transportation services	10,223,581	9,572,089	9,815,366	9,900,783	9,718,010	9,613,066	9,361,340	9,334,729	8,687,433	9,272,617
Central and other support services	3,599,481	3,458,269	3,747,757	3,306,049	3,369,557	3,452,198	2,769,884	3,302,485	2,329,587	2,728,190
Student activities	3,209,497	3,377,064	3,054,297	3,203,140	3,068,971	3,295,941	766,411	1,029,285	781,184	1,119,871
Community services	64,600	28,879	70,100	31,696	82,306	57,558	69,961	51,716	89,753	43,864
Facilities acquisition, construction and improvement	-	1,558,131	-	3,000,000	-	-	-	-	-	-
Debt service	16,500,000	27,185,883	18,000,000	26,836,505	20,000,000	18,287,185	20,000,000	18,786,810	20,000,000	19,078,257
<b>Total expenditures</b>	<b>187,031,000</b>	<b>182,388,829</b>	<b>180,902,802</b>	<b>180,167,042</b>	<b>182,003,000</b>	<b>170,939,173</b>	<b>175,080,000</b>	<b>165,135,545</b>	<b>169,980,000</b>	<b>160,471,040</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>2,773,000</b>	<b>11,639,510</b>	<b>3,813,635</b>	<b>9,648,478</b>	<b>5,789,000</b>	<b>16,066,764</b>	<b>7,780,000</b>	<b>18,042,707</b>	<b>6,870,000</b>	<b>17,623,161</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Sale of/compensation for capital assets	-	3,675	-	16,100	-	-	-	-	-	-
Proceeds from extended-term financing	-	-	-	-	-	713,040	-	-	-	-
Refund of prior year expenditures (revenues)	(80,000)	384	(100,000)	(10,642)	(60,000)	36,170	(100,000)	55,209	(120,000)	165,470
Transfers in	-	-	-	-	-	-	-	-	-	56,767
Transfers out	(5,980,000)	(20,745,138)	(5,713,635)	(21,931,206)	(6,500,000)	(6,374,284)	(7,930,000)	(16,367,662)	(5,750,000)	(17,294,983)
Budgetary reserve	(500,000)	-	(500,000)	-	(750,000)	-	(750,000)	-	(1,000,000)	-
<b>Total other financing sources (uses)</b>	<b>(6,560,000)</b>	<b>(20,741,079)</b>	<b>(6,313,635)</b>	<b>(21,925,748)</b>	<b>(7,310,000)</b>	<b>(5,625,074)</b>	<b>(8,780,000)</b>	<b>(16,312,453)</b>	<b>(6,870,000)</b>	<b>(17,072,746)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,787,000)</b>	<b>(9,101,569)</b>	<b>(2,500,000)</b>	<b>(12,277,270)</b>	<b>(1,521,000)</b>	<b>10,441,690</b>	<b>(1,000,000)</b>	<b>1,730,254</b>	<b>-</b>	<b>550,415</b>
<b>FUND BALANCE</b>										
Beginning of year	23,950,000	38,700,045	42,250,000	50,977,315	15,136,800	40,180,859	14,148,000	38,450,605	14,148,000	37,733,000
Prior period adjustment	-	-	-	-	-	354,766	-	-	-	167,190
<b>Fund balance as restated</b>	<b>23,950,000</b>	<b>38,700,045</b>	<b>42,250,000</b>	<b>50,977,315</b>	<b>15,136,800</b>	<b>40,535,625</b>	<b>14,148,000</b>	<b>38,450,605</b>	<b>14,148,000</b>	<b>37,900,190</b>
<b>End of year</b>	<b>\$ 20,163,000</b>	<b>\$ 29,598,476</b>	<b>\$ 39,750,000</b>	<b>\$ 38,700,045</b>	<b>\$ 13,615,800</b>	<b>\$ 50,977,315</b>	<b>\$ 13,148,000</b>	<b>\$ 40,180,859</b>	<b>\$ 14,148,000</b>	<b>\$ 38,450,605</b>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES - GENERAL FUND

