

NEW ISSUE-BOOK-ENTRY ONLY

**RATING: Moody's: Aa2 (Underlying)**  
See "RATING" herein

*In the opinion of Bond Counsel, under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. This opinion of Bond Counsel is subject to continuing compliance by the School District with its covenants in the Resolution and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.*

*Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth of Pennsylvania and the interest on the Bonds is exempt from the Commonwealth of Pennsylvania Personal Income Tax and the Commonwealth of Pennsylvania Corporate Net Income Tax.*

*The Bonds are "qualified tax-exempt obligations", for purposes and effect contemplated by Section 265 of the Internal Revenue Code of 1986, as amended (relating to expenses and interest relating to tax-exempt income of certain financial institutions).*

*For further information concerning federal and state tax matters relating to the Bonds, see "Tax Exemption and Other Tax Matters" herein.*

**\$9,995,000\***

## PHOENIXVILLE AREA SCHOOL DISTRICT

Chester County, Pennsylvania

### General Obligation Bonds, Series of 2018

**Dated:** Date of Delivery

**Principal Due:** May 15, as shown on inside cover

**Interest Due:** May 15 and November 15

**First Interest Payment:** November 15, 2018

The General Obligation Bonds, Series of 2018 in the aggregate principal amount of \$9,995,000\* (the "Bonds") will be issued in registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry only system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "**BOOK-ENTRY ONLY SYSTEM**" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein.

The Bonds are general obligations of the Phoenixville Area School District, Chester County, Pennsylvania (the "School District"), payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking fund established under the Resolution or any other of its revenues or funds the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and available taxing power. (*But see "Security" and "Act 1 of Special Session 2006 ("Taxpayer Relief Act")" herein*).

Interest on each of the Bonds is payable initially on November 15, 2018, and thereafter semiannually on May 15 and November 15 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for. The School District has appointed Manufacturers and Traders Trust Company (the "Paying Agent"), as paying agent and sinking fund depository for the Bonds. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, payments of the principal of, redemption premium, if any, and interest on the Bonds, when due for payment, will be made directly to DTC by the Paying Agent, and DTC will in turn remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. If the use of the Book-Entry System for the Bonds is ever discontinued, the principal of and redemption premium, if any, on each of the Bonds will be payable, when due, upon surrender of such Bond to the Paying Agent at its specified corporate trust office in Harrisburg, Pennsylvania (or any successor paying agent at its designated office(s)) and interest on such Bond will be payable by check made out and mailed to the person(s) in whose name(s) such Bond is registered as of the Record Date with respect to the particular interest payment date (See "**THE BONDS**" *infra*).

**The Bonds are subject to redemption prior to maturity as described herein.**

Proceeds of the Bonds will be applied toward (1) payment of the costs of acquiring, designing, constructing, furnishing and equipping alterations, additions, renovations and other improvements to the School District's existing high school buildings, Early Learning Center, and other facilities and (2) to pay the costs of issuing the Bonds.

#### MATURITIES, AMOUNTS, RATES AND PRICES/YIELDS

See Inside Front Cover

The Bonds are offered when, as and if issued, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Kegel Keln Almy & Lord LLP, Lancaster, Pennsylvania, Bond Counsel to the School District, to be furnished upon delivery of the Bonds. Certain other legal matters will be passed upon for the School District by Kegel Keln Almy & Lord LLP, Lancaster, Pennsylvania, and Solicitor to the School District. PFM Financial Advisors LLC, Harrisburg, Pennsylvania, will act as Financial Advisor to the School District in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery in New York, New York, on or about February 22, 2018.

### PFM FINANCIAL ADVISORS LLC

Financial Advisor to the School District

Dated: \_\_\_\_\_

\*Estimated, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without notice. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

**\$9,995,000\***  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Chester County, Pennsylvania**  
**General Obligation Bonds, Series of 2018**

**Dated:** Date of Delivery

**Interest Due:** May 15 and November 15

**Principal Due:** May 15, (as shown below)

**First Interest Payment:** November 15, 2018

<b>May 15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Prices</b>	<b>Yields</b>
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				

(A portion of the Bonds may be structured as Term Bonds. See "Invitation to Bid".)

---

\*Estimated, subject to change.

# PHOENIXVILLE AREA SCHOOL DISTRICT

Chester County, Pennsylvania

## BOARD OF SCHOOL DIRECTORS

---

Lisa Longo .....	President
Eric Daugherty .....	Vice-President
Michael Ellis, III .....	Secretary
J. Kenneth Butera.....	Treasurer
Lori Broker.....	Member
Christopher Caltagirone .....	Member
Blake Emmanuel .....	Member
Kevin Pattinson .....	Member
Jeesely Soto.....	Member

---

### SUPERINTENDENT

DR. ALAN D. FEGLEY

### ASSISTANT SUPERINTENDENT

DR. LEROY G. WHITEHEAD

### EXECUTIVE DIRECTOR OF OPERATIONS

STANLEY L. JOHNSON

### SCHOOL DISTRICT SOLICITOR

KEGEL KELIN ALMY & LORD LLP

Lancaster, Pennsylvania

### BOND COUNSEL

KEGEL KELIN ALMY & LORD LLP

Lancaster, Pennsylvania

### FINANCIAL ADVISOR

PFM FINANCIAL ADVISORS LLC

Harrisburg, Pennsylvania

### PAYING AGENT

MANUFACTURERS AND TRADERS TRUST COMPANY

Harrisburg, Pennsylvania

### SCHOOL DISTRICT ADDRESS

386 City Line Avenue

Phoenixville, Pennsylvania 19460-4400

No dealer, broker, salesman or other person has been authorized by the School District to give information or to make any representations, other than those contained in this Preliminary Official Statement, and if given or made, such other information or representations must not be relied upon. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the School District and from other sources which are believed to be reliable but the School District does not guarantee the accuracy or completeness of information from sources other than the School District. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Preliminary Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
<b>INTRODUCTION.....1</b>	Debt Limit and Remaining Borrowing Capacity.....18
<b>PURPOSE OF THE ISSUE .....1</b>	Debt Service Requirements.....19
Sources and Uses of Bond Proceeds .....1	Future Financing.....19
<b>THE BONDS.....2</b>	<b>LABOR RELATIONS .....20</b>
Description .....2	School District Employees.....20
Payment of Principal and Interest .....2	Pension Program.....20
Transfer, Exchange and Registration of Bonds.....2	Other Post-Employment Benefits .....21
Commonwealth Enforcement of Debt Service Payments.....3	<b>NO LITIGATION CERTIFICATE .....22</b>
Pennsylvania Budget Adoption.....3	<b>DEFAULTS AND REMEDIES .....22</b>
Act 85 of 2016.....3	<b>TAX EXEMPTION .....22</b>
Security.....4	<b>CONTINUING DISCLOSURE UNDERTAKING .....23</b>
Sinking Fund .....4	Continuing Disclosure Filing History .....24
<b>BOOK-ENTRY ONLY SYSTEM .....4</b>	Failure to Provide Annual Financial Information.....24
<b>REDEMPTION OF BONDS.....6</b>	Bond Insurance Rating Downgrades and Upgrades by S&P and/or Moody's.....24
Mandatory Redemption .....6	Future Continuing Disclosure Compliance .....25
Optional Redemption.....6	<b>RATING.....25</b>
Notice of Redemption.....6	<b>UNDERWRITING .....25</b>
Manner of Redemption .....6	<b>LEGAL OPINION.....25</b>
<b>THE SCHOOL DISTRICT.....7</b>	<b>FINANCIAL ADVISOR .....25</b>
Administration.....7	<b>MISCELLANEOUS.....2</b>
School Facilities .....7	<b>APPENDIX A: DEMOGRAPHIC AND ECONOMIC INFORMATION RELATING TO THE PHOENIXVILLE AREA SCHOOL DISTRICT</b>
Enrollment Trends .....7	Introduction .....A-1
<b>SCHOOL DISTRICT FINANCES.....8</b>	Character .....A-1
Introduction .....8	Population.....A-1
Financial Reporting .....8	Employment .....A-2
Budgeting Process as modified by Act 1 of 2006 (Taxpayer Relief Act).....8	Income .....A-4
Summary and Discussion of Financial Results .....9	Commercial Activity .....A-4
General Fund Revenue .....10	Transportation.....A-4
General Fund Expenditures.....11	Recreation.....A-5
<b>TAXING POWERS OF THE SCHOOL DISTRICT .....11</b>	<u>Utilities</u> .....A-5
In General .....11	Sewer.....A-5
The Taxpayer Relief Act (Act 1 of 2006) .....12	Water .....A-5
Status of the Bonds Under Act 1.....12	Electricity and Gas.....A-5
Act 130 of 2008 .....12	Municipal Services .....A-5
Act 48 of 2003 – Limitation on School District Fund Balances .....13	<b>APPENDIX B: BOND COUNSEL OPINION</b>
Tax Levy Trends.....13	<b>APPENDIX C: FORM OF CONTINUING DISCLOSURE AGREEMENT</b>
Real Property Tax .....14	<b>APPENDIX D: FINANCIAL STATEMENTS JUNE 30, 2017</b>
Other Taxes .....15	
<b>COMMONWEALTH AID TO SCHOOL DISTRICTS .....16</b>	
Debt Statement .....17	

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**PRELIMINARY OFFICIAL STATEMENT**  
**\$9,995,000\***  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Chester County, Pennsylvania**  
**General Obligation Bonds, Series of 2018**

**INTRODUCTION**

This Preliminary Official Statement, including the cover and inside cover page hereof, is furnished by Phoenixville Area School District, Chester County, Pennsylvania (the "School District") in connection with the offering of \$9,995,000\* General Obligation Bonds, Series of 2018 (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of School Directors of the School District adopted on January 18, 2018 (the "Resolution"), and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania (the "Commonwealth"), 53 Pa. C.S. 80-82 (the "Act").

**PURPOSE OF THE ISSUE**

Proceeds of the Bonds will be applied toward payment of the costs of acquiring, designing, constructing, furnishing and equipping alterations, additions, renovations and other improvements to the School District's existing high school buildings and other facilities and to pay the costs of issuing the Bonds.

**Sources and Uses of Bond Proceeds**

The following is a summary of the sources and uses of the proceeds from the issuance of the Bonds.

<b><u>Source of Funds</u></b>	<b><u>Total</u></b>
Bonds.....	
Net Original Issue Premium/(Discount) .....	
<i>Total Source of Funds</i> .....	
 <b><u>Use of Funds</u></b>	
Deposit to Construction Fund .....	
Costs of Issuance <sup>(1)</sup> .....	
<i>Total Use of Funds</i> .....	

<sup>(1)</sup>Includes legal, financial advisor, printing, credit rating, underwriter's fee, paying agent, and miscellaneous costs.

\*Estimated, subject to change.

## **THE BONDS**

### **Description**

The Bonds will be issued in fully registered form in denominations of \$5,000 and integral multiples thereof, will be in the aggregate principal amount of \$9,995,000\*, will be dated as of Date of Delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover of this Preliminary Official Statement. Interest on the Bonds will be payable initially on November 15, 2018, and thereafter, semiannually on May 15 and November 15 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for.

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

### **Payment of Principal and Interest**

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

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

The principal of the Bonds, when due upon maturity or upon any earlier redemption, will be paid to the registered owners of the Bonds, or registered assigns, upon surrender of the Bonds to Manufacturers and Traders Trust Company (the "Paying Agent"), acting as paying agent and sinking fund depository for the Bonds, at its specified corporate trust office in Harrisburg, Pennsylvania (or to any successor paying agent at its designated office(s)).

Interest on the Bonds will be payable to the registered owner of a Bond from the interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such interest payment date, or (c) such Bond is registered and authenticated on or prior to the Record Date preceding the first interest payment date, in which event such Bond shall bear interest from the date of delivery, or (d) as shown by the records of the Paying Agent, interest on such Bond shall be in default, in which event such Bond shall bear interest from the date to which interest was last paid on such Bond. Interest on each Bond will be payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth (15th) day (whether or not a day on which the Paying Agent is open for business) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the Bond subsequent to such Record Date and prior to such interest payment date, unless the School District shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of such Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the persons in whose names such Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

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

### **Transfer, Exchange and Registration of Bonds**

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

---

\*Estimated, subject to change.

The School District and the Paying Agent shall not be required (a) to register the transfer of or exchange any Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15<sup>th</sup>) day next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the day on which the applicable notice of redemption is mailed or (b) to register the transfer of or exchange any portion of any Bond selected for redemption until after the redemption date. Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate.

### **Commonwealth Enforcement of Debt Service Payments**

Section 633 of the Pennsylvania Public School Code of 1949, as amended by Act 150 of 1975, and as further amended and supplemented (the “Public School Code”), presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness on the date of maturity or date of mandatory redemption or on any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date or on any sinking fund deposit date, in accordance with the schedule under which the Bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any Commonwealth appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, or sinking fund deposit due by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such Bond issue. These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers’ salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors’ rights generally. See “**Pennsylvania Budget Adoption**” hereinafter.

### **Pennsylvania Budget Adoption**

Over the past several years the Commonwealth of Pennsylvania has, from time to time, started its fiscal year without a fully adopted state budget. In the state’s 2015-16 fiscal year, a final budget was not enacted until 270 days following the beginning of the fiscal year on March 27, 2016 when the Governor failed to sign or veto the state budget that was adopted by the General Assembly on March 17, 2016.

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

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

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

### **Act 85 of 2016**

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

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

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

- (1) annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due;
- (2) the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and



- (3) the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated and paid to the paying agent on the day the scheduled payment for principal and interest is due on the expiration of the tenth (10th) day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

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

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

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

## **Security**

The Bonds will be general obligations of the School District, payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget for each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year, and will duly and punctually pay or cause to be paid from its Sinking Funds, as hereinafter defined, or any other of its revenues or funds, the principal of each of the Bonds and the interest thereon at the dates and place and in the manner stated on the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and available taxing power. (See “*SCHOOL DISTRICT FINANCES*” and “*Act 1 Special Session of 2006 (“Taxpayer Relief Act”)*” herein). The Act presently provides for enforcement of debt service payments as hereinafter described (see “Defaults and Remedies” herein), and the Pennsylvania Public School Code presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see “State Withholding for Delinquent Debt Service Payments” herein).

## **Sinking Fund**

The sinking fund for the payment of debt service on the Bonds, designated “General Obligation Bonds, Series of 2018 Sinking Fund”, created under the Resolution shall be held by the Paying Agent as sinking fund depository. The School District shall deposit in the Sinking Fund a sufficient sum not later than the date when interest and/or principal is to become due on the Bonds so that on each payment date the Sinking Fund will contain an amount which, together with any other funds available therein, is sufficient to pay in full interest and/or principal then due on the Bonds.

The Sinking Fund shall be held by the Paying Agent, as sinking fund depository, and funds deposited therein will be invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by law, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the Sinking Fund the principal of and interest on the Bonds, as and when due and payable.

## **BOOK-ENTRY ONLY SYSTEM**

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company

for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Tender Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Tender Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

NEITHER THE ISSUER NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL

OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

*The Issuer and the Paying Agent cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Preliminary Official Statement.*

## **REDEMPTION OF BONDS**

### **Mandatory Redemption**

Bidders may elect to structure the issue to include term bonds, which term bonds, if selected by the bidder, will be subject to mandatory sinking fund redemptions prior to maturity, in the years and amounts as shown in the Invitation to Bid, upon payment of 100% of the principal amount of Bonds to be redeemed, together with accrued interest to the date fixed for redemption, or upon maturity, as applicable. Term bonds to be redeemed shall be selected by lot by the Paying Agent.

In lieu of such mandatory redemption, the Paying Agent, on behalf of the School District, may purchase from money in the Sinking Fund, at a price not to exceed the principal amount plus accrued interest, or the School District may tender to the Paying Agent, all or part of the Bonds subject to being drawn for redemption in any such year.

### **Optional Redemption**

The Bonds maturing on or after November 15, 2023, shall be subject to redemption, prior to maturity, at the option of the School District, in whole or in part, in any order of maturities, at any time on or after May 15, 2023, at a price equal to 100% of the principal amount of the Bonds to be redeemed and accrued interest thereon to the date fixed for such optional redemption. In the event that less than all Bonds of a particular maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent.

### **Notice of Redemption**

Notice of any redemption shall be given by depositing a copy of the redemption notice in first class mail not more than sixty (60) days and not less than thirty (30) days prior to the date fixed for redemption addressed to each of the registered owners of Bonds to be redeemed, in whole or in part, at the addresses shown on the registration books; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given. Further notice of redemption shall be mailed at least two (2) business days prior to the date fixed for redemption to The Bond Buyer and certain bond depositories or their respective successors, if any; provided, however, that failure to mail notice to The Bond Buyer and such bond depositories shall not affect the validity of such redemption.

If at the time of mailing of the notice of redemption the School District shall not have deposited with the Paying Agent moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional, that is, subject to the deposit of the redemption moneys with the Paying Agent no later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

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

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

### **Manner of Redemption**

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

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

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

## THE SCHOOL DISTRICT

### Administration

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools and the Executive Director of Operations who are appointed by the Board of School Directors.

### School Facilities

The schools presently operated by the School District consists of one Kindergarten Center, three elementary schools (grades 1-5), one middle school (grades 6-8) and one senior high school (grades 9-12), all as described on the following table. The School District subcontracts its alternative education services to the Lakeside Vantage Program.

**TABLE 1  
PHOENIXVILLE AREA SCHOOL DISTRICT FACILITIES**

<b><u>Building</u></b>	<b><u>Original Construction Date</u></b>	<b><u>Addition/ Renovation Date(s)</u></b>	<b><u>Grades</u></b>	<b><u>Rated Pupil Capacity</u></b>	<b><u>2017-18 Enrollment</u></b>
Kindergarten.....	1954		K	150	659
Barkley Elementary.....	1930	1991	1-5	500	291
East Pikeland Elementary.....	1930	1954/56	1-5	375	420
Schuylkill Elementary.....	2006		1-5	625	515
Middle School.....	2012		6-8	1,035	916
High School.....	1955	1968/2002	9-12	994	1,122
<b><u>Alternative School</u></b>					
Lakeside Vantage Program .....	---	---	1-12	---	2

Source: School District Officials.

### Enrollment Trends

The following Table 2 presents recent trends in school enrollment and projections of enrollment for the next five years, as prepared by the Pennsylvania Department of Education.

