

OFFICIAL STATEMENT

DAC Bond[®]

NEW ISSUE

BOOK-ENTRY ONLY

INSURED BOND RATING: Standard & Poor's, a division of McGraw Hill Companies:

"AA" (stable outlook) – Build America Mutual Assurance Company Insured ("BAM")

Moody's underlying: "A1"

See: "MISCELLANEOUS – Rating" herein.

In the opinion of Stevens & Lee, P.C., Forty Fort, Pennsylvania, Bond Counsel, assuming continuing compliance by the School District with certain covenants to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code") and any applicable regulations thereunder, interest on the Bonds is not includible in gross income under Section 103(a) of the Code and interest on the Bonds is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes. See "TAX MATTERS-Tax Exemption" in this Official Statement. Other provisions of the Code may affect the purchasers and holders of the Bonds. See "TAX MATTERS-Federal Tax Laws" herein for a brief description of these provisions.

Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall 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 of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds shall be subject to State and local taxation within the Commonwealth of Pennsylvania.



\$18,350,000
DALLAS SCHOOL DISTRICT
Luzerne County, Pennsylvania
General Obligation Bonds, Series of 2017

DATED: Date of Delivery

DUE: July 15, as shown on inside cover

INTEREST PAYABLE: January 15 and July 15

FIRST INTEREST PAYMENT: July 15, 2018

PAYMENT OF PRINCIPAL AND INTEREST: The General Obligation Bonds, Series of 2017 in the aggregate principal amount of \$18,350,000 (the "Bonds") of Dallas School District, Luzerne County, Pennsylvania (the "School District"), are issuable only in fully registered form, without coupons and when issued, will be registered in the name of CEDE & CO., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds will be recorded in book-entry only form in denominations of \$5,000, or any integral multiple thereof. Principal of and interest on the Bonds are payable directly to CEDE & CO. for redistribution to DTC Participants and in turn to Beneficial Owners as described herein. Interest will be payable on January 15 and July 15 of each year that the Bonds are outstanding, commencing on July 15, 2018. Purchasers will not receive physical delivery of certificates representing their ownership interests in the Bonds purchased. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal of and interest on such Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

USE OF FUNDS: The proceeds to be derived by the School District from the issuance and sale of the Bonds will be used towards (1) various capital improvement projects of the School District including the construction of a new intermediate school; and (2) payment of all costs and expenses incurred by the School District in connection with the issuance and sale of the Bonds. (See "USE OF PROCEEDS" herein.)

REDEMPTION: The Bonds may be subject to redemption prior to their stated maturity dates as provided herein.

SECURITY FOR THE BONDS: The Bonds are general obligation bonds of the School District, payable from its taxes and other available revenues which presently include ad valorem taxes which may be levied on all taxable property within the School District for the payment when due of the principal of and the interest on the Bonds, subject to certain limitations provided by law. (See "INTRODUCTORY STATEMENT", "SECURITY FOR THE BONDS", and "LEGISLATION AFFECTING LOCAL TAXING POWERS OF SCHOOL DISTRICTS – ACT 1 OF SPECIAL SESSION 2006 (TAXPAYER RELIEF ACT)" herein. The School District has covenanted that it will provide in its budget each year, and will duly and punctually pay or cause to be paid from the sinking funds established under the Resolution (as defined below) of the School District pursuant to which the Bonds are issued, or from any other of its available revenues or funds, the principal of and the interest on every Bond on the dates and at the place and in the manner stated in the Bonds. For such budgeting, appropriation and payment, the School District irrevocably has pledged its full faith, credit and all available taxing power, which taxing power may be limited as described herein under the caption, "LEGISLATION AFFECTING LOCAL TAXING POWERS OF SCHOOL DISTRICTS-ACT 1 OF SPECIAL SESSION 2006 (TAXPAYER RELIEF ACT)" herein.