June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>					
<b>Local sources</b>					
Current real estate taxes	\$ 137,897,085	\$ 136,816,786	\$ 134,549,959	\$ 132,009,040	\$ 130,277,236
Interim real estate taxes	2,281,663	3,448,417	4,121,201	3,176,436	2,360,683
Public utility realty tax	166,089	176,715	179,587	191,740	186,605
Act 511 local services taxes	220,294	232,779	212,407	203,886	204,042
Act 511 earned income taxes	16,475,316	16,440,768	15,700,345	16,076,800	15,098,451
Act 511 real estate transfer taxes	2,999,767	2,937,027	3,348,454	2,514,756	2,443,816
Delinquent real estate taxes	3,520,845	2,964,014	3,332,783	3,355,254	3,954,319
Earnings on investments	1,380,428	732,214	475,958	381,737	309,237
Revenues from intermediary sources	1,854,021	1,927,828	1,670,659	1,691,913	1,593,535
Rentals	476,662	374,630	494,672	235,404	267,334
Tuition - regular and summer school	255,867	38,956	71,276	53,854	58,790
Student activities	1,930,289	1,707,287	1,430,436	1,275,591	1,171,632
Miscellaneous revenue	208,768	221,797	211,165	181,306	136,434
<b>Total revenues from local sources</b>	<u>169,667,094</u>	<u>168,019,218</u>	<u>165,798,902</u>	<u>161,347,717</u>	<u>158,062,114</u>
<b>State sources</b>					
Basic education	14,607,845	14,346,522	13,870,652	13,474,564	13,509,785
Charter schools	-	-	-	-	-
Tuition court placed	137,120	157,552	115,763	150,544	102,923
Homebound instruction	-	-	-	-	-
Alternative education	-	-	-	-	-
Special education	6,131,365	5,849,908	5,688,100	5,500,007	5,411,988
Transportation	3,894,611	3,838,040	4,016,650	3,804,844	3,754,560
Rental and sinking fund payments	2,252,395	4,842,591	591,455	782,427	1,892,129
Medical and dental services	285,534	288,748	288,659	290,607	313,153
State property tax reduction allocation	3,939,786	3,906,948	3,808,899	3,881,937	3,813,172
Other state grants	1,663	-	6,195	1,000	-
Safe schools	-	-	9,780	-	-
Accountability grant	-	-	-	-	264,742
Ready to learn grant	874,969	874,969	874,969	660,098	-
Dual enrollment	-	-	-	-	-
Social security subsidy	3,332,110	3,218,331	3,182,939	3,082,604	2,964,554
Retirement subsidy	14,766,748	13,091,813	10,991,018	8,860,844	6,768,257
Incarcerated education	-	-	-	-	-
Classrooms of the future	-	-	-	-	-
<b>Total revenues from state sources</b>	<u>50,224,146</u>	<u>50,415,422</u>	<u>43,445,079</u>	<u>40,489,476</u>	<u>38,795,263</u>
<b>Federal sources</b>					
Title I - low income	294,189	356,259	257,694	298,055	265,935
Title II - improving teaching quality	233,281	147,573	135,367	148,398	105,225
Title III - english language	39,921	31,686	27,623	22,959	18,016
Title IV- student support & enrichment	1,687	-	-	-	-
Drug free school grants	-	-	-	-	-
Qualified school construction bond (QSCB)	1,833,005	1,831,039	1,827,108	1,823,177	1,809,417
All other federal grants	509,899	594,897	452,998	444,422	830,834
Medical assistance/administrative	10,637	11,803	24,154	21,799	28,356
ARRA grants	-	-	-	-	-
<b>Total revenues from federal sources</b>	<u>2,922,619</u>	<u>2,973,257</u>	<u>2,724,944</u>	<u>2,758,810</u>	<u>3,057,783</u>
<b>Other financing sources</b>					
Sale of/compensation for capital assets	162,237	182,098	45,414	37,165	17,064
Proceeds from extended-term financing	-	-	-	-	-
Refunds of prior years expenditures	201,532	88,522	64,835	121,572	244,587
Transfers in	-	-	-	-	-
<b>Total other financing sources</b>	<u>363,769</u>	<u>270,620</u>	<u>110,249</u>	<u>158,737</u>	<u>261,651</u>
<b>Total revenues</b>	<u>\$ 223,177,628</u>	<u>\$ 221,678,517</u>	<u>\$ 212,079,174</u>	<u>\$ 204,754,740</u>	<u>\$ 200,176,811</u>