**TABLE 2  
PHOENIXVILLE AREA SCHOOL DISTRICT ENROLLMENT TRENDS**

<b><u>Actual Enrollments</u></b>				<b><u>Projected Enrollments</u></b>			
<b><u>School Year</u></b>	<b><u>Elementary</u></b>	<b><u>Secondary</u></b>	<b><u>Total</u></b>	<b><u>School Year</u></b>	<b><u>Elementary</u></b>	<b><u>Secondary</u></b>	<b><u>Total</u></b>
2013-14	1,838	1,822	3,460	2018-19	1,949	2,083	4,032
2014-15	1,825	1,915	3,660	2019-20	2,012	2,149	4,161
2015-16	1,801	2,012	3,740	2020-21	2,094	2,211	4,305
2016-17	1,797	2,035	3,832	2021-22	2,161	2,203	4,364
2017-18	1,885	2,040	3,925	2022-23	2,198	2,225	4,423

Source: School District Officials. Projected enrollments do not include special education enrollments.

## SCHOOL DISTRICT FINANCES

### Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Superintendent and Executive Director of Operations and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

### Financial Reporting

The School District keeps its books and prepares its financial reports according to a modified accrual basis of accounting. Major accrual items are payroll taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units. The School District's financial statements are audited annually by a firm of independent certified public accountants, as required by State law. The firm of Rainer & Company currently serves as auditors for the School District.

The School District's auditor has not been engaged to perform, and has not performed since the date of its report included as an appendix to this Preliminary Official Statement, any procedure on the financial statement addressed in the report. Such auditor also has not performed any procedures relating to this Preliminary Official Statement.

### Budgeting Process as modified by Act 1 of 2006 (Taxpayer Relief Act)

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

Procedures for Adoption of the Annual Budget. Unless the Simplified Procedures described below are utilized, under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (together "The Taxpayer Relief Act" or "Act 1") all school districts of the first class A, second class, third class and fourth class must adopt a preliminary budget (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the primary election immediately preceding the beginning of each fiscal year. This preliminary budget must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days' public notice of its intent to adopt the preliminary budget prior to its adoption. The board of school directors shall print the final budget and make it available for public inspection at least 20 days prior to its adoption and shall give public notice of its intent to adopt the final budget at least 10 days prior to adoption, and may hold a public hearing prior to adoption. Guidance from the PA Department of Education (PDE) suggests that the preliminary budget be converted to a proposed budget adopted by the board of school directors at least 30 days prior to the adoption of the final budget as required by the School Code. The School District follows the requirements of Act 1 and the guidance of PDE pursuant to the requirements of the School Code.

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

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

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

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

## Summary and Discussion of Financial Results

A summary of the General Fund Balance sheet and changes in fund balances is presented in Tables 3 and 4. Table 5, shows revenue and expenditures for the past five years and the budget from 2017-18. The budgeted millage rate for 2017-18 is 29.58.

**TABLE 3**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**SUMMARY OF COMPARATIVE GENERAL FUND BALANCE SHEET**  
**(Years Ending June 30)**

<b>ASSETS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Cash and Cash Equivalents.....	\$8,007	\$135,718	\$1,090,932	\$537,750	\$389,725
Investments.....	16,482,156	18,487,935	14,743,711	14,851,037	8,432,281
Taxes Receivable.....	4,822,499	4,556,985	5,473,888	4,533,691	4,668,886
Due from other Funds.....	540,313	1,401,004	509,404	581,518	3,439,738
Due from Other Governments .....	1,409,324	1,467,690	1,878,392	2,408,901	2,862,951
Prepaid Expenditures .....	202,527	103,707	0	0	518,625
Other Receivables.....	513,743	99,624	169,243	270,322	808,256
<b>TOTAL ASSETS</b> .....	<b>\$23,978,569</b>	<b>\$26,252,663</b>	<b>\$23,865,570</b>	<b>\$23,183,219</b>	<b>\$21,120,462</b>
<b>LIABILITIES</b>					
Due to Other Funds.....	\$49,709	\$1,237,046	\$380,462	\$0	\$0
Accounts Payables .....	2,473,399	2,287,755	2,329,342	3,240,730	2,369,050
Accrued Salaries and Benefits .....	5,400,432	6,463,127	4,828,556	5,398,696	5,899,183
Deferred Revenues .....	4,135,124	0	48,587	30,735	3,973,633
Other.....	0	42,917	0		6,214
<b>TOTAL LIABILITIES</b> .....	<b>\$12,058,664</b>	<b>\$10,030,845</b>	<b>\$7,586,947</b>	<b>\$8,670,161</b>	<b>\$12,248,080</b>
<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>\$0</b>	<b>\$4,065,178</b>	<b>\$4,631,605</b>	<b>\$3,973,633</b>	<b>\$0</b>
<b>FUND EQUITIES</b>					
Non-spendable Fund Balance .....	\$202,527	\$103,707	\$0	\$0	\$518,625
Committed Fund Balance .....	2,943,900	2,943,900	2,443,900	1,593,900	843,000
Assigned Fund Balance .....	2,942,022	2,942,022	2,942,022	2,764,183	1,847,140
Unassigned Fund Balance.....	5,831,456	6,167,011	6,261,096	6,181,342	5,663,617
<b>TOTAL FUND EQUITIES</b> .....	<b>\$11,919,905</b>	<b>\$12,156,640</b>	<b>\$11,647,018</b>	<b>\$10,539,425</b>	<b>\$8,872,382</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITIES</b> .....	<b>\$23,978,569</b>	<b>\$26,252,663</b>	<b>\$23,865,570</b>	<b>\$23,183,219</b>	<b>\$21,120,462</b>

Source: School District Annual Financial Reports.

**TABLE 4**  
**PHOENIXVILLE AREA SCHOOL DISTRICT GENERAL FUND**  
**SUMMARY OF CHANGES IN FUND BALANCE\***  
**(Years Ending June 30)**

	<b>2013</b>	<b>2014</b>	<b>Actual 2015</b>	<b>2016</b>	<b>2017</b>	<b>Budget 2018<sup>(1)</sup></b>
<b>Beginning Fund Balance</b> .....	\$11,882,821	\$11,919,906	\$12,156,639	\$11,647,017	\$10,539,424	\$8,872,381
Revenues over (under)						
Expenditure.....	37,085	236,734	(509,623)	(1,107,593) <sup>(2)</sup>	(1,667,042) <sup>(3)</sup>	(500,000)
Prior Period Adjustments.....	0	0	0	0	0	0
<b>Ending Fund Balance</b> .....	<b>\$11,919,906</b>	<b>\$12,156,639</b>	<b>\$11,647,017</b>	<b>\$10,539,424</b>	<b>\$8,872,381</b>	<b>\$8,372,381</b>

\*Totals may not add due to rounding.

<sup>(1)</sup>Budget, as adopted May 18, 2017.

<sup>(2)</sup>Of the \$1,107,593 draw down, \$850,000 was a planned spend down of the PSERS reserve fund (leaving a balance of \$1,593,900) and \$200,000 was a mandatory adjustment of the Health Care reserve fund (7 month reserve) due to a plan change.

<sup>(3)</sup>Of the \$1,667,042 draw down, \$750,000 was a planned spend down of the PSERS reserve fund and \$917,042 was a mandatory adjustment of the Health Care reserve fund (4 month reserve).

Source: School District Annual Financial Reports and Budgets.

## General Fund Revenue

The School District received \$86,276,015 in revenue in 2016-17 and has budgeted for \$89,394,409 in 2017-18. Local sources decreased as a share of total revenue in the past five years from 84.3 percent in 2012-13 to 79.9 percent in 2016-17. State sources increased as a share of total revenue in the past five years, from 14.9 percent in 2012-13 to 19.3 percent in 2016-17. Federal and other sources remained consistent as a share of total revenue at 0.7 percent over this period.

**TABLE 5**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**REVENUES\***  
**(Years Ending June 30)**

	<b>Actual</b>					<b>Budget</b>
<b>REVENUE:</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018<sup>(1)</sup></b>
<b>Local Sources:</b>						
Real Estate Taxes .....	\$52,784,209	\$54,003,313	\$54,637,280	\$55,142,744	\$56,039,402	\$57,655,210
Interim Taxes .....	275,609	253,675	258,969	196,456	162,532	275,000
Total Act 511 Taxes .....	7,924,213	8,258,181	8,129,980	8,503,225	8,945,518	9,776,000
Per Capita (Sec. 679) Taxes .....	70,944	69,371	61,595	65,714	62,177	71,000
Public Utility Realty Tax .....	71,516	72,631	74,690	63,824	66,692	75,000
Delinquency on Taxes Levied .....	2,199,784	2,031,885	2,207,966	2,227,343	2,164,748	2,400,000
Earnings from Investments .....	53,963	37,458	48,935	53,343	149,161	160,000
Revenue From Student Activities .....	114,697	83,714	69,719	44,246	89,216	62,000
Federal Rev. Recvd. - Other Intermediary Srcs.....	4,788	1,059	0	0	0	565,000
Federal IDEA received from an IU .....	534,930	507,497	529,713	503,822	526,735	0
Rentals .....	81,603	119,094	105,683	118,691	150,718	132,500
Contributions and Donations-Private Sources.....	137,025	182,182	147,918	194,536	204,584	225,000
Receipts from Other LEAS in PA - Education .....	54,051	5,002	0	0	49,437	0
Tuition from Patrons .....	60,219	77,244	110,096	159,014	49,386	150,000
Refunds of Prior Years' Expenditures .....	0	0	23,520	311,961	0	0
Energy Incentives & Rebates .....	31,388	25,787	19,841	0	9,231	0
Refunds/All Other Local Revenues Not Specified .....	225,835	205,805	324,526	393,459	279,044	550,314
<b>Total Local Sources .....</b>	<b>\$64,624,773</b>	<b>\$65,933,896</b>	<b>\$66,750,428</b>	<b>\$67,978,378</b>	<b>\$68,948,583</b>	<b>\$72,097,024</b>
<b>State Sources:</b>						
Basic Instructional Subsidy .....	\$4,145,753	\$4,208,069	\$4,204,710	\$4,389,714	\$4,634,324	\$4,796,829
Charter Schools .....	0	5,985	0	0	0	0
Classrooms for the Future .....	0	0	0	0	0	1,102,500
Tuition for Orphans & Children in Private Homes.....	5,575	0	106,710	108,114	92,709	115,000
Special Education .....	1,485,528	1,496,567	1,618,137	1,524,537	1,537,569	1,561,111
Transportation .....	1,144,635	1,195,796	1,128,131	1,222,444	1,296,978	0
Rentals and Sinking Fund Payments .....	302,701	257,189	926,553	331,869	922,297	415,000
Health Services .....	71,827	71,990	76,056	78,412	75,829	70,000
Additional Grants/Technology Grants .....	4,730	0	98,039	0	0	0
PA Accountability Grant .....	43,288	43,288	0	0	0	0
Dual Enrollment Grants .....	0	0	0	127,795	127,795	125,000
State Property Tax Reduction .....	1,335,009	1,239,404	1,326,753	1,300,106	1,333,087	1,306,945
Revenue for Social Security .....	1,143,547	1,204,705	1,201,197	1,207,276	1,348,387	1,350,000
Revenue for Retirement .....	1,800,373	2,468,999	3,332,737	4,393,093	5,309,896	5,800,000
Other Sources .....	0	0	500	0	0	0
<b>Total State Sources .....</b>	<b>\$11,482,966</b>	<b>\$12,191,992</b>	<b>\$14,019,523</b>	<b>\$14,683,359</b>	<b>\$16,678,871</b>	<b>\$16,642,385</b>
<b>Federal Sources:</b>						
<b>Total Federal Sources .....</b>	<b>\$538,997</b>	<b>\$550,417</b>	<b>\$592,770</b>	<b>\$490,183</b>	<b>\$648,561</b>	<b>\$655,000</b>
<b>Other Sources:</b>						
<b>Total Other Sources .....</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL REVENUE .....</b>	<b>\$76,646,736</b>	<b>\$78,676,305</b>	<b>\$81,362,720</b>	<b>\$83,151,920</b>	<b>\$86,276,015</b>	<b>\$89,394,409</b>

\*Totals may not add due to rounding.

<sup>(1)</sup>Budget, as adopted May 18, 2017.

Source: School District Annual Financial Reports and Budgets.

## General Fund Expenditures

**TABLE 5**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**EXPENDITURES\***  
**(Years Ending June 30)**

	<b>Actual</b>					<b>Budget</b>
<b>EXPENDITURES:</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018<sup>(1)</sup></b>
Instruction .....	\$42,991,893	\$44,757,590	\$45,506,106	\$47,443,358	\$51,393,102	\$51,482,596
Pupil Personnel.....	2,902,624	3,264,269	3,859,205	3,800,979	3,982,520	3,730,589
Instructional Staff.....	1,434,576	1,526,687	1,493,873	1,785,287	1,893,412	1,917,228
Administration .....	3,954,061	4,193,216	4,181,491	4,588,662	4,582,123	4,948,874
Pupil Health.....	596,579	648,555	664,235	712,246	611,308	773,753
Business .....	686,151	767,844	851,078	949,173	821,159	1,051,899
Operation and Maintenance.....	4,674,199	5,318,760	5,457,777	5,688,741	5,776,986	6,021,079
Student Transportation .....	4,184,845	4,054,940	4,485,780	4,659,298	4,474,106	4,452,331
Central.....	1,503,737	1,556,149	1,615,847	1,744,194	1,737,614	2,198,739
Other Support Services.....	36,352	37,371	37,598	37,330	37,568	37,598
Operation of Non-instructional Services .....	1,539,050	1,632,309	1,607,567	1,697,124	1,884,141	1,904,895
Debt Service .....	9,090,186	8,738,388	9,968,478	9,568,138	9,445,246	10,081,530
Fund Transfers .....	2,505,053	1,435,167	1,609,565	1,040,565	748,468	414,887
Transfers to Component Units.....	508,326	508,326	533,742	544,417	555,305	578,411
Refund of Prior Year Receipts.....	2,019	0	0	0	0	0
Budgetary Reserve .....	0	0	0	0	0	300,000
<b>TOTAL EXPENDITURES.....</b>	<b>\$76,609,651</b>	<b>\$78,439,571</b>	<b>\$81,872,343</b>	<b>\$84,259,513</b>	<b>\$87,943,058</b>	<b>\$89,894,409</b>
<b>SURPLUS (DEFICIT) OF</b>						
<b>REVENUES OVER EXPENDITURES .....</b>	<b>\$37,085</b>	<b>\$236,734</b>	<b>(\$509,623)</b>	<b>(\$1,107,593) <sup>(2)</sup></b>	<b>(\$1,667,042) <sup>(3)</sup></b>	<b>(\$500,000)</b>

\*Totals may not add due to rounding.

<sup>(1)</sup>Budget, as adopted May 18, 2017.

<sup>(2)</sup>Of the \$1,107,593 draw down, \$850,000 was a planned spend down of the PSERS reserve fund (leaving a balance of \$1,593,900) and \$200,000 was a mandatory adjustment of the Health Care reserve fund (7 month reserve) due to a plan change.

<sup>(3)</sup> Of the \$1,667,042 draw down, \$750,000 was a planned spend down of the PSERS reserve fund and \$917,042 was a mandatory adjustment of the Health Care reserve fund (4 month reserve).

Source: School District Annual Financial Reports and Budgets.

## TAXING POWERS OF THE SCHOOL DISTRICT

### In General

*Subject to certain limitations imposed by the Taxpayer Relief Act (more specifically described below), the School District is empowered by the School Code and other statutes to levy the following taxes:*

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
  - a. for minimum salaries and increments of the teaching and supervisory staff;
  - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
  - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
  - d. to pay for the amortization of a bond or note issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended by Act 32 of 2008, enacted July 2, 2008 (53 P.S. §6924.101) the ("Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – "STEB") multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10



those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

### **The Taxpayer Relief Act (Act 1 of 2006)**

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

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004 ("Act 72"), or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 (as in the case of the School District); to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees' Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

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

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

In accordance with Act 1, the School District put a referendum question on the ballot for the May, 15, 2007, primary election seeking voter approval to levy (or increase the rate of) its earned income and net profits tax ("EIT") or a personal income tax ("PIT") and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was NOT approved by the voters.

A board of school directors may submit, but is not required to submit, a referendum question to the voters at any future municipal election seeking approval to levy or increase the rate of an EIT or impose PIT for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law.

There can be no assurance; however, that approval will be given by the board of school directors to utilize a further referendum question to the voters in any future fiscal year or years.

### **Status of the Bonds Under Act 1**

The Bonds described in this Preliminary Official Statement do not represent debt that was approved ("incurred") by the board of school directors prior to the effective date of Act 1, therefore the board of school directors may not apply to the Pennsylvania Department of Education (PDE) to use the Act 1 referendum exception for previously incurred debt if a tax increase greater than the Index is needed to provide for payment of principal or interest on the Bonds.

### **Act 130 of 2008**

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

The School District does not currently levy the occupational privilege tax (currently known as the Local Services Tax).

## Act 48 of 2003 – Limitation on School District Fund Balances

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

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

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

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

## Tax Levy Trends

Table 6 which follows shows the recent trend of tax rates levied by the School District. Table 7 shows the comparative trend of real property tax rates for the School District, the townships, the borough and Chester County.

**TABLE 6  
PHOENIXVILLE AREA SCHOOL DISTRICT  
TAX RATES**

	<b>Real Estate</b>	<b>Occupational</b>	<b>Real Estate</b>	<b>Per</b>	<b>Earned</b>
	<b>(mills)</b>	<b>(mills)</b>	<b>Transfer</b>	<b>Capita<sup>(1)</sup></b>	<b>Income</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(\$)</b>	<b>(%)</b>
2013-14 .....	28.64	333.75	0.5	10.00	0.5
2014-15 .....	28.89	346.55	0.5	10.00	0.5
2015-16 .....	28.89	353.13	0.5	10.00	0.5
2016-17 .....	29.16	361.61	0.5	10.00	0.5
2017-18 .....	29.58	370.65	0.5	10.00	0.5

<sup>(1)</sup>\$5.00 under Section 679 and \$5.00 under Act 511.

Source: Department of Community and Economic Development-Municipal Statistics.

**TABLE 7  
PHOENIXVILLE AREA SCHOOL DISTRICT  
COMPARATIVE REAL PROPERTY TAX RATES  
(Mills on Assessed Value)**

	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<i>School District</i> .....	28.64	28.89	28.89	29.16	29.58
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
East Pikeland Township.....	0.580	0.580	0.44	0.44	0.44
Phoenixville Borough .....	5.250	5.250	5.25	5.35	5.72
Schuylkill Township.....	2.700	2.700	2.7	2.7	2.7
Chester County .....	4.163	4.163	4.163	4.163	4.369

Source: Department of Community and Economic Development-Municipal Statistics.

## Real Property Tax

The real property tax (excluding delinquent collections) produced \$56,039,402 in 2016-17, approximately 64.9 percent of total revenue. The bills are dated July 1 and taxpayers who remit within 60 days receive a 2 percent discount, taxpayers who remit from September through October pay at face amount, and those who remit subsequent to October 30 are assessed a 10 percent penalty. Qualified home owners are eligible to pay on an installment plan basis.