# DOWNINGTOWN AREA SCHOOL DISTRICT

## COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES - GENERAL FUND

June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>					
<b>Local sources</b>					
Current real estate taxes	\$ 129,407,143	\$ 126,413,056	\$ 123,849,460	\$ 121,308,451	\$ 116,188,316
Interim real estate taxes	1,752,473	1,792,941	1,736,256	1,823,629	3,044,228
Public utility realty tax	189,265	197,693	196,179	188,392	169,536
Act 511 local services taxes	170,459	209,436	164,639	178,604	189,809
Act 511 earned income taxes	14,065,246	12,845,110	12,550,773	12,072,855	11,879,981
Act 511 real estate transfer taxes	2,678,500	2,067,424	1,734,999	2,001,326	1,884,621
Delinquent real estate taxes	3,379,685	3,486,927	2,997,765	3,817,104	3,610,739
Earnings on investments	377,824	419,429	741,421	1,139,960	2,578,378
Revenues from intermediary sources	1,682,844	1,563,822	1,474,452	1,518,018	1,516,147
Rentals	158,046	117,069	93,811	107,587	58,598
Tuition - regular and summer school	77,561	62,613	59,311	106,762	135,806
Student activities	1,090,745	1,113,741	-	-	-
Miscellaneous revenue	135,987	182,648	775,240	532,401	579,111
<b>Total revenues from local sources</b>	<u>155,165,778</u>	<u>150,471,909</u>	<u>146,374,306</u>	<u>144,795,089</u>	<u>141,835,270</u>
<b>State sources</b>					
Basic education	13,062,584	13,062,584	11,697,594	11,932,397	13,058,796
Charter schools	-	-	935,412	839,158	797,043
Tuition court placed	131,695	437,805	198,057	491,378	452,513
Homebound instruction	-	-	-	-	925
Alternative education	-	-	-	-	112,088
Special education	5,310,989	5,211,893	5,226,233	5,247,386	5,126,418
Transportation	3,649,538	3,653,543	3,715,525	3,981,882	3,976,816
Rental and sinking fund payments	1,541,547	3,193,177	2,909,754	2,115,570	2,125,502
Medical and dental services	308,513	287,491	288,145	286,406	285,906
State property tax reduction allocation	3,828,397	3,850,949	3,903,983	3,883,624	3,792,872
Other state grants	-	51,000	-	-	-
Safe schools	13,434	13,656	-	27,387	3,685
Accountability grant	264,742	264,742	673,836	728,584	720,013
Ready to learn grant	-	-	-	-	-
Dual enrollment	-	-	46,405	55,585	74,239
Social security subsidy	2,890,657	2,862,912	2,995,144	2,950,318	2,829,655
Retirement subsidy	4,848,458	3,313,297	2,281,268	1,918,418	1,799,481
Incarcerated education	-	438	3,720	-	-
Classrooms of the future	-	-	-	-	183,396
<b>Total revenues from state sources</b>	<u>35,850,554</u>	<u>36,203,487</u>	<u>34,875,076</u>	<u>34,458,093</u>	<u>35,339,348</u>
<b>Federal sources</b>					
Title I - low income	253,603	257,547	286,555	335,859	218,931
Title II - improving teaching quality	138,074	196,466	188,221	194,570	208,494
Title III - english language	33,528	40,114	38,075	64,138	27,089
Title V - innovative education	-	-	-	-	-
Drug free school grants	-	-	10,064	14,634	18,989
Qualified school construction bond (QSCB)	1,965,689	1,586,545	603,774	-	-
All other federal grants	621,113	1,059,452	1,826,585	661,212	446,080
Medical assistance/administrative	-	-	-	-	-
ARRA grants	-	-	2,803,281	2,654,657	-
<b>Total revenues from federal sources</b>	<u>3,012,007</u>	<u>3,140,124</u>	<u>5,756,555</u>	<u>3,925,070</u>	<u>919,583</u>
<b>Other financing sources</b>					
Sale of/compensation for capital assets	3,675	16,100	-	-	-
Proceeds from extended-term financing	-	-	713,040	-	-
Refunds of prior years expenditures	11,754	43,861	82,631	193,260	223,935
Transfers in	-	-	-	-	56,767
<b>Total other financing sources</b>	<u>15,429</u>	<u>59,961</u>	<u>795,671</u>	<u>193,260</u>	<u>280,702</u>
<b>Total revenues</b>	<u>\$ 194,043,768</u>	<u>\$ 189,875,481</u>	<u>\$ 187,801,608</u>	<u>\$ 183,371,512</u>	<u>\$ 178,374,903</u>