The following tables summarize recent trends of assessed and market valuations of real property and real property tax collection data. The last countywide assessment in Chester County was in 1998.

**TABLE 8**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**REAL PROPERTY ASSESSMENT DATA**

<b>Year</b>	<b>Market Value</b>	<b>Assessed Value</b>	<b>Ratio</b>
2012-13.....	\$ 3,007,104,219	\$ 2,002,003,617	66.58%
2013-14.....	3,010,022,902	2,003,432,950	66.56%
2014-15.....	3,128,520,491	2,021,961,944	64.63%
2015-16.....	3,150,119,302	2,035,442,674	64.61%
2016-17.....	3,230,601,182	2,042,526,264	63.22%

Source: Pennsylvania State Tax Equalization Board (STEB)/ Tax Equalization Division (TED)

**TABLE 9**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY**

	<b>2015 Market Value</b>	<b>2015 Assessed Value</b>	<b>2016 Market Value</b>	<b>2016 Assessed Value</b>
School District .....	\$3,150,119,302	\$2,035,442,674	\$3,230,601,182	\$2,042,526,264
East Pikeland Township.....	840,828,773	568,174,949	853,038,257	568,200,439
Phoenixville Borough .....	1,220,607,937	753,318,921	1,258,690,397	759,398,132
Schuylkill Township .....	1,088,682,591	713,948,804	1,118,872,528	714,927,693
Chester County .....	56,440,500,731	36,932,071,483	58,267,118,050	37,272,143,519

Source: Pennsylvania State Tax Equalization Board (STEB)/ Tax Equalization Division (TED)

**TABLE 10**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**ASSESSMENT BY LAND USE**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Residential .....	\$1,636,891,392	\$1,639,687,865	\$1,650,143,309	\$1,663,783,579	\$1,675,269,978
Lots .....	10,446,440	13,560,150	12,481,810	11,703,270	8,519,210
Industrial .....	24,546,910	24,546,910	24,546,910	24,546,910	24,661,040
Commercial .....	314,317,345	309,298,455	317,700,355	317,856,225	318,165,596
Agriculture .....	10,191,810	10,061,200	10,061,200	10,564,440	10,237,090
Land .....	1,763,960	2,365,330	3,011,920	2,885,170	1,680,060
Trailers .....	3,845,760	3,913,040	4,016,440	4,103,080	3,993,290
<b>Total</b> .....	<b>\$2,002,003,617</b>	<b>\$2,003,432,950</b>	<b>\$2,021,961,944</b>	<b>\$2,035,442,674</b>	<b>\$2,042,526,264</b>

Source: Pennsylvania State Tax Equalization Board (STEB)/ Tax Equalization Division (TED)

**TABLE 11**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**REAL PROPERTY TAX COLLECTION DATA**

<u>Fiscal Year</u>	<u>Adjusted Flat Billing<sup>(1)</sup></u>	<u>Mills</u>	<u>Current Year Collections (July-June)</u>	<u>Amount sent to County for Collections</u>	<u>Collections as Percent of Flat Billing</u>	<u>Total Current Plus Delinquent Collections</u>	<u>Total Current Year Collections Percent of Flat Billings</u>
2012-13	\$ 55,250,590	28.24	\$ 52,784,209	\$ 1,975,692	95.54%	\$ 54,983,993	99.52%
2013-14	56,531,097	28.64	54,256,989	1,723,639	95.98%	56,219,126	99.45%
2014-15	57,340,967	28.89	54,640,705	2,086,295	95.29%	56,727,000	98.93%
2015-16	57,571,387	28.89	55,142,744	1,593,314	95.78%	57,167,613	99.30%
2016-17	58,304,364	29.16	56,039,402	1,384,892	96.12%	57,424,294	98.49%

<sup>(1)</sup> The Adjusted levy shown excludes the amount payable from the Property Tax and Rent Rebate Program funded pursuant to Act 1 of the Commonwealth. Source: School District officials.

The ten largest real property taxpayers, together with their assessed values are shown on Table 12 which follows. The aggregate assessed value of these ten taxpayers totals approximately 4.75 percent of the total assessed value.

**TABLE 12**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**TEN LARGEST REAL PROPERTY TAXPAYERS**

<u>Owner</u>	<u>Property/Business</u>	<u>2017-18 Assessed Value</u>
Phoenixville Hospital <sup>(1)</sup>	Hospital	\$ 32,262,440
Juvavum Associates	Apartment Complex	11,787,670
Eland Downe Inc.	Rental Housing	10,713,810
Kimberton Health Partners LP	Health Services	7,774,470
Exelon Generation Co. LLC	Energy Services	6,464,270
Pickering Run	Apartment Complex	5,926,181
K R Valley Forge LP	Shopping Center	5,605,140
Hobby Lobby Stores Inc.	Shopping Center	5,539,850
OLSL Woodbridge Place LLC	Retirement Center	5,500,700
Weissenberger Guntram	Shopping Center	5,472,760
<b>Totals</b>		<b>\$97,047,291</b>

<sup>(1)</sup>Pending Appeal.  
Source: School District officials.

#### Other Taxes

Under Act 511, the School District collected \$8,945,518 in other taxes in 2016-17. Among the taxes authorized by Act 511, the School District currently levies the Real Estate Transfer Tax, Earned Income Tax, Occupational Tax and Per Capita Tax. The Act 511 limit, for 2016-17 equal to 12 mills on the market value of real property, was \$38,767,214.

*Real Estate Transfer.* In 2016-17 a tax of one-half percent of the value of real estate transfers yielded \$1,095,853 or 1.3 percent of the School District's total revenue.

*Earned Income Tax.* The School District levies a tax of one-half percent on the earned income of residents. In 2016-17 the collected portion of this tax yielded \$6,470,111 or 7.5 percent of the School District's total revenue.

*Occupational Tax.* A tax of 353.13 mills of the value assessed to various occupation categories is levied on all residents. In 2016-17 this tax yielded \$1,317,000 or 1.5 percent of the School District's total revenue.

*Per Capita Tax.* A tax of \$10.00 (\$5.00 under Act 511 and \$5.00 under the Public School Code) is levied on each resident over 18 years. In 2016-17 this tax yielded \$62,553 or less than one percent of the School District's total revenue.

## COMMONWEALTH AID TO SCHOOL DISTRICTS

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

The largest subsidy, the basic instructional subsidy, is allocated to all school districts based on (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; and (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth. School districts also receive subsidies for special education, pupil transportation; vocational education, health service and debt service are also received by the school district.

### **Current Lack of State Appropriations for Debt Service Subsidies**

Commonwealth law presently provides that the School District will receive, subject to state legislative appropriation, reimbursement from the Commonwealth for a portion of debt service paid on the Bonds following final approval by PDE. Commonwealth reimbursement is calculated based on the "Reimbursable Percentage" assigned to the Bonds by the PDE and the School District's permanent Capital Account Reimbursement Fraction ("CARF") (30.79%) or the wealth based Market Value Aid Ratio ("MVAR") currently (21.10%), whichever is higher. The Reimbursable Percentage is determined through a process known as the "Planning and Construction Workbook" or "PlanCon".

Based on the current PlanCon program, School District officials have estimated that the Reimbursable Percentage of the Bonds will be 3.40% (there has been no determination by the PDE). The School District's CARF (which is higher than the MVAR) is 30.79%. The product of these two factors is 1.05%, which is the estimated percentage of debt service which may be reimbursed by the Commonwealth, subject to annual appropriation. In future years, this percentage may change as the School District's MVAR changes, or as a result of future legislation regarding changes to, or even elimination of, the PlanCon program.

In May of 2016, the Commonwealth enacted appropriation legislation known as Act 25 ("Act 25"), which contains authorization for the Commonwealth Finance Authority ("CFA") to issue up to \$2.5 billion of debt to fund PlanCon reimbursements to school districts. Act 25 also instituted a moratorium on new projects entering the PlanCon process while an advisory committee established under Act 25 considers amendments to the PlanCon reimbursement program. This new moratorium went into effect on May 15, 2016 and expired on June 30, 2017. On November 6, 2017, House Bill 178 became law without the signature of the Governor and became known as Act 55 of 2017. Contained in Act 55 of 2017 was an extension of the PlanCon moratorium through the end of the 2017-18 fiscal year.

On October 31, 2016, CFA issued its Revenue Bonds, Series A of 2016 (Federally Taxable) in the total amount of \$758,185,000 to provide for PlanCon reimbursement owed to school districts. It is expected that proceeds of this issue have been and will continue to be used to provide PlanCon reimbursement that is owed to the School District for past and current fiscal years. However, the School District cannot be certain that any future PlanCon reimbursement will be received by PDE as the ability for CFA to issue additional bonds in the future to fund future PlanCon reimbursements owed to school districts may impact the availability of PlanCon reimbursements payable to the School District. Any failure by the Commonwealth to adopt a timely budget and enact necessary spending authorizations could have a material adverse effect upon the School District's anticipated receipt of PlanCon reimbursements.

There can be no assurances that the School District will be able to successfully apply for, be awarded, and receive sufficient PlanCon reimbursement for the costs of any current or future projects of the School District. A failure by the School District to receive such reimbursement could force the School District to apply other available funds, if any, toward the completion costs of the Project and may have a material adverse effect on the financial resources of the School District to fund other obligations, including payment of debt service on the Bonds.

Legislation has been introduced from time to time in the Pennsylvania legislature containing language that would revise or even abolish the debt service reimbursement program for Pennsylvania school districts. As of the date hereof, and except as described above, none of these proposals have been signed into law. To the extent that any future legislation contains material changes to the PlanCon program as it is structured currently, the amount of PlanCon reimbursement to the School District may be positively or negatively affected, which could materially impact the amount of local funds needed to be raised by the School District to pay debt service on its debt obligations.

## Debt Statement

Table 13 which follows shows the debt of the Phoenixville Area School District as of December 5, 2017, including the issuance of the Bonds.

**TABLE 13**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**DEBT STATEMENT**  
**(As of December 5, 2017) \***

<b>NONELECTORAL DEBT</b>	<b>Gross Outstanding</b>
General Obligation Bonds, Series of 2018 (last maturity 2035).....	\$9,995,000
General Obligation Bonds, Series AAA of 2017 (last maturity 2030) .....	9,065,000
General Obligation Bonds, Series of 2018 (last maturity 2022).....	3,970,000
General Obligation Bonds, Series A of 2017 (last maturity 2030) .....	6,275,000
General Obligation Bonds, Series of 2017 (last maturity 2034).....	8,710,000
General Obligation Bonds, Series B of 2016 (last maturity 2024) .....	4,690,000
General Obligation Bonds, Series A of 2016 (last maturity 2030) .....	7,305,000
General Obligation Bonds, Series of 2016 (last maturity 2032).....	9,495,000
General Obligation Bonds, Series D of 2015 (last maturity 2031) .....	8,710,000
General Obligation Bonds, Series C of 2015 (last maturity 2030) .....	7,720,000
General Obligation Bonds, Series B of 2015 (last maturity 2029) .....	9,855,000
General Obligation Bonds, Series A of 2015 (last maturity 2026) .....	9,930,000
General Obligation Bonds, Series A of 2014 (last maturity 2031) .....	9,815,000
General Obligation Bonds, Series of 2013 (last maturity 2031).....	7,600,000
General Obligation Bonds, Series A of 2012 (last maturity 2031) .....	16,305,000
General Obligation Bonds, Series of 2012 (last maturity 2024).....	9,315,000
General Obligation Bonds, Series A of 2009 (last maturity 2024) .....	900,000
General Obligation Bonds, Capital Project Series (last maturity 2031) <sup>(1)</sup> .....	30,655,000
General Obligation Note, Series of 2000 (last maturity 2020) .....	2,220,000
<b>TOTAL NONELECTORAL DEBT</b> .....	<b>\$172,530,000</b>
 <b>LEASE RENTAL DEBT</b>	
<b>TOTAL LEASE RENTAL DEBT</b> .....	<b>\$0</b>
 <b>TOTAL PRINCIPAL OF DIRECT DEBT</b> .....	 <b>\$172,530,000</b>

\*Includes the estimated Bonds offered through this Preliminary Official Statement.

<sup>(1)</sup>Authorized and incurred as indebtedness under the Debt Act, but not yet issued.

**[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]**

Table 14 presents the overlapping indebtedness and debt ratios of the School District. After issuance of the Bonds, the principal of direct debt of the School District will total \$172,530,000. After adjustment for available funds and estimated State aid, the local effort of direct debt will total \$169,192,357.

**TABLE 14**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**BONDED INDEBTEDNESS AND DEBT RATIOS\***  
**(As of December 5, 2017)\***

	<b>Gross Outstanding</b>	<b>Local Effort or Net of Available Funds and Estimated State Aid<sup>(1)</sup></b>
<b>DIRECT DEBT</b>		
General Obligation Debt .....	\$172,530,000	\$169,192,357
Lease Rental Debt .....	0	0
<b>TOTAL DIRECT DEBT</b> .....	<b>\$172,530,000</b>	<b>\$169,192,357</b>
<b>OVERLAPPING DEBT</b>		
Chester County general obligation debt <sup>(2)</sup> .....	\$29,437,239	\$29,437,239
Municipal general obligation debt.....	17,511,538	17,511,538
<b>TOTAL OVERLAPPING DEBT</b> .....	<b>\$46,948,777</b>	<b>\$46,948,777</b>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b> .....	<b>\$219,478,777</b>	<b>\$216,141,135</b>
<b>DEBT RATIOS</b>		
Per Capita (2015) .....	\$6,766.73	\$6,663.82
Percent 2016-17 Assessed Value .....	10.75%	10.58%
Percent 2016-17 Market Value.....	6.79%	6.69%

\* Includes the estimated Bonds offered through this Preliminary Official Statement.

<sup>(1)</sup>Gives effect to current appropriations for payment of debt service and expected future Commonwealth Reimbursement of School District sinking fund payments based on current CARF. See "Commonwealth Aid to School Districts".

<sup>(2)</sup>Pro rata 5.5 percent share of \$530,930,000 principal amount outstanding.

#### Debt Limit and Remaining Borrowing Capacity

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

Total Revenues for 2014-15.....	\$ 80,436,167
Total Revenues for 2015-16.....	\$ 82,820,051
Total Revenues for 2016-17.....	<u>\$ 85,353,718</u>
Total.....	<u>\$248,609,936</u>
Annual Arithmetic Average (Borrowing Base) .....	<u>\$ 82,869,979</u>

Under the Act as presently in effect, no school district shall incur any nonelectoral debt or lease rental debt, if the aggregate net principal amount of such new debt together with any other net nonelectoral debt and lease rental debt then outstanding, would cause the net nonelectoral debt plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

<b>Net Nonelectoral Debt Limit:</b>	<b>Legal Limit</b>	<b>Net Debt Outstanding*<sup>(1)</sup></b>	<b>Remaining Borrowing Capacity</b>
225% of Borrowing Base.....	\$186,457,452	\$172,530,000	\$13,927,452

\*Includes the estimated Bonds offered through this Preliminary Official Statement. Does not reflect credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by Commonwealth aid.

<sup>(1)</sup>Includes General Obligation Bonds, Capital Project Series that have been authorized and incurred as indebtedness under the Debt Act, but not yet issued.

## Debt Service Requirements

Table 15 presents the debt service requirements on the School District's outstanding general obligation and lease rental indebtedness including debt service on the Bonds.

The School District has never defaulted on the payment of debt service.

**TABLE 15**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**DEBT SERVICE REQUIREMENTS\***

<u>Year</u>	<u>Other Outstanding General Obligation Debt**</u>	<u>Principal</u>	<u>Series of 2018 Interest</u>	<u>Subtotal</u>	<u>Total</u>
2017-18	\$9,861,115				
2018-19	10,262,231				
2019-20	10,412,774				
2020-21	10,415,361				
2021-22	10,369,208				
2022-23	10,373,643				
2023-24	10,383,156				
2024-25	10,365,535				
2025-26	10,375,423				
2026-27	10,372,056				
2027-28	10,375,863				
2028-29	10,372,976				
2029-30	10,370,617				
2030-31	10,375,436				
2031-32	10,354,769				
2032-33	10,315,675				
2033-34	5,128,200				
2034-35	0				
2035-36	0				
<b>Total</b>	<b>\$170,484,036</b>				

\*Totals may not add due to rounding.

\*\*For these purposes, does not include the School District's authorized, but unissued debt.

Table 16 presents data on the extent to which Commonwealth Aid provides coverage for debt service requirements.

**TABLE 16**  
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**COVERAGE OF DEBT SERVICE AND LEASE RENTAL**  
**REQUIREMENTS BY STATE AID\***

2016-17 Commonwealth Aid Received.....	\$16,678,871
2016-17 Debt Service Requirements .....	9,445,246
Maximum Future Debt Service Requirements after Issuance of Bonds .....	
Coverage of 2016-17 Debt Service Requirements.....	1.77 times
Coverage of Maximum Future Debt Service Requirements after Issuance of Bonds.....	times

\*Assumes current State Aid Ratio. See "State Aid to School Districts".

## Future Financing

The School District does not anticipate issuing additional long term debt within the next 3-4 years. If market conditions are favorable, the School District may refund portions of its outstanding general obligation bonds.



## LABOR RELATIONS

### School District Employees

There are presently 549 permanent employees of the School District, which includes teachers and administrators and support personnel, including secretaries and maintenance staff, teacher aides.

The School District's teachers are represented by the Phoenixville Area Education Association, an affiliate of the Pennsylvania State Education Association (PSEA), under a contract with the School District, which expires on June 30, 2019.

The School District's support personnel (secretarial, maintenance, custodians, aides and technical) are represented by the Phoenixville Area Education Support Professionals, an affiliate of the Pennsylvania State Education Association (PSEA), under a contract with the School District, which expires on June 30, 2020.

### Pension Program

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

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

The PSERS Board of Trustees certified an annual employer contribution rate of 30.03% for fiscal year 2016-17, which commenced on July 1, 2016. The 30.03% employer contribution rate was composed of 0.83% for health insurance premium assistance and a pension rate of 29.20%. On December 7, 2016 the Board of Trustees certified an annual employer contribution rate of 32.57% for fiscal year 2017-18, which begins July 1, 2017.

The School District and the Commonwealth are responsible for paying a portion of the employer's share. School entities are initially responsible for paying 100% of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. The School District contributions are made on a quarterly basis and employee contributions are deducted monthly for each paycheck and remitted quarterly. Recent School District payments have been as follows:

2012-13	\$ 3,627,725
2013-14	5,223,300
2014-15	6,372,474
2015-16	8,779,428
2016-17	10,356,155
2017-18(budgeted)	11,194,225

The School District is current in all payments. The PSERS complete report is available on the PSERS website on the Internet: [www.psers.state.pa.us](http://www.psers.state.pa.us).