**SINGLE AUDIT**

# DOWNINGTOWN AREA SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Passed Through to Subrecipients</u>
<b>U.S. Department of Education</b>											
<b>Passed-Through the Pennsylvania Department of Education</b>											
Title I - Improving Basic Programs	I	84.010	013-170121	07/01/16 - 09/30/17	\$ 341,659	\$ 117,922	\$ 73,197	\$ 44,725	\$ 44,725	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-180121	07/01/17 - 09/30/18	294,055	231,043	-	249,464	249,464	18,421	-
Total CFDA #84.010						348,965	73,197	294,189	294,189	18,421	-
Title II - Improving Teacher Quality	I	84.367	020-160121	07/01/15 - 09/30/16	162,146	10,749	7,859	2,890	2,890	-	-
Title II - Improving Teacher Quality	I	84.367	020-170121	07/01/16 - 09/30/17	158,612	101,693	(45,620)	158,612	158,612	11,299	-
Title II - Improving Teacher Quality	I	84.367	020-180121	07/01/17 - 09/30/18	180,113	51,528	-	71,781	71,781	20,253	-
Total CFDA #84.367						163,970	(37,761)	233,283	233,283	31,552	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-160121	07/01/15 - 09/30/16	38,718	816	(895)	1,711	1,711	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-170121	07/01/16 - 09/30/17	46,148	32,963	(6,322)	36,460	36,460	(2,825)	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-180121	07/01/17 - 09/30/18	39,949	11,414	-	1,750	1,750	(9,664)	-
Total CFDA #84.365						45,193	(7,217)	39,921	39,921	(12,489)	-
Title IV Student Support & Academic Enrichment	I	84.424	144-18-0121	07/01/17 - 09/30/18	10,000	2,857	-	1,687	1,687	(1,170)	-
<b>Passed Through the Chester County I.U.</b>											
I.D.E.A. - Part B, Section 611	I	84.027	062-1600024	07/01/16 - 09/30/17	1,909,392	998,678	998,678	-	-	-	-
I.D.E.A. - Part B, Section 611	I	84.027	062-1700032	07/01/17 - 09/30/18	1,848,043	1,133,358	-	1,848,043	1,848,043	714,685	-
Total CFDA #84.027						2,132,036	998,678	1,848,043	1,848,043	714,685	-
I.D.E.A. - Part B, Section 619	I	84.173	131-1700024	07/01/17 - 06/30/18	5,978	5,978	-	5,978	5,978	-	-
Advanced Placement Test Fee Program	I	84.330	43-00529230	12/15/17 - 06/30/18	3,528	3,528	3,528	-	-	-	-
<b>Total U.S. Department of Education</b>						<b>2,702,527</b>	<b>1,030,425</b>	<b>2,423,101</b>	<b>2,423,101</b>	<b>750,999</b>	<b>-</b>