PSERS is also funded through investment earnings and mandatory member contributions. Investment earnings are the largest source of funding for PSERS. For the most recent fiscal year ended June 30, 2015, PSERS' investments added over \$1.3 billion in investment income (net of fees) to the fund. PSERS members contribute from 5.25% to 10.30% of payroll depending on their membership class and when they joined PSERS. Members will contribute an average of 7.52% of their salary to fund their retirement benefit in fiscal year 2016-17. Member contributions of approximately \$1 billion are expected in fiscal year 2016-17.

In June 2012, the Government Accounting Standards Board ("GASB") issued "Statement No. 68 Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No 27." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The new accounting standard will require the School District to report in its government-wide financial statements its proportionate share of the new pension liability of the pension systems to which it contributes. GASB 68 is effective for fiscal years beginning after June 15, 2014, which, in the case of the School District will begin with fiscal year ending June 30, 2015. Please see the School District's Audited Financial Statements for fiscal year ending June 30, 2015 in Appendix C for the net effects of the implementation of GASB 68.

<sup>(1)</sup>Pennsylvania Sch. Boards Ass'n, Inc. v. Com., Pub. Sch. Employees' Ret. Bd., 580 Pa. 610, 612, 863 A.2d 432, 434 (2004).  
Source: Pennsylvania School Board Association at [www.PSBA.org](http://www.PSBA.org) and PSERS at [www.PSERS.state.pa.us](http://www.PSERS.state.pa.us)

## **Other Post-Employment Benefits**

### Plan Description

The School District provides health benefits, which includes medical, prescription, dental, and vision benefits, as a post-employment benefit to those retirees and their spouses, who meet the qualifying criteria. The health insurance plan is a single employer, defined benefit OPEB plan. Life insurance is also provided to specific groups.

The School District has the following groups of employees: teachers, administrators, confidentials and support staff, both union and non-union. The eligibility and duration of post-retirement benefits for these groups are defined in either a Collective Bargaining Agreement or Compensation Agreement. Otherwise, they may still qualify for benefits subject to Acts 110 and 43.

The medical, prescription drug, dental and vision benefits are self-insured. Medical and prescription benefits are administered by Independence Blue Cross. The dental and vision benefits are through School Claims Services.

### Funding Policy

A retiree may elect to continue his/her current benefit coverage. The amount that the retiree must pay towards health benefits is defined in either a Collective Bargaining Agreement or Compensation Agreement. The School District is responsible for funding the balances of the benefits.

As of June 30, 2017, the School District has no segregated assets to fund this liability. It is the intention of the School District to pay claims as they are incurred.

### Funding Progress

As of July 1, 2016, the date of the most recent actuarial report, the actuarial accrued liability for benefits was \$3,304,304, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$29,913,970 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11.05%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the most recent actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. Amortization is based on a level dollar, 30-year open period. Contributions rates for employees and the District are at varying rates. Additional information of the plan may be obtained at the District's administrative office.

### Annual OPEB and Net OPEB Obligation

The District's annual other Post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's net OPEB obligation.

The following show the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the School District's net OPEB obligation:

<u>Annual OPEB Cost:</u>	
Amortization of Unfunded Actuarial Accrued Liability	\$380,754
Interest on Net OPEB Obligation	21,927
Interest on Net OPEB Obligation	(29,914)
ANNUAL OPEB COST	<u>\$372,767</u>
<u>Net OPEB Obligation:</u>	
Normal OPEB Obligation July 1, 2016	\$487,260
OPEB Cost for the year ended June 30, 2017	372,767
Actual Contributions for the year ended June 30, 2017	(223,211)
NET OPEB OBLIGATION	<u>\$636,816</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the year ended June 30, 2017 and the two preceding years were as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>% of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2015	412,801	68.92%	\$390,819
June 30, 2016	411,570	76.57%	487,260
June 30, 2017	372,767	59.88%	636,816

Source: 2017 Audit Report

### **NO LITIGATION CERTIFICATE**

Upon delivery of the Bonds, the School District shall furnish, or cause to be furnished, a certificate, in form satisfactory to Bond Counsel and the Underwriter, to the effect that, among other things, there is no litigation pending in any court against the School District, which, in any way, questions or affects the validity or the security mentioned herein of the Bonds, or any proceedings or transactions relating to their issuance, sale and delivery.

### **DEFAULTS AND REMEDIES**

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Act. Among the remedies, if the failure to pay shall continue for 30 days, is the right of holders of the Bonds to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

### **TAX EXEMPTION**

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

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

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

*The Bonds are "qualified tax exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code, and, in the case of certain financial institutions (within the meaning of Section 265 (b)(5) of the Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest on the Bonds.*

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

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

## **CONTINUING DISCLOSURE UNDERTAKING**

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the School District (being an "obligated person" with respect to the Bonds, within the meaning of the Rule), will execute a Continuing Disclosure Agreement. See Appendix C for the proposed form of Continuing Disclosure Agreement (the "Continuing Disclosure Agreement").

With respect to the filing of annual financial and operating information, the School District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the School District or its operations or financial reporting, but the School District will agree that any such modification will be done in a manner consistent with the Rule.

The School District acknowledges that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holders and beneficial owners of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the School District's continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the School District to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The School District's obligations with respect to continuing disclosure described herein shall terminate upon the prior redemption or payment in full of all of the Bonds or if and when the School District is no longer an "obligated person" with respect to the Bonds, within the meaning of the Rule.

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

Some operating data of the School District may be inherently included in the annual filings of audited financial statements, the summary of the budget, contents of Official Statements prepared by the School District for bond issues as well as other publically available information. In connection with the Continuing Disclosure Agreement associated with the Bonds, the School District may not be filing this information separately, but it may be available in the other annual filings of the School District or publically available elsewhere.

### Continuing Disclosure Filing History

The School District's filing history of its annual financial and operating information during the past five (5) years is outlined in the table below.

Fiscal Year Ending [FYE]	Filing Deadline <sup>[1]</sup>	Financial Statements		Budget		Operating Data	
		Filing Date	EMMA ID <sup>[2]</sup>	Filing Date	EMMA ID <sup>[2]</sup>	Filing Date	EMMA ID <sup>[2]</sup>
6/30/2013	12/27/2013	04/23/2014 <sup>[3]</sup>	ER618603	10/29/2013	EP621511	10/08/2014 <sup>[4]</sup>	EA541672
6/30/2014	12/27/2014	12/22/2014	ER661811	12/09/2014	EA559853	12/04/2014	EA557745
6/30/2015	12/27/2015	12/17/2015	EP712716	7/10/2015	EA596033	12/17/2015	EP712718
6/30/2016	12/27/2016	12/13/2016 <sup>[5]</sup>	ES787266	8/26/2016	ES655481	12/13/2016	ES787268
6/30/2017	12/27/2017	11/03/2017 <sup>[6]</sup>	ES832563	11/03/2017	ES832567	12/11/2017	ER862569

### Notes

<sup>[1]</sup> For these purposes, assumes the shortest filing deadline of the School District's previous Continuing Disclosure Agreements as outlined in the "Continuing Disclosure Requirements" table above.

<sup>[2]</sup> Submission ID is the EMMA Submission ID for each filing. To access a filing, insert the Submission ID to the end of the web address below:  
<http://emma.msrb.org/ContinuingDisclosureView/ContinuingDisclosureDetails.aspx?submissionId=>

<sup>[3]</sup> On 10/29/13 the School District filed its PDE-2057 Annual Financial Report (EMMA ID EP621505) and a draft of its audited financial statements on 12/13/2013 (EMMA ID ER591775), as well.

<sup>[4]</sup> The majority of operating data as part of an Official Statement for the Series A of 2013 Bonds filed to EMMA on 12/2/13.

A Notice of Reference to Other Submitted Documents was filed to EMMA (date and EMMA ID referenced in the above table) (the assessed and market values can be found in the referenced budget for FYE 6/30/2014 or in the FYE 6/30/2014 operating data filing referenced in the above table).

<sup>[5]</sup> On 12/13/2016 the School District filed its PDE-2057 Annual Financial Report (EMMA ID ES787266) and an audit disclosure statement on 12/22/2016 (EMMA ID ER790161). The School District filed its audited financial statements on 1/11/2017 (EMMA ID ER795711).

<sup>[6]</sup> On 11/03/2017 the School District filed its PDE-2057 Annual Financial Report (EMMA ID ES832563) and an audit disclosure statement on 12/21/2017 (EMMA ID ES839970). The School District filed its audited financial statements on 1/05/2018 (EMMA ID ES846412).

Based on the information above, the School District's annual financial and operating filing history over the past five (5) years can be summarized as follows:

For fiscal year ending June 30, 2013, the School District filed its PDE-2057 Annual Financial Report on October 29, 2013, the draft audited financial statements on December 13, 2013, followed by the audited financial statements on April 23, 2014. The budget report was filed on October 29, 2013. The majority of operating data filed as part of an Official Statement. A Notice of Reference to Other Submitted Documents was filed to EMMA on October 8, 2014 (the assessed and market values can be found in the referenced budget for FYE 6/30/2013 or in the FYE 6/30/2014 operating data filing referenced in the above table).

For fiscal year ending June 30, 2014, the School District filed its audited financial statements on December 22, 2014. The budget report was filed on December 9, 2014. Its operating data was filed on December 4, 2014.

For fiscal year ending June 30, 2015, the School District filed its audited financial statements and operating data on December 17, 2015. The budget report was filed on July 10, 2015.

For fiscal year ending June 30, 2016, the School District filed its annual financial report and operating data on December 13, 2016 and its budget report on August 26, 2016. The audited financial statements were posted on January 11, 2017.

For fiscal year ending June 30, 2017, the School District filed its annual financial report and budget on November 3, 2017 and its operating data on December 11, 2017. The audited financial statements were posted on January 5, 2018.

### Failure to Provide Annual Financial Information

As outlined in the table above, the School District failed to provide certain annual financial information in a timely manner during the past (5) five years. The School District filed a "Failure to Provide Annual Financial Information" notice to EMMA on July 13, 2015. Although the School District filed this Notice, it was not timely filed.

### Bond Insurance Rating Downgrades and Upgrades by S&P and/or Moody's

Some of the School District's bond issues that have been outstanding during the past five (5) years have been insured by various bond insurance companies that have received rating downgrades and upgrades by both S&P and Moody's. This information was publicly available from widely

accepted information sources at the time of their respective downgrades or upgrades, but was not available on EMMA at this time. For informational purposes, the School District has recently filed a summary of rating upgrades and downgrades relating to certain bond insurance companies.

### **Future Continuing Disclosure Compliance**

The School District has conducted a thorough review of its continuing disclosure obligations and submissions. Upon discovering any inadvertent omissions with respect to these filings, the School District, to the best of its knowledge, has attempted to bring its continuing disclosure filings up to date.

In an effort to augment the School District's procedures and policies to maintain future compliance, the School District has taken additional steps intended to assure future compliance with its Continuing Disclosure Agreements. These steps include implementing the MSRB's EMMA's internal notification system whereby the School District has set-up to receive timely email reminders a month in advance for all of the School District's annual disclosure filings and coordinating with the School District's financial advisor to ensure all disclosure obligations have been made on a timely basis and in all material respects.

A member of the School District's business office will be responsible for ensuring ongoing continuing disclosure compliance. Members of the School District's business office will make an effort to participate in any ongoing continuing education regarding continuing disclosure undertaking if offered by local groups or affiliated organizations such as MSRB, PASBO or GFOA. The School District may communicate with its financial advisor, underwriter(s), bond counsel, or solicitor regarding any questions or concerns regarding ongoing continuing disclosure compliance. The School District may also communicate with its local auditor and advise of the School District's need for financial statements in a timely manner. In the event audited financial statements are not available by the filing deadline, the School District will file to EMMA, if available, its State Form PDE-2057 Annual Financial Report as an interim filing until such audited financial statements are available. Some of the operating data requirements may be found contained within the School District's financial statements or budget filing and may not be filed explicitly by themselves.

### **RATING**

Moody's Investors Service, Inc. has assigned an underlying rating of "Aa2" to the Bonds. Such ratings reflect only the view of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the credit rating will be maintained for any given period of time, or that it may not be lowered or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such credit rating may have an adverse effect on the market price of the Bonds.

### **UNDERWRITING**

The Underwriter has agreed to purchase the Bonds from the School District, subject to certain conditions precedent, and will purchase all of the Bonds if any of such Bonds are purchased. The Bonds will be purchased for a purchase price of \$\_\_\_\_\_ equal to the par value of the Bonds less an underwriters' discount of \$\_\_\_\_\_, plus a net original issue premium of \$\_\_\_\_\_.

### **LEGAL OPINION**

The Bonds are offered subject to the receipt of the unqualified approving legal opinion of Kegel Kelin Almy & Lord LLP, Bond Counsel, Lancaster, Pennsylvania. Certain legal matters will be passed upon for the School District by Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, School District Solicitor.

### **FINANCIAL ADVISOR**

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

## MISCELLANEOUS

This Preliminary Official Statement has been prepared under the direction of the School District by PFM Financial Advisors LLC, Harrisburg, Pennsylvania, in its capacity as Financial Advisor to the School District. The information set forth in this Preliminary Official Statement has been obtained from the School District and from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representation of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Resolution, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents, copies of which will be furnished by the School District or the Financial Advisor upon request. The information assembled in this Preliminary Official Statement is not to be construed as a contract with holders of the Bonds.

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

PHOENIXVILLE AREA SCHOOL DISTRICT  
Chester County, Pennsylvania

By: \_\_\_\_\_  
President, Board of School Directors

**[THIS PAGE INTENTIONALLY LEFT BLANK]**



**APPENDIX A**  
**Demographic and Economic Information**  
**Relating to the Phoenixville Area School District**

## Introduction

The School District is coterminous with the Townships of Schuylkill and East Pikeland and the Borough of Phoenixville, and is located in northeastern Chester County, covering an area of 21.9 square miles. The School District is located in the Schuylkill Valley Watershed which runs in the southeast and northwest direction through the area. The School District is located approximately 20 miles west of the City of Philadelphia, 10 miles northeast of Downingtown, Pennsylvania and 10 miles southwest of Norristown, Pennsylvania. Many unincorporated communities are located within the School District and these include: Kimberton in East Pikeland Township and Valley Forge in Schuylkill Township.

## Character

The School District is characterized by rolling hills and valleys which are common to this region of the Commonwealth of Pennsylvania. The area flanks the Schuylkill River and its tributaries. Economically, the two Townships are residential in nature. The Borough of Phoenixville is industrial and commercial in nature.

Residential growth has taken place mainly in the Townships and is due chiefly to the location of these Townships in relation to the major employment centers located in the region: Lancaster, King of Prussia, Great Valley, Philadelphia, Reading, and Wilmington, Delaware. These Townships are on the fringe of urban influence but still possess the advantage of a country environment.

Industrial growth within the School District has been influenced by two factors: first, a Norfolk Southern freight line passes through the Borough of Phoenixville, and second, the availability of the Pennsylvania Turnpike, Valley Forge Interchange (4 miles).

## Population

Table A-1 which follows shows recent population trends for the School District, Chester County and the Commonwealth of Pennsylvania. Table A-2 shows 2015 (estimated) age composition and average number of persons per household in Chester County and for the Commonwealth. Average household size was higher for Chester County than the statewide average.

**TABLE A-1**  
**RECENT POPULATION TRENDS**

<u>Area</u>	<u>2010</u>	<u>2015(est.)</u>	<u>Compound Average Annual Percentage Change 2010-2015(est.)</u>
School District.....	32,035	32,435	0.25%
Chester County.....	433,501	509,797	3.30%
Pennsylvania .....	12,281,054	12,779,559	0.80%

Source: U.S. Census Bureau, 2010 Census and U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates

**TABLE A-2**  
**AGE COMPOSITION**

	<u>0-19</u>	<u>20-64</u>	<u>65+</u>	<u>Persons Per</u>
	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Household</u>
Chester County.....	26.7%	59.1%	14.2%	2.66
Pennsylvania .....	24.2%	59.9%	16.0%	2.49

Source: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates

## Employment

Overall employment data are not compiled for the School District, but such data are compiled for the Montgomery-Bucks-Chester, PA Metropolitan Division (an area which includes the School District) as shown on Table A-3.

**TABLE A-3  
DISTRIBUTION OF EMPLOYMENT BY INDUSTRY  
MONTGOMERY-BUCKS-CHESTER, PA METROPOLITAN DIVISION**

**October 2017  
NONFARM JOBS - NOT SEASONALLY ADJUSTED**

<i>ESTABLISHMENT DATA</i>	<u>Industry Employment</u>				<b>Net Change From:</b>	
	Oct 2017	Sept 2017	Aug 2017	Oct 2016	Sept 2017	Oct 2016
<b>Total Nonfarm</b>	<b>1,078,000</b>	1,069,500	1,071,700	1,060,400	8,500	17,600
<b>Total Private</b>	<b>995,400</b>	988,100	997,300	976,300	7,300	19,100
<b>Goods Producing</b>	<b>141,900</b>	142,800	143,900	141,800	-900	100
Mining, Logging, and Construction	<b>52,900</b>	53,900	54,600	53,000	-1,000	-100
<b>Manufacturing</b>	<b>89,000</b>	88,900	89,300	88,800	100	200
Durable Goods	<b>45,200</b>	44,900	45,200	45,100	300	100
Non-Durable Goods	<b>43,800</b>	44,000	44,100	43,700	-200	100
Chemical Mfg.	<b>19,600</b>	19,600	19,900	19,100	0	500
<b>SERVICE-PROVIDING</b>	<b>936,100</b>	926,700	927,800	918,600	9,400	17,500
<b>PRIVATE SERVICE-PROVIDING</b>	<b>853,500</b>	845,300	853,400	834,500	8,200	19,000
Trade, Transportation, and Utilities	<b>203,400</b>	202,200	203,800	204,700	1,200	-1,300
Wholesale trade	<b>56,100</b>	56,300	57,300	56,500	-200	-400
Retail trade	<b>119,400</b>	117,800	119,300	120,300	1,600	-900
General merchandise stores	<b>19,500</b>	19,100	19,400	18,600	400	900
Transportation, Warehousing and Utilities	<b>27,900</b>	28,100	27,200	27,900	-200	0
<b>Information</b>	<b>21,100</b>	21,100	21,300	21,100	0	0
<b>Financial Activities</b>	<b>82,100</b>	82,400	81,700	80,200	-300	1,900
Finance and Insurance	<b>67,300</b>	67,600	66,800	65,600	-300	1,700
Credit intermediation and related activities	<b>16,600</b>	16,600	16,700	16,600	0	0
Depository credit intermediation	<b>9,800</b>	9,800	9,800	9,800	0	0
Insurance Carriers and related activities	<b>26,200</b>	26,400	26,200	26,700	-200	-500
Real estate and rental and leasing	<b>14,800</b>	14,800	14,900	14,600	0	200
<b>Professional and Business Services</b>	<b>217,800</b>	213,500	217,100	203,300	4,300	14,500
Professional and technical services	<b>113,200</b>	111,800	113,000	107,200	1,400	6,000
Scientific research and development services	<b>17,000</b>	17,000	17,100	16,200	0	800
Management of companies and enterprises	<b>27,900</b>	27,600	27,800	26,100	300	1,800
Administrative and waste services	<b>76,700</b>	74,100	76,300	70,000	2,600	6,700
<b>Educational and Health Services</b>	<b>194,700</b>	190,100	187,400	190,200	4,600	4,500
<b>Educational services</b>	<b>30,400</b>	28,300	24,400	29,500	2,100	900
Health care and social assistance	<b>164,300</b>	161,800	163,000	160,700	2,500	3,600
Ambulatory health care services	<b>61,400</b>	60,400	60,500	60,200	1,000	1,200
Hospitals	<b>32,400</b>	32,100	32,300	31,800	300	600
Nursing and residential care facilities	<b>37,400</b>	36,900	37,600	37,300	500	100
Social assistance	<b>33,100</b>	32,400	32,600	31,400	700	1,700
<b>Leisure and Hospitality</b>	<b>88,600</b>	90,100	95,300	87,100	-1,500	1,500
Accommodation and food service	<b>71,400</b>	71,200	72,900	70,700	200	700
<b>Other Services</b>	<b>45,800</b>	45,900	46,800	47,900	-100	-2,100
<b>Government</b>	<b>82,600</b>	81,400	74,400	84,100	1,200	-1,500
Federal Government	<b>6,000</b>	6,000	6,100	6,200	0	-200
State Government	<b>9,700</b>	9,800	9,900	9,800	-100	-100
Local Government	<b>66,900</b>	65,600	58,400	68,100	1,300	-1,200
Local government educational services	<b>45,900</b>	44,500	36,600	47,300	1,400	-1,400
Local government excluding educational services	<b>21,000</b>	21,100	21,800	20,800	-100	200
Data benchmarked to March 2016	***Data changes of 100 may be due to rounding***					

Source: Pennsylvania Department of Labor & Industry, Center for Workforce Information & Analysis.

Major employers located within Chester County include:

<b>Name</b>	<b>Product or Service</b>	<b>Approximate Employment</b>
The Vanguard Group.....	Financial Services	5,800
Shared Medical Systems.....	Computer Services	3,200
QVC.....	Televised Merchandising	2,200
Lukens, Inc. ....	Steel Mfg.	2,000
Providian Financial Corp.....	Financial Services	1,400
Unisys.....	Computer Services	1,200
Devereaux Foundation.....	Private Special Education Svcs.	1,000
Johnson Matthey, Inc.....	Mfg. R&D /Testing	1,000
Decision One Corp. ....	Computer Maintenance Svcs.	1,000

Source: Chester County Council of Business and Industry.

Table A-4 shows recent trends in labor force, employment and unemployment for Chester County and the Commonwealth.

**TABLE A-4**  
**TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**NOT SEASONALLY ADJUSTED**

	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017<sup>(1)</sup></u></b>	<b>Compound Average Annual % Rate</b>
<b>Chester County</b>							
Civilian Labor Force (000)	273.1	273.5	272.3	276.4	281.1	278.9	0.48%
Employment (000)	257.6	258.9	261.0	266.2	270.1	270.2	0.79%
Unemployment (000)	15.5	14.5	11.2	10.2	11.0	8.6	-5.56%
Unemployment Rate	5.70%	5.30%	4.10%	3.70%	3.90%	3.10%	
<b>Pennsylvania</b>							
Civilian Labor Force (000)	6,466.0	6,460.0	6,378.0	6,424.0	6,472.0	6,373.00	0.02%
Employment (000)	5,954.0	5,982.0	6,009.0	6,094.0	6,120.0	6,108.00	0.46%
Unemployment (000)	513.0	478.0	370.0	330.0	352.0	265	-6.08%
Unemployment Rate	7.90%	7.40%	5.80%	5.10%	5.40%	4.20%	

<sup>(1)</sup>As of October 2017.

Source: Pennsylvania Department of Labor and Industry, Center for Workforce Information and Income

## Income

The data on Table A-5 shows recent trends in per capita income for the School District, Chester County and Pennsylvania over the 2010-2015 (estimated) period. Per capita income in the School District is higher than average per capita income for the Commonwealth.. Both the School District and County per capita income is higher than the Commonwealth per capita.

**TABLE A-5**  
**RECENT TRENDS IN PER CAPITA INCOME\***

	<u>2010</u>	<u>2015(est.)</u>	<u>Percentage Change</u> <u>2010-2015 (est.)</u>
School District.....	\$40,720	\$40,816	0.05%
Chester County.....	41,251	42,556	0.62%
Pennsylvania.....	27,049	29,291	1.61%

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

Source: U.S. Census Bureau, 2010 Census and U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates

## Commercial Activity

Commercial activity within the School District tends to be centered in the Borough of Phoenixville and various small shopping centers adjacent to the Borough. Also located just 5 miles east of the School District is the King of Prussia Mall, a regional shopping center for northeastern Chester County and southwestern Montgomery.

Six financial institutions have offices within the School District and they include: Fidelity Bank (2), Continental Bank, GSB Bank, Wachovia Bank, Royal Bank and Phoenixville Savings and Loan Association (2).

Table A-6 shows trends for retail sales in Chester County and the Commonwealth.

**TABLE A-6**  
**TOTAL RETAIL SALES**  
**(000)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Chester County	8,705,297	12,708,571	12,869,709	11,499,691	13,969,322
Pennsylvania	187,412,600	199,975,258	198,215,135	207,887,941	213,005,475

Source: The Nielsen Company.

## Transportation

The School District's economic position has been bolstered by a fine network of Federal and State highways. This transportation network affords residents accessibility to all important urban areas. State Routes 23, 29 and 113 traverses the School District and connect the area with all major employment centers in the western Philadelphia Metropolitan Area. The Pennsylvania Turnpike interchanges of Valley Forge and Downingtown are located within five miles of the School District. The recently opened Pennsylvania Turnpike interchange Phoenixville/Great Valley is located within one mile of the School District.

Norfolk Southern provides freight transportation to the industrial residents of the School District.

Motor freight service is supplied to the area by numerous interstate and intrastate carriers.

## **Recreation**

School District residents have access to a variety of recreational facilities through public, private and quasi-public agencies.

School District residents have access to a variety of recreational facilities through public and quasi-public agencies. There is one golf club located within the School District: Phoenixville Country Club. The Local municipalities and the County maintain local parks throughout the School District. A portion of Valley Forge National Historical Park is located in the School District along with the headquarters of the Freedoms Foundation.

## **Utilities**

### **Sewer**

Residents of the Borough of Phoenixville are served by the Borough of Phoenixville Treatment Plant. Schuylkill Township and portions of East Pikeland Township are served by the Valley Forge Regional Wastewater System. All other areas are served by on-site systems.

### **Water**

The Borough of Phoenixville maintains its own water system, which serves all areas of the Borough. Private water companies supply water service to developed portions of the Townships. Other residents of the area are served by on-site wells.

### **Electricity and Gas**

PECO provides both electricity and natural gas to users within the School District.

### **Municipal Services**

All Townships and the Borough have police protection from either the state police or local police departments. All communities support local volunteer fire companies.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX B**  
**BOND COUNSEL OPINION**



# DRAFT

## PHOENIXVILLE AREA SCHOOL DISTRICT GENERAL OBLIGATION BONDS, SERIES OF 2018

---

### OPINION

We have acted as Bond Counsel in connection with the issuance by Phoenixville Area School District, Chester County, Pennsylvania (the "School District"), of the \$\_\_\_\_\_ General Obligation Bonds, Series of 2018 (the "Bonds") dated \_\_\_\_\_, 2018.

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

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

1. The Bonds are issued in accordance and in compliance with the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as codified by the Act of December 19, 1996 (53 Pa. Cons. Stat. Chs. 80-82), ("the Act"), without the assent of the electors, and pursuant to resolutions adopted by the Board of School Directors of the School District on January 18, 2018.
2. The Bonds are valid and binding obligations of the School District.
3. The School District has established with the Paying Agent, as Sinking Fund Depositary, a sinking fund in which it has covenanted to deposit amounts sufficient to pay the principal of and interest on the Bonds as the same become due and payable and, to the extent required, to apply such amounts to such purposes.
4. The School District has further covenanted that, subject to statutory restrictions and limitations, it will include in its budget for each fiscal year in which the Bonds are outstanding, and will appropriate in each such fiscal year, the amount of the debt service on the Bonds for such year, that it will duly and punctually pay or cause to be paid, the principal of and interest on the Bonds at the dates and place and in the manner stated on the Bonds; and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power. For purposes of such payments, the School District has covenanted that it will exercise its ad valorem taxing power, within limitations provided by law, upon all taxable property within the School District. The Bonds are additionally secured by the "state aid intercept" provisions of Section 633 of the Public School Code of 1949, as amended by Act 150 of 1975.
5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinions set forth in the preceding sentence are subject to the condition that the School District comply with all requirements of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder, that must be satisfied subsequent to the issuance of the Bonds, in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The School District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.
6. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds and the interest thereon will be free from taxation for state and local purposes within the Commonwealth of

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

7. The Bonds are qualified tax-exempt obligations as defined in Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the "Code"), and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Code), a deduction is allowed for 80 percent of the portion of such financial institutions' interest expense allocable to interest on the Bonds. The opinions set forth in the preceding sentence are subject to the condition that the School District comply with all requirements of the Code, and any regulations promulgated thereunder, that must be satisfied subsequent to the issuance of the Bonds, in order that the Bonds continue to constitute qualified tax exempt obligations for purposes of Section 265(b)(3) of the Code. Failure to comply with such requirements may cause the Bonds to cease to constitute qualified tax exempt obligations, with the result that the Bonds would have to be taken into account by financial institutions (as defined in Section 265(b)(5) of the Code) for purposes of determining the allocation of interest expense to tax-exempt interest under Sections 265(b)(1) and (2) of the Code retroactive to the date of issuance of the Bonds.

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

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

Very truly yours,

Kegel Kelin Almy & Lord LLP

\_\_\_\_\_, 2018

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX C**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

**PHOENIXVILLE AREA SCHOOL DISTRICT  
CHESTER COUNTY, PENNSYLVANIA**

**\$\_\_\_\_\_ GENERAL OBLIGATION BONDS, SERIES OF 2018  
DATED, ISSUED AND DELIVERED \_\_\_\_\_, 2018**

**CONTINUING DISCLOSURE AGREEMENT**

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

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

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

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

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

b. An update of the following information under the heading Taxing Powers of the School District provided in the Official Statement for the Bonds dated **DATE OF OFFICIAL STATEMENT**:

- (i) Table 8 (Real Property Assessment Data);
- (ii) Table 11 (Real Property Tax Collection Data); and
- (iii) Table 12 (Ten Largest Real Property Taxpayers).

**Section 2. Modification of types of information and format of information permitted.** The School District reserves the right to modify from time to time the specific types of information provided, the time period within which the information must be filed, the format of the

presentation of such information, or any other requirements hereunder, in its sole discretion, so long as such modification or amendment would have been allowed under the Rule at the time of the undertaking. Any such modification will be done in a manner consistent with the Rule at the time of the undertaking, and will not substantially impair the interest of the holders of the Bonds.

**Section 3. Time period within which annual information must be filed.** The annual information and operating data described above in Section 1 must be provided within 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2018. Such information shall be made available, in addition to the MSRB, to the Paying Agent for the Bonds and to each holder of Bonds who makes request for such information. In the event that no such audited financial statement is available within 270 days of the close of the fiscal year, the School District shall provide an unaudited statement, and shall thereafter provide an audited financial statement for the same period as soon as available. Upon receipt of the audited financial statement, the School District will promptly file it.

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

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

- a. Principal and interest payment delinquencies;
- b. Non-payment related defaults, if material;
- c. Unscheduled draws on debt service reserves reflecting financial difficulties;
- d. Unscheduled draws on credit enhancements reflecting financial difficulties;
- e. Substitution of any credit or liquidity providers, or their failure to perform;
- f. Adverse tax opinions, IRS notices or material events affecting the tax status of the Bonds;
- g. Modifications to rights of holders of the Bonds, if material;
- h. Bond calls;
- i. Defeasances;
- j. Release, substitution, or sale of property securing repayment of the Bonds, if material;
- k. Rating changes;

l. Bankruptcy, insolvency, receivership or similar event of the School District (which is considered to occur when any of the following occur: appointment of a receiver, fiscal agent or similar officer for the School District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the School District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of any order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the School District);

m. Merger, consolidation or acquisition involving the School District, if material; or

n. Appointment of successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

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

**PHOENIXVILLE AREA SCHOOL DISTRICT**

By: \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

(SEAL)



**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX D**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Financial Statements**

**Phoenixville Area School District**

**June 30, 2017**

***Rainer***  
***& Company***

A Professional Corporation  
Certified Public Accountants

## TABLE OF CONTENTS

<u>Title</u>	<u>Page No.</u>
Independent Auditors' Report on Financial Statements	1-2
Management's Discussion and Analysis	3-13

### BASIC FINANCIAL STATEMENTS

***Government-Wide Financial Statements:***

Statement of Net Position (Deficit)	14
Statement of Activities	15

***Fund Financial Statements:***

Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Deficit)	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Net Position - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to the Financial Statements	25-45

***Required Supplementary Information:***

Budgetary Comparison Schedule - General Fund	46
Schedule of Post Employment Benefit Obligation Funding Progress	47
Schedule of the District's Proportionate Share of the Net Pension Liability	48
Schedule of the District's Pension Contributions	49



A Professional Corporation  
Certified Public Accountants  
INDEPENDENT AUDITORS' REPORT

Board of School Directors  
Phoenixville Area School District  
Phoenixville, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Phoenixville Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Phoenixville Public Library, which represent 1%, and 1%, respectively, of the assets and revenues of the Phoenixville Area School District. Total net position (deficit) for the District was (\$67,436,455) and total net position for the Phoenixville Public Library was \$1,474,860. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Phoenixville Public Library, is based solely on the report of the other auditors. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Phoenixville Area School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, budgetary comparison information on page 46, the schedule of post-employment benefit obligation funding progress on page 47, the schedule of the District's proportionate share of the net pension liability on page 48, and the schedule of District's pension contributions on page 49 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2018, on our consideration of Phoenixville 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 Phoenixville Area School District's internal control over financial reporting and compliance.



Rainer & Company

Newtown Square, PA  
January 4, 2018

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

The discussion and analysis of Phoenixville Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the transmittal letter, notes to the financial statements, and the financial statements.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Comparative information between the current year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

- In the budgeting process, the Board of School Directors was able to balance the budget with only a .27 mill increase (\$.27 per \$1,000 of assessed value) to the taxpayers.
- The District's unassigned fund balance for the General Fund is \$6,182,242 (6.87% of budgeted expenditures), which is just under the state maximum. The district also has \$2,690,140 nonspendable, committed, and assigned for future benefit increases (PSERS and Health Care). These factors are a major reason why the District has an Aa2 (Moody's) credit rating.
- The District's General Fund revenues increased by \$3,124,094. The increase was due to the increase in property taxes and state subsidies for retirement benefits. The state subsidies for retirement benefits increased \$916,803, or 20.9%, compared to the prior year.
- Compared to the prior year, the District's expenditures (General Fund) increased by \$3,683,544, an increase of 4.4%. The most significant increase is PSERS costs in the amount of \$1,915,726.
- Transfers to other funds and the library were \$1,304,796.

**OVERVIEW OF FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual basis and modified accrual basis of accounting, respectively.

***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.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

***Government-Wide Financial Statements (Continued)***

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 liabilities, 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.

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 Level 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 general services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business. For this District, this is 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 focused on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements.



**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

***Fund Level Financial Statements (Continued)***

- Fiduciary Funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

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

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

The District's total net position (deficit) was \$67,436,455 at June 30, 2017. This represents a decrease of \$6,692,312 over last year. The following table presents condensed financial information for the net position deficit of the District as of June 30, 2017 and June 30, 2016. The increase in total assets and deferred outflows of resources is due to the increase value in capital assets and implementation of the GASB 68 accounting standard that requires pension contributions and other costs determined by PSERS to be recognized as a deferred outflow.

**Schedule of Net Position (Deficit)**  
**For the Years Ended June 30, 2017 and 2016**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2017	2016	2017	2016	2017	2016
Current Assets	\$ 24,657,509	\$ 59,765,454	\$ 186,829	\$ 158,268	\$ 24,844,338	\$ 59,923,722
Capital Assets	160,419,924	127,988,175	406,050	451,188	160,825,974	128,439,363
Deferred Outflows of Resources	36,453,156	11,788,430	0	0	36,453,156	11,788,430
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>221,530,589</b>	<b>199,542,059</b>	<b>592,879</b>	<b>609,456</b>	<b>222,123,468</b>	<b>200,151,515</b>
Current Liabilities	16,797,960	23,518,049	202,776	205,463	17,000,736	23,723,512
Noncurrent Liabilities	271,418,187	236,521,146	0	0	271,418,187	236,521,146
Deferred Inflows of Resources	1,141,000	651,000	0	0	1,141,000	651,000
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>289,357,147</b>	<b>260,690,195</b>	<b>202,776</b>	<b>205,463</b>	<b>289,559,923</b>	<b>260,895,658</b>
<b>Net Position (Deficit):</b>						
Invested in Capital Assets, Net of Related Debt	20,867,156	19,330,772	406,050	451,188	21,273,206	19,781,960
Restricted for: Capital Projects	2,577,574	3,075,878	0	0	2,577,574	3,075,878
Unrestricted (Deficit)	(91,271,288)	(83,554,786)	(15,947)	(47,195)	(91,287,235)	(83,601,981)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (67,826,558)</b>	<b>\$ (61,148,136)</b>	<b>\$ 390,103</b>	<b>\$ 403,993</b>	<b>\$ (67,436,455)</b>	<b>\$ (60,744,143)</b>

The restricted net position in the amount of \$2,577,574 represents funds set aside to fund capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

The result of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The largest revenues are property taxes, local taxes and the state basic education subsidy.

The following table presents condensed financial information for the Statement of Activities in a different format to show total revenues for the year. Compared to the prior year, the District's total revenues increased by \$5,512,043. The net increase in revenue in fiscal year 2017 compared to fiscal year 2016 is primarily due to the increase receipts from business activities. Expenses increased by \$9,672,666, primarily due to increases in instruction expenses and student activities.