66

Continued on next page



<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Passed Through to Subrecipients</u>
<b>U.S. Department of Health and Human Services</b>											
<b>Passed Through the Pennsylvania Department of Public Welfare</b>											
Medical Assistance Program	I	93.778	N/A	07/01/16 - 06/30/17	11,803	2,892	2,892	-	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/17 - 06/30/18	10,637	7,624	-	10,637	10,637	3,013	-
Total CFDA #93.778						10,516	2,892	10,637	10,637	3,013	-
<b>U.S. Department of Agriculture</b>											
<b>Passed-Through the Pennsylvania Department of Education</b>											
State Matching Share	S	N/A	N/A	07/01/16 - 06/30/17	N/A	1,494	1,494	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/17 - 06/30/18	N/A	54,380	-	55,932	55,932	1,552	-
Total State Matching Share						55,874	1,494	55,932	55,932	1,552	-
Breakfast Program	I	10.553	N/A	07/01/16 - 06/30/17	N/A	1,400	1,400	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/17 - 06/30/18	N/A	42,957	-	44,164	44,164	1,207	-
Total CFDA #10.553						44,357	1,400	44,164	44,164	1,207	-
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	10,695	10,695	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	416,188	-	427,840	427,840	11,652	-
<b>Passed-Through the Pennsylvania Department of Agriculture</b>											
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	a) 119,718	b) (12,658)	c) 129,871	129,871	d) (2,505)	-
Total CFDA #10.555						546,601	(1,963)	557,711	557,711	9,147	-
<b>Total U.S. Department of Agriculture</b>						646,832	931	657,807	657,807	11,906	-
<b>Total Federal Awards and Certain State Grants</b>						<u>\$ 3,359,875</u>	<u>\$ 1,034,248</u>	<u>\$ 3,091,545</u>	<u>\$ 3,091,545</u>	<u>\$ 765,918</u>	<u>\$ -</u>
Total Federal Awards						\$ 3,304,001	\$ 1,032,754	\$ 3,035,613	\$ 3,035,613	\$ 764,366	\$ -
Total State Awards						55,874	1,494	55,932	55,932	1,552	-
Total Federal Awards and Certain State Grants						<u>\$ 3,359,875</u>	<u>\$ 1,034,248</u>	<u>\$ 3,091,545</u>	<u>\$ 3,091,545</u>	<u>\$ 765,918</u>	<u>\$ -</u>
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						<u>\$ 2,138,014</u>	<u>\$ 998,678</u>	<u>\$ 1,854,021</u>	<u>\$ 1,854,021</u>	<u>\$ 714,685</u>	<u>\$ -</u>
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						<u>\$ 590,958</u>	<u>\$ (563)</u>	<u>\$ 601,875</u>	<u>\$ 601,875</u>	<u>\$ 10,354</u>	<u>\$ -</u>

**Continued on next page**

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Passed Through to Subrecipients</u>
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**Footnotes**

- a) Total amount of commodities received
- b) Beginning inventory July 1
- c) Total amount of commodities used
- d) Ending inventory June 30

**Source Codes**

- D - Direct Funding
- I - Indirect Funding
- S - State Share



# DOWNINGTOWN AREA SCHOOL DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2018

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### (1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

### (2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

### (3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 National School Lunch Program and passed through the Pennsylvania Department of Agriculture represent federal surplus food consumed by the District during the 2017-2018 fiscal year.

### (4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2018 was \$509,899.

### (5) QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). In conjunction with the QSCB Program, the District receives subsidy reimbursements for a portion of the interest payments made under its loan agreements with the SPSBA. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of QSCB subsidy payments recognized for the year ended June 30, 2018 was \$1,833,005.

### (5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2018.

**DOWNTOWN AREA SCHOOL DISTRICT**

***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

**Year ended June 30, 2018**

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There were no audit findings for the year ended June 30, 2017.



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

**Board of School Directors  
Downingtown Area School District  
Downingtown, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Downingtown Area School District, Downingtown, Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Downingtown Area School District's basic financial statements, and have issued our report thereon dated December 10, 2018.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

**BBD, LLP**

**Philadelphia, Pennsylvania  
December 10, 2018**



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

**Board of School Directors  
Downingtown Area School District  
Downingtown, Pennsylvania**

***Report on Compliance for Each Major Federal Program***

We have audited Downingtown Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Downingtown Area School District's major federal programs for the year ended June 30, 2018. Downingtown Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Downingtown Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("**Uniform Guidance**"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Downingtown Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, Downingtown Area School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### ***Report on Internal Control over Compliance***

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

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

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

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

**BBD, LLP**

**Philadelphia, Pennsylvania  
December 10, 2018**



# **DOWNINGTOWN AREA SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year ended June 30, 2018**

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### **SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Downingtown Area School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of Downingtown Area School District are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Downingtown Area School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Downingtown Area School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The programs tested as major programs were:
  - Special Education Cluster:
    - I.D.E.A. – Part B, Section 611 – CFDA Number 84.027
    - I.D.E.A. – Part B, Section 619 – CFDA Number 84.173
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Downingtown Area School District did qualify as a low-risk auditee.

### **FINDINGS—FINANCIAL STATEMENT AUDIT**

None

### **FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None