**Statement of Activities**  
**For the Years Ended June 30, 2017 and 2016**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES:						
Program Services:						
Charges for Services	\$ 302,977	\$ 372,631	\$ 792,288	\$ 795,346	\$ 1,095,265	\$ 1,167,977
Operating Grants and Contributions	13,268,675	11,317,039	665,486	602,653	13,934,161	11,919,692
General Revenues:						
Property Taxes	58,154,695	57,284,318	0	0	58,154,695	57,284,318
Other Taxes	10,255,683	7,654,697	0	0	10,255,683	7,654,697
Grants, Subsidies and Contributions Not Restricted	4,634,324	4,389,714	0	0	4,634,324	4,389,714
Investment Earnings	255,582	119,934	0	0	255,582	119,934
Other Revenue	538,538	819,873	0	0	538,538	819,873
TOTAL REVENUES	87,410,474	81,958,206	1,457,774	1,397,999	88,868,248	83,356,205
EXPENSES:						
Instruction	55,781,322	48,245,202	0	0	55,781,322	48,245,202
Support Services	7,134,383	6,669,836	0	0	7,134,383	6,669,836
Administration and Financial Support	8,075,307	7,638,073	0	0	8,075,307	7,638,073
Operation and Maintenance of Plant Services	7,058,562	6,589,549	0	0	7,058,562	6,589,549
Pupil Transportation	4,660,025	4,683,342	0	0	4,660,025	4,683,342
Student Activities	2,018,329	1,682,420	0	0	2,018,329	1,682,420
Community Services	51,036	56,960	0	0	51,036	56,960
Interest on Long-Term Debt	4,274,499	4,308,688	0	0	4,274,499	4,308,688
Unallocated Depreciation Expense	4,479,102	4,019,091	0	0	4,479,102	4,019,091
Food Services	0	0	1,472,691	1,439,429	1,472,691	1,439,429
TOTAL EXPENSES	93,532,565	83,893,161	1,472,691	1,439,429	95,005,256	85,332,590
Transfers In (Out)	(556,331)	(552,592)	1,027	8,175	(555,304)	(544,417)
CHANGE IN NET POSITION	\$ (6,678,422)	\$ (2,487,547)	\$ (13,890)	\$ (33,255)	\$ (6,692,312)	\$ (2,520,802)

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2017

**EXPENSES**

The following table presents condensed financial information on the expenses of the District by function. The table illustrates both the gross and net costs of services. Unrestricted grants, subsidies and contributions are deducted to reflect the amount needed to be funded by other revenue sources. The amount needed to be funded by other revenue sources increased by \$7,516,551, or 10.99% more than the prior year.

**Expense Analysis**  
**For the Years Ended June 30, 2017 and 2016**

**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Expenses - Governmental Activities:				
Instruction	\$ 55,781,322	\$ 48,245,202	\$ 44,758,365	\$ 38,421,193
Support Services	7,134,383	6,669,836	7,058,554	6,591,424
Administration and Financial Support	8,075,307	7,638,073	8,075,307	7,638,073
Operation and Maintenance of				
Plant Services	7,058,562	6,589,549	5,985,547	6,138,989
Pupil Transportation	4,660,025	4,683,342	3,363,047	3,460,898
Student Activities	2,018,329	1,682,420	1,915,456	1,568,175
Community Services	51,036	56,960	51,036	56,960
Interest on Long-Term Debt	4,274,499	4,308,688	4,274,499	4,308,688
Unallocated Depreciation Expense	4,479,102	4,019,091	4,479,102	4,019,091
Transfers	556,331	552,592	556,331	552,592
 TOTAL EXPENSES	 <u>\$ 94,088,896</u>	 <u>\$ 84,445,753</u>	 80,517,244	 72,756,083
 Less: Grants, Subsidies and Contributions Not Restricted			 (4,634,324)	 (4,389,714)
 AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			 <u>\$ 75,882,920</u>	 <u>\$ 68,366,369</u>

The following table reflects condensed financial activities of the food service program, the only business-type activity of the District.

**Business-Type Activities**  
**For the Years Ended June 30, 2017 and 2016**

**Business-Type Activities**

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Expenses - Business-Type Activities:				
Food Services	\$ 1,472,691	\$ 1,439,429	\$ 13,890	\$ 33,255

The net cost of services for the year ended June 30, 2017 reflects a net cost of \$13,890. The prior year net cost was \$33,255.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2017

**THE DISTRICT FUNDS**

**GENERAL FUND**

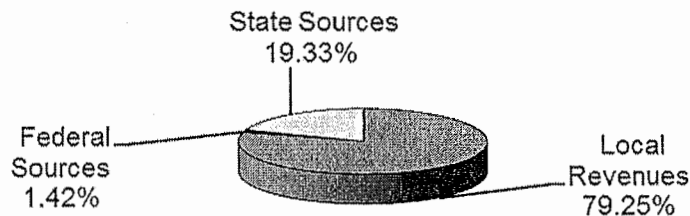
At June 30, 2017, the District reported an unassigned fund balance of \$5,663,617, which represents 6.5% of total budgeted expenditures. The School Board committed fund balance of \$843,000 for future PSERS obligations. In addition, the District assigned fund balance of \$1,847,140 is for future health claims and \$518,625 is a nonspendable balance related to prepaid expenses. The School Board of the Phoenixville Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. This philosophy was established in response to a healthy and growing economy within our District and accurate and timely forecasting which allows the District to constantly monitor economic trends within our community. This philosophy conforms to the Board's belief that the tax burden should be aligned with the current funding needs of the District.

**REVENUE**

Revenues which total \$86,276,014, increased \$3,124,094 or 3.76%, over the prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues:

	Revenue 2017	% of Total	Increase From 2016	Percentage Increase
Local Revenues	\$ 68,373,015	79.25%	\$ 927,848	1.38%
State Sources	16,678,871	19.33%	1,995,514	13.59%
Federal Sources	1,224,128	1.42%	200,732	19.61%
	<u>\$ 86,276,014</u>	<u>100.00%</u>	<u>\$ 3,124,094</u>	<u>3.76%</u>

**Distribution of Funding Sources**



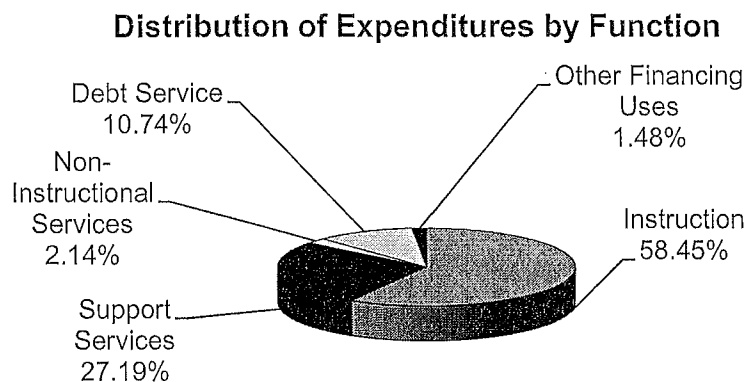
**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

The District balanced the budget by increasing the 2016-2017 tax rate to 29.16 mills from 28.89 mills. As a result of the increase in millage and changes in real estate assessments, revenues from current real estate taxes increased by \$862,734. Earned income tax collections increased by \$350,681 compared to the prior year. State Subsidies increased in total by \$1,995,514, with the state subsidy for basic education increasing \$244,610, sinking fund payments increasing \$42,739, and state share of retirement increasing \$916,803. Federal Subsidies increased in total by \$200,732 compared to the prior year.

**EXPENDITURES**

Expenditures and other financing uses, which total \$87,943,057 increased \$3,683,544 over 2016-2017 expenditures. The expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each are as follows:

	Expenditures 2017	% of Total	Increase (Decrease) From 2016	Variance with Final Budget - Positive (Negative)
Instruction	\$ 51,393,106	58.45%	\$ 3,949,748	\$ (1,537,272)
Support Services	23,915,769	27.19%	(50,143)	651,190
Non-Instructional Services	1,884,140	2.14%	187,018	(156,823)
Debt Service	9,445,246	10.74%	(122,893)	246,207
Other Financing Uses	1,304,796	1.48%	(280,186)	165,396
<b>TOTAL EXPENDITURES BY FUNCTION</b>	<b>\$ 87,943,057</b>	<b>100.00%</b>	<b>\$ 3,683,544</b>	<b>\$ (631,302)</b>



**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

**EXPENDITURES (Continued)**

The increase in expenditures from the prior fiscal year is due to changes in a variety of expenditures, primarily the District's cost of PSERS which increased in the amount of 1,915,726. Transfers to other funds and the library were \$1,304,796.

**CAPITAL PROJECTS FUND**

At June 30, 2017, the District reported a negative fund balance of \$1,197,261, which is a decrease of \$27,251,079 over last year. During 2016-2017 this fund expended \$35,848,861 in construction and capital improvement expenditures as well as \$258,274 in support services. Increases in this fund include new bond proceeds in the amount of \$8,710,000, investment earnings of \$87,555, and other revenues of \$58,729.

**CAPITAL RESERVE FUND**

At June 30, 2017, the District reported a fund balance of \$2,577,574, which is a decrease of \$498,304 from the prior year. Increases in this fund during 2016-2017 include a \$748,465 transfer from the general fund and investment earnings of \$18,886. The capital reserve fund expended \$1,265,635 in capital outlay expenditures.

**GENERAL FUND BUDGET**

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as required supplementary information to the financial statements.

The School District's formally adopted budget filed with the State includes estimated amounts for revenues and expenditures. In the Budgetary Comparison Schedule, the formally adopted budget reflects revenues in the amount of \$86,611,707 with actual revenues received in the amount of \$86,276,014, a negative variance in the amount of \$335,693. In addition, the formally adopted budget reflects expenditures (including other financing uses) in the amount of \$87,311,755 with the actual expenditures in the amount of \$87,943,057, a negative variance in the amount of \$631,302.

The Budgetary Reserve includes amounts that will be funded for operating contingencies, such as additional staffing, charter school tuition and the occurrence of events which are vaguely perceptible during the time of the budget process but which nonetheless may require expenditures by the District during the year of operation. If the expenditures materialize, funds are transferred from the Budgetary Reserve to the appropriate area.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2017

**CAPITAL ASSETS**

At June 30, 2017, the District had \$160,419,924 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$32,431,749 from last year.

The following schedule depicts the change in capital assets for the period July 1, 2016 through June 30, 2017.

	Beginning Balance	Increase (Decrease)	Ending Balance
<b><u>Governmental Activities:</u></b>			
Capital Assets:			
Land	\$ 504,962	\$ 0	\$ 504,962
Land Improvements	3,523,054	4,192,913	7,715,967
Buildings	128,415,835	10,437,429	138,853,264
Construction in Progress	32,593,995	21,128,424	53,722,419
Furniture and Equipment	18,536,630	1,152,085	19,688,715
TOTAL CAPITAL ASSETS	<u>183,574,476</u>	<u>36,910,851</u>	<u>220,485,327</u>
Accumulated Depreciation for:			
Land Improvements	2,513,935	317,222	2,831,157
Buildings	35,689,809	3,443,011	39,132,820
Furniture and Equipment	17,382,557	718,869	18,101,426
TOTAL ACCUMULATED DEPRECIATION	<u>55,586,301</u>	<u>4,479,102</u>	<u>60,065,403</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$127,988,175</u>	<u>\$ 32,431,749</u>	<u>\$160,419,924</u>
<b><u>Business-Type Activities:</u></b>			
Capital Assets:			
Furniture and Equipment	\$ 1,192,166	\$ 1,027	\$ 1,193,193
Accumulated Depreciation for:			
Furniture and Equipment	<u>740,978</u>	<u>46,165</u>	<u>787,143</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 451,188</u>	<u>\$ (45,138)</u>	<u>\$ 406,050</u>

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2017

**DEBT ADMINISTRATION**

As of June 30, 2017, the District had total long-term debt of \$138,355,507, an increase of \$3,644,286 over last year.

	Principal Outstanding July 1, 2016	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2017
General Obligation Note Series of 2000	\$ 3,530,000	\$ 640,000	\$ 0	\$ 2,890,000
General Obligation Bonds Series A of 2009	8,405,000	805,000	(5,930,000)	1,670,000
General Obligation Bonds Series of 2011	7,590,000	0	(7,590,000)	0
General Obligation Bonds Series A of 2011	5,870,000	0	(5,870,000)	0
General Obligation Bonds Series of 2012	10,645,000	1,330,000	0	9,315,000
General Obligation Bonds Series A of 2012	21,355,000	1,040,000	0	20,315,000
General Obligation Bonds Series of 2013	8,095,000	5,000	0	8,090,000
General Obligation Bonds Series A of 2013	9,625,000	5,000	0	9,620,000
General Obligation Note Series of 2014	1,329,000	1,329,000	0	0
General Obligation Bonds Series A of 2014	9,820,000	5,000	0	9,815,000
General Obligation Bonds Series A of 2015	9,960,000	5,000	0	9,955,000
General Obligation Bonds Series B of 2015	9,890,000	5,000	0	9,885,000
General Obligation Bonds Series C of 2015	7,730,000	5,000	0	7,725,000
General Obligation Bonds Series D of 2015	8,860,000	5,000	0	8,855,000
General Obligation Bonds Series of 2016	9,500,000	0	0	9,500,000
General Obligation Bonds Series A of 2016	0	0	7,630,000	7,630,000
General Obligation Bonds Series B of 2016	0	500,000	5,785,000	5,285,000
General Obligation Bonds Series of 2017	0	0	8,710,000	8,710,000
General Obligation Bonds Series A of 2017	0	0	6,275,000	6,275,000
	<u>132,204,000</u>	<u>5,679,000</u>	<u>9,010,000</u>	<u>135,535,000</u>
Less: Deferred Amounts: Issuance (Discounts) Premium	<u>2,507,221</u>	<u>(559,030)</u>	<u>(245,744)</u>	<u>2,820,507</u>
<b>LONG-TERM DEBT</b>	<u><b>\$ 134,711,221</b></u>	<u><b>\$ 5,119,970</b></u>	<u><b>\$ 8,764,256</b></u>	<u><b>\$ 138,355,507</b></u>



**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2017**

In December 2016, the Phoenixville Area School District Board of School Directors adopted a new strategic plan that has focused our purpose and resources as we prepare for the 21<sup>st</sup> Century. A team of people, including School Board members, administrators, teachers, and parents assembled to create the following five goals:

- Allocate Resources to Foster Excellence for all Students
- Employee Growth and Effectiveness
- Provide High Quality Instruction
- Encourage Effective, Consistent Communication and Collaboration
- Implement a Consistent and Reflective use of Data to Drive Change

The District updates the strategic plan in accordance with requirements by the Pennsylvania Department of Education.

**THE DISTRICT'S FUTURE**

The District is projected to continue to experience enrollment growth in the next five years. Total enrollment is projected to increase to over 4,000 students in the 2019-2020 school year. The total estimated increase of students over the next 5 year period is 400.

Based on current enrollment projections and recently constructed capacity in new schools, the District will not be required to add classroom space at the elementary level for 5 to 7 years. Classroom space will be required at the secondary level (Grades 6-12). A project to add 6 classrooms at the High School is expected to be completed prior to the start of the 18-19 school year.

In the near future, the District will not need to borrow additional funds to finance capital projects. The next period of substantial borrowing is estimated to be in the 2023-2025 period. The District has a conceptual plan for the future financings. As in the past, the District could use a series of interim financings as well as General Obligation Bonds.

**FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Chris Gehris, Director of Finance / Business Manager at the Phoenixville Area School District, 386 City Line Ave, Phoenixville, PA 19460, (484) 927-5000.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Statement of Net Position (Deficit)

June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Phoenixville Public Library
<b>ASSETS</b>				
Current:				
Cash and Cash Equivalents	\$ 389,726	\$ 66,720	\$ 456,446	\$ 277,734
Investments	15,064,142	0	15,064,142	0
Taxes Receivable, Net	5,035,875	0	5,035,875	0
Due from Other Governments	2,862,951	83,851	2,946,802	0
Other Receivables	786,190	0	786,190	3,205
Prepaid Expenses	518,625	0	518,625	13,398
Inventories	0	36,258	36,258	0
TOTAL CURRENT ASSETS	24,657,509	186,829	24,844,338	294,337
Capital Assets, Net of Accumulated Depreciation	160,419,924	406,050	160,825,974	1,244,230
TOTAL ASSETS	185,077,433	592,879	185,670,312	1,538,567
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Outflows of Resources: Pension Plan	36,453,156	0	36,453,156	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 221,530,589	\$ 592,879	\$ 222,123,468	\$ 1,538,567
<b>LIABILITIES</b>				
Current:				
Accounts Payable and Other Current Liabilities	\$ 4,256,996	\$ 197,181	\$ 4,454,177	\$ 63,707
Bonds and Notes Payable Due Within One Year	6,240,000	0	6,240,000	0
Accrued Salaries and Benefits	5,800,982	0	5,800,982	0
Unearned Revenues	6,214	5,595	11,809	0
Accrued Interest	493,768	0	493,768	0
TOTAL CURRENT LIABILITIES	16,797,960	202,776	17,000,736	63,707
Noncurrent:				
Bonds and Notes Payable Due After One Year	132,115,507	0	132,115,507	0
Net Pension Liability	136,975,000	0	136,975,000	0
Compensated Absences	1,690,864	0	1,690,864	0
Accrued Post-Employment Benefits	636,816	0	636,816	0
TOTAL NONCURRENT LIABILITIES	271,418,187	0	271,418,187	0
TOTAL LIABILITIES	288,216,147	202,776	288,418,923	63,707
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows of Resources: Pension Plan	1,141,000	0	1,141,000	0
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	289,357,147	202,776	289,559,923	63,707
<b>NET POSITION (DEFICIT)</b>				
Invested in Capital Assets, Net of Related Debt	20,867,156	406,050	21,273,206	1,244,230
Restricted for: Capital Projects	2,577,574	0	2,577,574	0
Unrestricted	(91,271,288)	(15,947)	(91,287,235)	230,630
TOTAL NET POSITION (DEFICIT)	(67,826,558)	390,103	(67,436,455)	1,474,860
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	\$ 221,530,589	\$ 592,879	\$ 222,123,468	\$ 1,538,567

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Statement of Activities  
For the Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Program Revenues					Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit Phoenixville Public Library
Governmental Activities:							
Instruction	\$ 55,781,322	\$ (49,386)	\$(10,973,571)	\$ (44,758,365)	\$ 0	\$ (44,758,365)	\$ 0
Instructional Student Support	7,134,383	0	(75,829)	(7,058,554)	0	(7,058,554)	0
Administrative and Financial Support Services	8,075,307	0	0	(8,075,307)	0	(8,075,307)	0
Operation and Maintenance of Plant Operation	7,058,562	(150,718)	(922,297)	(5,985,547)	0	(5,985,547)	0
Pupil Transportation	4,660,025	0	(1,296,978)	(3,363,047)	0	(3,363,047)	0
Student Activities	2,018,329	(102,873)	0	(1,915,456)	0	(1,915,456)	0
Community Services	51,036	0	0	(51,036)	0	(51,036)	0
Interest on Long-Term Debt	4,274,499	0	0	(4,274,499)	0	(4,274,499)	0
Unallocated Depreciation Expense	4,479,102	0	0	(4,479,102)	0	(4,479,102)	0
TOTAL GOVERNMENTAL ACTIVITIES	93,532,565	(302,977)	(13,268,675)	(79,960,913)	0	(79,960,913)	0
Business-Type Activities:							
Food Services	1,472,691	(792,288)	(665,486)	0	(14,917)	(14,917)	0
TOTAL PRIMARY GOVERNMENT	\$ 95,005,256	\$ (1,095,265)	\$(13,934,161)	\$ (79,960,913)	\$ (14,917)	\$ (79,975,830)	\$ 0
Component-Unit Activities:							
Phoenixville Public Library	\$ 1,053,741	\$ (153,166)	\$ (259,758)				(640,817)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net				\$ 58,154,695	0	58,154,695	0
Public Utility Realty, Earned Income and Realty Transfer Taxes,				10,255,683	0	10,255,683	0
Personal Taxes, Levied for General Purposes, Net				4,634,324	0	4,634,324	0
Grants, Subsidies and Contributions Not Restricted				255,582	0	255,582	1,196
Investment Earnings				538,538	0	538,538	10,264
Miscellaneous Income				73,838,822	0	73,838,822	11,460
TOTAL GENERAL REVENUES AND SPECIAL ITEMS							
Transfers				(556,331)	1,027	(555,304)	555,305
CHANGE IN NET POSITION (DEFICIT)				(6,678,422)	(13,890)	(6,692,312)	(74,052)
Net Position (Deficit) - July 1, 2016				(61,148,136)	403,993	(60,744,143)	1,548,912
NET POSITION (DEFICIT) - JUNE 30, 2017				\$ (67,826,558)	\$ 390,103	\$ (67,436,455)	\$ 1,474,860

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Balance Sheet  
Governmental Funds  
June 30, 2017

<u>ASSETS</u>	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
Cash and Cash Equivalents	\$ 389,726	\$ 0	\$ 0	\$ 389,726
Investments	8,432,281	3,409,117	3,222,744	15,064,142
Taxes Receivable	5,035,875	0	0	5,035,875
Due from Other Funds	4,065,533	0	0	4,065,533
Due from Other Governments	2,862,951	0	0	2,862,951
Other Receivables	182,461	603,729	0	786,190
Prepaid Expenses	518,625	0	0	518,625
<b>TOTAL ASSETS</b>	<b>\$ 21,487,452</b>	<b>\$ 4,012,846</b>	<b>\$ 3,222,744</b>	<b>\$ 28,723,042</b>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 2,369,051	\$ 1,770,369	\$ 19,375	\$ 4,158,795
Accrued Salaries and Benefits	5,899,183	0	0	5,899,183
Due to other funds	0	3,439,738	625,795	4,065,533
Unearned Revenues	6,214	0	0	6,214
<b>TOTAL LIABILITIES</b>	<b>8,274,448</b>	<b>5,210,107</b>	<b>645,170</b>	<b>14,129,725</b>
Deferred Inflows of Resources:				
Unavailable Revenue - Property Taxes	4,340,622	0	0	4,340,622
Fund Balances:				
Nonspendable	518,625	0	0	518,625
Committed	843,000	0	0	843,000
Assigned	1,847,140	(1,197,261)	2,577,574	3,227,453
Unassigned	5,663,617	0	0	5,663,617
<b>TOTAL FUND BALANCES</b>	<b>8,872,382</b>	<b>(1,197,261)</b>	<b>2,577,574</b>	<b>10,252,695</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 21,487,452</b>	<b>\$ 4,012,846</b>	<b>\$ 3,222,744</b>	<b>\$ 28,723,042</b>

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position (Deficit)**  
**June 30, 2017**

Total Fund Balances - Governmental Funds	\$ 10,252,695
--	---------------

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$220,485,327, and the accumulated depreciation is \$60,065,403.	160,419,924
--	-------------

Some of the District's revenues will be collected after year end and are, therefore, not reported in the funds statements.	4,340,622
--	-----------

Some of the District's liabilities are not due and payable in the current period and are, therefore, not reported in the fund statements:

Bonds and Notes Payable	\$ 138,355,507	
Accrued Interest on the Bonds	493,768	
Net Pension Liability	136,975,000	
Accrued Post-Employment Benefits	636,816	
Compensated Absences	1,690,864	(278,151,955)

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

Deferred Outflows of Resources - Pension Plan	\$ 36,453,156	
Deferred Inflows of Resources - Pension Plan	(1,141,000)	35,312,156

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ (67,826,558)
--	-----------------

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Statement of Revenues, Expenditures,

and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Total Governmental Funds
Revenues:					
Local Sources:					
Real Estate Taxes	\$ 58,154,695	\$ 0	\$ 0	\$ 0	\$ 58,154,695
Realty Transfer Tax	1,095,853	0	0	0	1,095,853
Earned Income Taxes	7,999,098	0	0	0	7,999,098
Other Taxes	191,422	0	0	0	191,422
Earnings from Investments	149,161	87,555	18,866	0	255,582
Other Local Revenues	782,786	58,729	0	0	841,515
State Sources	16,678,871	0	0	0	16,678,871
Federal Sources	1,224,128	0	0	0	1,224,128
TOTAL REVENUES	86,276,014	146,284	18,866	0	86,441,164
Expenditures:					
Instruction	51,393,106	0	0	0	51,393,106
Support Services	23,915,769	258,274	0	341,245	24,515,288
Non-Instructional Services	1,884,140	0	0	0	1,884,140
Capital Outlay	0	35,848,861	1,265,635	0	37,114,496
Debt Service	9,445,246	0	0	0	9,445,246
TOTAL EXPENDITURES	86,638,261	36,107,135	1,265,635	341,245	124,352,276
DEFICIENCY OF REVENUES OVER EXPENDITURES	(362,247)	(35,960,851)	(1,246,769)	(341,245)	(37,911,112)
Other Financing Sources (Uses):					
Bond Proceeds	0	8,710,000	0	19,690,000	28,400,000
Payment to Bond Refunding Escrow Agent	0	0	0	(19,908,013)	(19,908,013)
Bond Premium (Discount)	0	(228)	0	559,258	559,030
Interfund Transfers In	0	0	748,465	0	748,465
Interfund Transfers Out	(749,491)	0	0	0	(749,491)
Transfer - Component Unit	(555,305)	0	0	0	(555,305)
TOTAL OTHER FINANCING SOURCES (USES)	(1,304,796)	8,709,772	748,465	341,245	8,494,686
NET CHANGE IN FUND BALANCES	(1,667,043)	(27,251,079)	(498,304)	0	(29,416,426)
Fund Balances - July 1, 2016	10,539,425	26,053,818	3,075,878	0	39,669,121
FUND BALANCES - JUNE 30, 2017	\$ 8,872,382	\$ (1,197,261)	\$ 2,577,574	\$ 0	\$ 10,252,695

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
to the Statement of Activities  
For the Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ (29,416,426)
--	-----------------

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

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

Capital Outlay	\$ 36,910,851	
Depreciation Expense	<u>(4,479,102)</u>	32,431,749

Repayment of bond principal is an expenditure in the governmental  
 funds, but the repayment reduces long-term liabilities in the  
 statement of net position.

Bond Proceeds	\$ (28,400,000)	
Principal Payments on Long-Term Term Liabilities	25,069,000	
Bond Issuance Premium	<u>(313,288)</u>	(3,644,288)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	969,310
---	---------

Some of the 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.

Accrued Post-Employment Benefits	\$ (149,556)	
Accrued Interest on the Bonds	105,263	
Compensated Absences	<u>(37,200)</u>	(81,493)

Governmental funds report district pension contributions as expenditures.  
 However, in the Statement of Activities, the cost of pension benefits  
 earned net of employee contributions is reported as pension expense

District Pension Contributions	\$ 10,356,156	
Cost of Benefits Earned Net of Employee Contributions	<u>(17,293,430)</u>	<u>(6,937,274)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (6,678,422)</u>
---	-----------------------

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Statement of Net Position

Proprietary Funds

June 30, 2017

<u>ASSETS</u>	<u>Food Services</u>
Current:	
Cash and Cash Equivalents	\$ 66,720
Inventories	36,258
Due from Other Governments	83,851
TOTAL CURRENT ASSETS	<u>186,829</u>
Non-Current:	
Furniture and Equipment	1,193,193
Less: Accumulated Depreciation	<u>(787,143)</u>
TOTAL NON-CURRENT ASSETS	<u>406,050</u>
TOTAL ASSETS	<u>\$ 592,879</u>
<u>LIABILITIES</u>	
Current:	
Accounts Payable	\$ 197,181
Unearned Revenue	5,595
TOTAL LIABILITIES	<u>202,776</u>
<u>NET POSITION</u>	
Invested in Capital Assets	406,050
Unrestricted Deficit	<u>(15,947)</u>
TOTAL NET POSITION	<u>390,103</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 592,879</u>

The accompanying notes are an integral part of this statement.



**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Statement of Revenues, Expenses and  
Changes in Net Position -  
Proprietary Funds  
For the Year Ended June 30, 2017

	Food Services
Operating Revenues:	
Food Service Revenue	\$ 792,288
Operating Expenses:	
Professional and Contract Services	1,328,193
Donated Commodities Consumed	98,333
Depreciation	46,165
TOTAL OPERATING EXPENSES	1,472,691
OPERATING LOSS	(680,403)
Non-Operating Revenues:	
State Sources	35,003
Federal Sources	630,483
TOTAL NON-OPERATING REVENUES	665,486
LOSS BEFORE CONTRIBUTIONS	(14,917)
Contributions:	
Capital Contributions	1,027
CHANGE IN NET POSITION	(13,890)
Net Position - July 1, 2016	403,993
NET POSITION - JUNE 30, 2017	\$ 390,103

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2017

	Food Services
Cash Flows From Operating Activities:	
Cash Received from Users	\$ 792,094
Cash Payments to Suppliers for Goods and Services	(1,454,400)
NET CASH USED BY OPERATING ACTIVITIES	<u>(662,306)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	51,957
Federal Sources	610,013
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>661,970</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(336)
Cash and Cash Equivalents - July 1, 2016	<u>67,056</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2017	<u>\$ 66,720</u>
<u>Supplemental Schedule of Non-Cash Capital Financing Activities:</u>	
Contributed Capital - Equipment	<u>\$ 1,027</u>
<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</u>	
Operating Loss	\$ (680,403)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation	46,165
Changes in Assets and Liabilities:	
Inventories	(25,381)
Accounts Payable	(2,493)
Unearned Revenue	(194)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (662,306)</u>

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Statement of Fiduciary Net Position

For the Year Ended June 30, 2017

	Private- Purpose Trusts	Agency Funds
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 35,115	\$ 129,957
<u>LIABILITIES</u>		
Due to Student Groups	\$ 0	\$ 129,957
<u>NET POSITION</u>		
Restricted for Scholarships	\$ 35,115	
Unrestricted	0	
TOTAL NET POSITION	\$ 35,115	

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2017

	Private- Purpose Trusts
Additions:	
Contributions	\$ 10,200
Interest Income	109
TOTAL ADDITIONS	<u>10,309</u>
Deductions:	
Grants	<u>2,550</u>
CHANGE IN NET POSITION	7,759
Net Position - July 1, 2016	<u>27,356</u>
NET POSITION - JUNE 30, 2017	<u><u>\$ 35,115</u></u>

The accompanying notes are an integral part of this statement.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 1 - Summary of Significant Accounting Policies**

Phoenixville Area School District's (the District's) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies, established in GAAP and used by the District, are discussed below.

**A. Reporting Entity**

The School District is governed by an elected Board of Directors. Accounting principles generally accepted in the United States of America require that the financial statements present the School District and its component units, entities for which the School District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the School District's operations and so data from these units are required to be combined with data of the primary School District. Each discretely presented component unit, on the other hand, is required to be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the School District.

**Joint Ventures**

The School District participates in a joint venture with eleven other school districts of Chester County, Pennsylvania in the operation of a Center for Arts and Technology (the "Vo-Tech School"). The Vo-Tech School is governed by a joint board, which is composed of representative school board members of the participating schools. Each member pays a pro-rata share of the operating cost of the Vo-Tech School based on the number of students from the twelve member districts. The financial statements of the Vo-Tech School are available at the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

**Discretely Presented Component Unit:**

The Phoenixville Public Library serves the Phoenixville Area School District community. The Library's governing board approves its own budget. However, the Library is fiscally dependent upon the School District because it receives a substantial portion of its operating funds from them and its building is occupied rent-free from the School District. The Library is presented as a governmental fund type and has a June 30-year end. Copies of the Library's financial statements may be obtained at the Library administrative office.

**B. Basis of Presentation**

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only a portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

The School District reports the following major government funds:

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

Capital Projects & Capital Reserve Funds - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by enterprise operations. The Capital Reserve fund is used to account for proceeds of specific revenue sources that are assigned for expenditures of future capital projects.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The School District reports the following major proprietary funds:

Food Service Fund - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the School District's school cafeterias that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost of providing goods or services to the school population on a continuing basis will be recovered or financed primarily through user charges.

Additionally, the School District reports the following fund types:

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include private-purpose trust funds and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended in accordance with a trust agreement, and are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial and thus do not involve measurement of the result of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. School districts also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School District has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the Food Service Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For purposes of the statements of cash flows of proprietary funds, cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest funds consistent with sound business practices in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

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/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current 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."

All trade and property tax receivables are shown net of any allowance for uncollectibles. The allowance for uncollectibles was \$672,180 at June 30, 2017.

Inventories

Inventory in the Food Service Fund consists of government donated commodities which were valued at estimated fair market value at donation and valued at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets, which include property, plant and equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.



**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

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

Land Improvements	20 Years
Buildings	20 Years
Furniture and Equipment	5-20 Years

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in the government-wide and proprietary funds statement of net position. The District reports deferred outflows of resources for contributions made to the District's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the District's fiscal year. No deferred outflows of resources affect the governmental funds financial statements in the current fiscal year.

Deferred Inflows of Resources

The District's statements of net position and its governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the District's various statements of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absences are generally liquidated by the General Fund.

Sick Leave Pay - Sick leave is granted as appropriate with budgetary provisions being made annually for the estimated cost of substitute personnel. Employees who retire under the Pennsylvania School Employees Retirement System are paid at per diem rates ranging from \$20 to \$140 for each unused sick leave day. The District estimates its liability for unused sick days, including a provision for employer social security tax, at June 30, 2017 to be \$776,620.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Compensated Absences (Continued)

Accrued Severance Pay - Instructional, Secretarial, and Support personnel that have completed at least ten years of credited School District service and that meet retirement eligibility receive severance pay in the form of compensation. Instructional personnel receive \$110 for each year of service in the District. Secretarial and Support personnel receive \$125 for each year of service in the District. These payments are recorded as an expenditure in the period paid or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, including a provision for employer social security tax, amounts to \$670,893 at June 30, 2017.

Vacation and Personal Days - School District employees who are required to work on a twelve-month schedule are credited with vacation and personal days at rates which vary with length of service or job classification. If separation of service occurs in the year subsequent to earning, then the unused balance of what was earned in the prior year is paid at separation. The liability at June 30 represents vacation earned at that date that will be taken in the subsequent year. The liability payable, including a provision for employer social security tax, amounts to \$243,351 at June 30, 2017.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position is divided into three components:

Invested in Capital Assets, Net of Related Debt - Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Government-Wide and Proprietary Fund Net Position (Continued)

Restricted for: Capital Projects - Consists of the capital projects fund fund-balance that is restricted by the District for capital outlays.

Unrestricted - Consists of all other net position reported in this category.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

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

Restricted - Amounts that can be used only for specific purposes because of state or federal laws, or externally imposed by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors resolution.

Assigned - Amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Directors establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. The District's policy is to first apply expenditure toward restricted fund balances followed by committed fund balances and then to assigned fund balances before using unassigned fund balances.

The District will strive to maintain a total of assigned and unassigned fund balance for the general fund of not less than eight percent of the total budgeted general fund expenditures for each fiscal year, which is the maximum percentage that is currently allowed by Pennsylvania Law. The total fund balance for the general fund, consisting of nonspendable, restricted, committed, assigned and unassigned balances, may exceed eight percent.

NOTE 2 - Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 2 - Budgetary Information (Continued)**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 31, the School Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. Legal budgetary control is maintained by the School Board at the department level. Transfers between departments, whether between funds or within a fund or revisions that alter the total revenues and expenditures of any fund must be approved by the School Board.
5. Budgetary data are included in the School District's management information system and are employed as a management control device during the year for the general fund.
6. Budgets for the general fund are adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

**NOTE 3 - Deposits and Investments**

Deposits - At year end, the total carrying amount of the School District's checking, savings and money market deposits was \$899,252, and the corresponding bank balance was \$1,181,925.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for custodial credit risk requires that all deposits to be purchased in the name of the School District. The School District maintains cash balances at several financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation. In the normal course of business, the School District may have deposits that exceed insured balances.

Investments - Statutes authorize the District to invest in U.S. Government Agency bonds, time or share accounts or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan 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.

All funds in the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and Pennsylvania Treasurer's Investment Program are invested in accordance with Section 440.1 of the School Code. These funds operate and are authorized under the Intergovernmental Cooperation Act of 1972. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. Certificates of deposit or other fixed-term investments purchased by the School District through the Fund's administrator are purchased in the name of the School District.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 3 - Deposits and Investments (Continued)

Interest Rate Risk - The District's investment policy requires the mitigation of interest rate risk as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk - The District's investment policy requires the mitigation of credit risk to ensure safety of principle.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer, as long as it is in accordance with the requirements of its investment policy. The District's investments are concentrated in Certificates of Deposit 8%, US Government Issues 5%, and investment savings accounts 87%.

The School District's investments at June 30, 2017 consisted of the following:

	<u>Credit Rating</u>	<u>Fair Value</u>
<u>Pooled Investments:</u>		
Pennsylvania School District Liquid Asset Fund:		
General Fund Accounts	AAA	\$ 6,787,523
Capital Projects Fund Accounts	AAA	3,051,051
Capital Reserve Fund Accounts	AAA	3,222,744
TOTAL		<u>13,061,318</u>
Pennsylvania Local Government Investment Trust:		
General Fund Accounts	AAA	<u>42,436</u>
TOTAL POOLED INVESTMENTS		<u>13,103,754</u>
<u>Other Investments:</u>		
U.S. Government Securities:		
General Fund Accounts (Market Value \$343,604)	AAA	343,604
Capital Projects Fund Accounts (Market Value \$358,066)	AAA	358,066
Certificates of Deposit:		
General Fund Accounts	Not Applicable	<u>1,258,718</u>
TOTAL OTHER INVESTMENTS		<u>1,960,388</u>
TOTAL INVESTMENTS		<u>\$ 15,064,142</u>

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 4 - Taxes Receivable

	General	Other Funds	Total
Real Estate Taxes	\$ 2,047,371	\$ 0	\$ 2,047,371
Transfer Taxes	103,029	0	103,029
Earned Income Taxes	196,758	0	196,758
Personal Taxes	3,360,897	0	3,360,897
	<u>5,708,055</u>	<u>0</u>	<u>5,708,055</u>
Less: Allowance for Uncollectibles	<u>(672,180)</u>	<u>0</u>	<u>(672,180)</u>
<b>NET TAXES RECEIVABLE</b>	<u><b>\$ 5,035,875</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 5,035,875</b></u>

At the end of the current fiscal year, the District reported deferred inflows of resources, related to unavailable real estate and earned income tax revenue, in the amount of \$4,340,622 in the governmental funds. In addition, the District reported unearned revenue in the amount of \$6,214 in the governmental funds.

NOTE 5 - Interfund Receivables, Payables and Transfers

	Interfund Receivables	Interfund Payables
General Fund	\$ 4,065,533	\$ 0
Capital Projects Fund	0	3,439,738
Capital Reserve Fund	0	625,795
	<u>\$ 4,065,533</u>	<u>\$ 4,065,533</u>

Interfund transfers were as follows:

	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$ 1,304,796	\$ 0
Capital Reserve Fund	0	748,465
Proprietary Fund - Food Services (Contributed Capital)	0	1,027
Component Unit - Library	0	555,305
	<u>\$ 1,304,796</u>	<u>\$ 1,304,796</u>

The general fund makes interfund transfers to the capital projects fund for future capital outlay and to the component unit to provide appropriations to fund operations. The general fund also contributed equipment to the proprietary fund for the purpose of providing kitchen equipment in the form of contributed capital.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 6 - Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets:				
Land	\$ 504,962	\$ 0	\$ 0	\$ 504,962
Land Improvements	3,523,054	4,192,913	0	7,715,967
Buildings	128,415,835	10,437,429	0	138,853,264
Construction in Progress	32,593,995	21,128,424	0	53,722,419
Furniture and Equipment	18,536,630	1,152,085	0	19,688,715
TOTAL CAPITAL ASSETS	183,574,476	36,910,851	0	220,485,327
Accumulated Depreciation for:				
Land Improvements	2,513,935	317,222	0	2,831,157
Buildings	35,689,809	3,443,011	0	39,132,820
Furniture and Equipment	17,382,557	718,869	0	18,101,426
TOTAL ACCUMULATED DEPRECIATION	55,586,301	4,479,102	0	60,065,403
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 127,988,175</u>	<u>\$ 32,431,749</u>	<u>\$ 0</u>	<u>\$ 160,419,924</u>
Business-Type Activities:				
Capital Assets:				
Machinery and Equipment	\$ 1,192,166	\$ 1,027	\$ 0	\$ 1,193,193
Accumulated Depreciation for:				
Machinery and Equipment	740,978	46,165	0	787,143
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 451,188</u>	<u>\$ (45,138)</u>	<u>\$ 0</u>	<u>\$ 406,050</u>

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

Governmental Activities - Unallocated	\$ 4,479,102
Business-Type Activities	46,165
TOTAL DEPRECIATION EXPENSE	<u>\$ 4,525,267</u>

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2017

NOTE 7 - Long-Term Debt

	Principal Outstanding July 1, 2016	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2017
General Obligation Note Series of 2000	\$ 3,530,000	\$ 640,000	\$ 0	\$ 2,890,000
General Obligation Bonds Series A of 2009	8,405,000	805,000	(5,930,000)	1,670,000
General Obligation Bonds Series of 2011	7,590,000	0	(7,590,000)	0
General Obligation Bonds Series A of 2011	5,870,000	0	(5,870,000)	0
General Obligation Bonds Series of 2012	10,645,000	1,330,000	0	9,315,000
General Obligation Bonds Series A of 2012	21,355,000	1,040,000	0	20,315,000
General Obligation Bonds Series of 2013	8,095,000	5,000	0	8,090,000
General Obligation Bonds Series A of 2013	9,625,000	5,000	0	9,620,000
General Obligation Note Series of 2014	1,329,000	1,329,000	0	0
General Obligation Bonds Series A of 2014	9,820,000	5,000	0	9,815,000
General Obligation Bonds Series A of 2015	9,960,000	5,000	0	9,955,000
General Obligation Bonds Series B of 2015	9,890,000	5,000	0	9,885,000
General Obligation Bonds Series C of 2015	7,730,000	5,000	0	7,725,000
General Obligation Bonds Series D of 2015	8,860,000	5,000	0	8,855,000
General Obligation Bonds Series of 2016	9,500,000	0	0	9,500,000
General Obligation Bonds Series A of 2016	0	0	7,630,000	7,630,000
General Obligation Bonds Series B of 2016	0	500,000	5,785,000	5,285,000
General Obligation Bonds Series of 2017	0	0	8,710,000	8,710,000
General Obligation Bonds Series A of 2017	0	0	6,275,000	6,275,000
	<u>132,204,000</u>	<u>5,679,000</u>	<u>9,010,000</u>	<u>135,535,000</u>
Less: Deferred Amounts: Issuance Premium (Discounts)	<u>2,507,221</u>	<u>(559,030)</u>	<u>(245,744)</u>	<u>2,820,507</u>
<b>LONG-TERM DEBT</b>	<u><u>\$134,711,221</u></u>	<u><u>\$5,119,970</u></u>	<u><u>\$ 8,764,256</u></u>	<u><u>\$138,355,507</u></u>



**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 7 - Long-Term Debt (Continued)

	<u>Current Outstanding Principal</u>
General Obligation Note, Series of 2000. Original principal amount of \$10,000,000, maturing through September 30, 2020. The note was advanced by Emmaus General Authority under the Bond Pool Program. Interest is charged at a variable rate equal to the Weekly Rate of the underlying bonds plus .53%. The rate at June 30, 2017 was .91%.	\$ 2,890,000
General Obligation Bonds, Series A of 2009. Original principal amount of \$13,475,000, maturing through August 1, 2019, bearing interest from 2.0% to 3.5%.	1,670,000
General Obligation Bonds, Series of 2012. Original principal amount of \$15,275,000, maturing through May 15, 2024, bearing interest at 2.0% to 2.5%.	9,315,000
General Obligation Bonds, Series A of 2012. Original principal amount of \$25,400,000, maturing through May 15, 2031, bearing interest at 2.0% to 5.0%.	20,315,000
General Obligation Bonds, Series of 2013. Original principal amount of \$9,205,000, maturing through November 15, 2030, bearing interest at .25% to 4.0%.	8,090,000
General Obligation Bonds, Series A of 2013. Original principal amount of \$9,835,000, maturing through May 15, 2031, bearing interest at .30% to 4.0%.	9,620,000
General Obligation Bonds, Series A of 2014. Original principal amount of \$9,965,000, maturing through May 15, 2031, bearing interest at .50% to 5.0%.	9,815,000
General Obligation Bonds, Series A of 2015. Original principal amount of \$9,960,000, maturing through November 15, 2026, bearing interest at 1.0% to 3.0%.	9,955,000
General Obligation Bonds, Series B of 2015. Original principal amount of \$9,890,000, maturing through November 15, 2029, bearing interest at 1.75% to 3.0%.	9,885,000
General Obligation Bonds, Series C of 2015. Original principal amount of \$7,730,000, maturing through November 15, 2030, bearing interest at 2.0% to 2.8%.	7,725,000
General Obligation Bonds, Series D of 2015. Original principal amount of \$9,040,000, maturing through May 15, 2031, bearing interest at 2.0% to 4.0%.	8,855,000
General Obligation Bonds, Series of 2016. Original principal amount of \$9,500,000, maturing through November 15, 2032, bearing interest at 2.0% to 3.0%.	9,500,000
General Obligation Bonds, Series A of 2016. Original principal amount of \$7,630,000, maturing through November 15, 2030, bearing interest at 2.0% to 4.0%.	7,630,000
General Obligation Bonds, Series B of 2016. Original principal amount of \$5,870,000, maturing through August 15, 2024, bearing interest at 0.85% to 4.0%.	5,285,000
General Obligation Bonds, Series of 2017. Original principal amount of \$8,710,000, maturing through August 1, 2033, bearing interest at 2.0% to 3.5%.	8,710,000
General Obligation Bonds, Series A of 2017. Original principal amount of \$6,275,000, maturing through August 1, 2024, bearing interest at 1.45% to 2.35%.	6,275,000
<b>TOTAL</b>	<u><u>\$135,535,000</u></u>

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 7 - Long-Term Debt (Continued)

The annual requirements to amortize all debts outstanding as of June 30, 2017 are as follows:

<u>Year Ended:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 6,240,000	\$ 3,841,441	\$ 10,081,441
2019	6,730,000	3,661,544	10,391,544
2020	7,010,000	3,439,406	10,449,406
2021	7,240,000	3,238,719	10,478,719
2022	7,400,000	3,036,990	10,436,990
2023-2027	39,985,000	12,093,233	52,078,233
2028-2032	45,905,000	6,081,638	51,986,638
2033-2034	15,025,000	418,875	15,443,875
 TOTAL MATURITIES	 \$ 135,535,000	 \$35,811,846	 \$ 171,346,846

NOTE 8 - Changes in Other Long-Term Liabilities

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>
Accrued Vacation	\$ 186,220	\$ 57,131	\$ 0	\$ 243,351
Accrued Severance and Sick Days	1,467,445	0	19,932	1,447,513
 TOTAL	 \$ 1,653,665	 \$ 57,131	 \$ 19,932	 \$ 1,690,864

NOTE 9 - Deficit Net Position

A deficit of \$67,436,455 exists in the District-wide net position as of June 30, 2017 (the net position deficit for governmental activities as of June 30, 2017 is \$67,826,558, while the net position for business-type activities as of June 30, 2017 is \$390,103). The deficit is a result of the District's adoption of Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*.

NOTE 10 - Fund Balances - General Fund

Nonspendable:	
Prepaid Expenses	\$ 518,625
Committed:	
Future PSERS Obligations	843,000
Assigned:	
Future Health Claims	1,847,140
Unassigned	5,663,617
 TOTAL FUND BALANCES - GENERAL FUND	 \$ 8,872,382

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 11 - Property Tax

Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on July 1 and payable in the following periods:

Discount Period - July 1 to August 31 - 2% of Gross Levy  
 Flat Period - September 1 to October 31  
 Penalty Period - November 1 to Collection - 10% of Gross Levy  
 Lien Date - January 15

The following is a detail analysis of current year tax revenues:

Assessed Valuation, Adjusted by	
Authorized Revisions	\$ 2,045,166,774
Approved Tax Rate in Mills	29.160
GROSS LEVY	59,637,063
Plus Penalties Applied	127,382
Deductions:	
Discounts	(969,542)
Assessment Changes and Exonerations	(80,638)
State Property Tax Reduction Allocation	(1,300,103)
Taxes Receivable	(1,593,314)
NET CURRENT YEAR PROPERTY TAX REVENUE	\$ 56,039,402

NOTE 12 - Employee Retirement Systems and Pension Plans

Pensions

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

Plan Description

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

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2017

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

Benefits Provided

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

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

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

Member Contributions

1. Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
2. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
3. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.
4. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2017

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

Employer Contributions

The school districts' contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$10,356,156 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$136,975,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was .2764%, which was an increase of \$31,112,000 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$6,937,274. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 0	\$ 1,141,000
Changes in assumptions	4,945,000	0
Net difference between projected and actual investment		
Earnings	7,634,000	0
Changes in proportions	13,518,000	0
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	10,356,156	0
<b>TOTAL</b>	<b>\$ 36,453,156</b>	<b>\$ 1,141,000</b>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date of \$10,356,156 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ending June 30:

2017	\$ 5,979,000
2018	5,979,000
2019	7,333,000
2020	5,665,000
<b>TOTAL</b>	<b>\$ 24,956,000</b>

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

Changes in Actuarial Assumptions

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

Changes in the assumptions used in measurement of the Total Pension Liability beginning June 30, 2016

- The Investment Rate of Return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

The pension plan's policy in regard to 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	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	<u>100.0%</u>	

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)**

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's Proportionate Share of the Net Pension Liability	\$ 167,757,000	\$ 136,975,000	\$ 111,277,000

**Pension Plan Fiduciary Net Position**

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

**NOTE 13 - Other Post-Employment Benefits**

**Plan Description**

The School District provides health benefits, which includes medical, prescription, dental, and vision benefits, as a post-employment benefit to those retirees and their spouses, who meet the qualifying criteria. The health insurance plan is a single employer, defined benefit OPEB plan. Life insurance is also provided to specific groups.

The School District has the following groups of employees: teachers, administrators, confidentials, and support staff, both union and non-union. The eligibility and duration of post-retirement benefits for these groups are defined in either a Collective Bargaining Agreement or Compensation Agreement. Otherwise, they may still qualify for benefits subject to Acts 110 and 43.

The medical, prescription drug, dental and vision benefits are self-insured. Medical and prescription benefits are administered by Independence Blue Cross. The dental and vision benefits are through School Claims Services.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

Funding Policy

A retiree may elect to continue his/her current benefit coverage. The amount that the retiree must pay towards health benefits is defined in either a Collective Bargaining Agreement or Compensation Agreement. The School District is responsible for funding the balance of the benefits.

As of June 30, 2017, the School District has no segregated assets to fund this liability. It is the intention of the School District to pay claims as they are incurred.

Funding Progress

As of July 1, 2016, the date of the most recent actuarial report, the actuarial accrued liability for benefits was \$3,304,304, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$29,913,970 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11.05%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the most recent actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. Amortization is based on a level dollar, 30-year open period. Contributions rates for employees and the District are at varying rates. Additional information of the plan may be obtained at the District's administrative office.



**PHOENIXVILLE AREA SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2017

NOTE 13 - Other Post-Employment Benefits (Continued)

Annual OPEB Cost and NET OPEB Obligations

The District's annual other Post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's net OPEB obligation.

Annual OPEB Cost:

Amortization of Unfunded Actuarial	
Accrued Liability	\$ 380,754
Interest on Net OPEB Obligation	21,927
Funding Adjustment	(29,914)
ANNUAL OPEB COST	<u>\$ 372,767</u>

Net OPEB Obligation:

Normal OPEB Obligation July 1, 2016	\$ 487,260
OPEB Cost for the year ended June 30, 2017	372,767
Estimated Contributions for the year ended June 30, 2017	(223,211)
NET OPEB OBLIGATION	<u>\$ 636,816</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the year ended June 30, 2017 and the two preceding years were as follows:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2015	\$ 412,801	68.92%	\$ 390,819
June 30, 2016	411,570	76.57%	487,260
June 30, 2017	372,767	59.88%	636,816

NOTE 14 - Subsequent Events

The District has evaluated subsequent events through January 4, 2018, which represents the date the financial statements were available to be issued.

In July 2017, the District authorized the incurrence of two General Obligation Bonds in the principal amounts of \$3,970,000 and 9,065,000 for the purpose of refunding a portion of the General Obligation Bonds of Series A of 2012 and the General Obligation Bonds Series A of 2013.

**PHOENIXVILLE AREA SCHOOL DISTRICT**

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Revenues	\$ 70,936,275	\$ 70,936,275	\$ 68,373,015	\$ (2,563,260)
State Program Revenues	14,995,432	14,995,432	16,678,871	1,683,439
Federal Program Revenues	680,000	680,000	1,224,128	544,128
TOTAL REVENUES	86,611,707	86,611,707	86,276,014	(335,693)
Expenditures:				
Regular Programs	34,998,633	35,153,692	36,294,846	(1,141,154)
Special Programs	12,876,587	13,162,312	13,593,609	(431,297)
Vocational Programs	1,429,730	1,435,830	1,435,751	79
Other Instructional Programs	104,000	104,000	68,900	35,100
Pupil Personnel Services	4,108,648	3,982,648	3,982,520	128
Instructional Staff Services	1,862,885	1,894,309	1,893,412	897
Administrative Services	4,746,862	4,746,862	4,582,123	164,739
Pupil Health	766,584	766,584	611,308	155,276
Business Services	970,487	970,487	821,159	149,328
Operation and Maintenance of				
Plant Services	5,764,733	5,779,733	5,775,959	3,774
Student Transportation Services	4,546,266	4,546,266	4,474,106	72,160
Central and Other Support Services	2,297,730	1,880,070	1,775,182	104,888
Student Activities	1,592,317	1,667,317	1,833,104	(165,787)
Community Services	60,000	60,000	51,036	8,964
Debt Service	9,766,053	9,691,453	9,445,246	246,207
TOTAL EXPENDITURES	85,891,515	85,841,563	86,638,261	(796,698)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	720,192	770,144	(362,247)	(1,132,391)
Other Financing Sources (Uses):				
Interfund Transfers Out	(414,887)	(914,887)	(749,491)	165,396
Transfer - Component Unit	(555,305)	(555,305)	(555,305)	0
Budgetary Reserve	(500,000)	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	(1,470,192)	(1,470,192)	(1,304,796)	165,396
NET CHANGE IN FUND BALANCE	(750,000)	(700,048)	(1,667,043)	(966,995)
Fund Balance - July 1, 2016	11,069,885	10,806,640	10,539,425	(267,215)
FUND BALANCE - JUNE 30, 2017	\$ 10,319,885	\$ 10,106,592	\$ 8,872,382	\$ (1,234,210)

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Schedule of Post Employment Benefit Obligation Funding Progress**  
**For the Year Ended June 30, 2017**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2010	\$ 0	\$ 3,345,566	\$ 3,345,566	0%	\$ 28,208,311	11.86%
July 1, 2012	0	3,843,804	3,843,804	0%	27,884,395	13.78%
July 1, 2014	0	3,729,052	3,729,052	0%	27,949,208	13.34%
July 1, 2016	0	3,304,304	3,304,304	0%	29,913,970	11.05%

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2017**

<u>Year Ended</u>	<u>District's Proportion of the Net Pension Liability (Asset)</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>District's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2014	0.2411%	\$95,429,000	\$30,764,754	310.19%	-61.47%
June 30, 2015	0.2444%	105,863,000	31,447,923	336.63%	-57.76%
June 30, 2016	0.2764%	136,975,000	35,794,728	382.67%	-49.52%

**PHOENIXVILLE AREA SCHOOL DISTRICT**  
**Schedule of the District's Pension Contributions**  
**For the Year Ended June 30, 2017**

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Excess/ (Deficiency)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2013	\$3,627,762	(\$3,627,762)	\$0	\$29,804,494	12.17%
June 30, 2014	4,803,000	(4,803,000)	0	30,764,754	15.61%
June 30, 2015	6,311,000	(6,311,000)	0	31,447,923	20.07%
June 30, 2016	8,793,000	(8,793,000)	0	35,794,728	24.57%