AUTHORIZATION FOR ISSUANCE: The Bonds are being issued in accordance with the Local Government Unit Debt Act, as amended (the "Act") of the Commonwealth of Pennsylvania, as codified by the Act of December 19, 1996, P.L. 1158, No. 177, as amended, with the approval of the Pennsylvania Department of Community and Economic Development and pursuant to a Resolution duly adopted by the Board of School Directors of the School District on May 17, 2017 (the "Resolution").

BOND INSURANCE: The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. ("BAM" or the "INSURER"). (See "BOND INSURANCE" herein).



MATURITY SCHEDULE
(See inside cover)

CONTINUING DISCLOSURE UNDERTAKING: The School District has agreed to provide, or cause to be provided, in a timely manner, certain information in accordance with the requirements of Rule 15c2-12, as promulgated under the Securities Exchange Act of 1934, as amended and interpreted (the "Rule"). (See "CONTINUING DISCLOSURE UNDERTAKING" herein).

LEGAL APPROVALS: THE BONDS ARE OFFERED, SUBJECT TO PRIOR SALE, WITHDRAWAL OR MODIFICATION, WHEN, AS AND IF ISSUED AND RECEIVED BY THE UNDERWRITER AND SUBJECT TO THE LEGAL OPINION OF STEVENS & LEE, P.C., FORTY FORT, PENNSYLVANIA, BOND COUNSEL, TO BE FURNISHED UPON DELIVERY OF THE BONDS. CERTAIN LEGAL MATTERS WILL BE PASSED UPON BY VITO DELUCA, ESQUIRE, KINGSTON, PENNSYLVANIA, SOLICITOR TO THE SCHOOL DISTRICT. THE BONDS ARE EXPECTED TO BE DELIVERED IN NEW YORK, NEW YORK ON OR ABOUT OCTOBER 31, 2017.



DATED: SEPTEMBER 27, 2017.

\$18,350,000
DALLAS SCHOOL DISTRICT
Luzerne County, Pennsylvania
General Obligation Bonds, Series of 2017

DATED: Date of Delivery
DUE: July 15 (as shown below)

INTEREST PAYABLE: January 15 and July 15
FIRST INTEREST PAYMENT: July 15, 2018

MATURITY SCHEDULE

\$25,000 3.000% Term Bonds due July 15, 2022, Yield 1.600%, Price 106.320%

\$25,000 5.000% Term Bonds due July 15, 2027, Yield 2.350%⁽¹⁾, Price 119.668%⁽¹⁾

\$8,235,000 3.250% Term Bonds due July 15, 2037, Yield 3.450%, Price 97.153%

\$10,065,000 3.375% Term Bonds due July 15, 2041, Yield 3.550%, Price 97.207%

(1) Yield and Price to first optional call date of January 15, 2026.

**Dallas School District
Luzerne County, Pennsylvania**

BOARD OF SCHOOL DIRECTORS

Sherri Newell	President
Kristin Pitarra	Vice President
Lynn Wilson	Secretary*
Catherine Wega	Member
Larry Schuler	Member
Jeff Thomas	Member
Gary Youngblood	Member
James Gattuso	Member
Charles Preece	Member
Patrick Musto	Member

*Non-Member

DISTRICT SUPERINTENDENT

Dr. Thomas J. Duffy, Ed. D.

DISTRICT BUSINESS MANAGER

Grant Palfey

DISTRICT SOLICITOR

Vito Deluca, Esquire
Kingston, Pennsylvania

PAYING AGENT

U.S. Bank National Association
Philadelphia, Pennsylvania

BOND COUNSEL

Stevens & Lee, P.C.
Forty Fort, Pennsylvania

UNDERWRITER

PNC Capital Markets LLC
Wilkes-Barre, Pennsylvania

No dealer, broker or any other person has been authorized by the School District to give any information or make any representation, other than those contained in this Official Statement, and if given or made, such other information and representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of any 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. PNC Capital Markets LLC, Wilkes-Barre, Pennsylvania, as the Underwriter (the "Underwriter") has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guaranty the accuracy or completeness of such information, which has been obtained from either the School District or 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 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.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy".

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS OR THE RESOLUTION IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF CERTAIN STATES, IF ANY, IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The School District deems this Official Statement to be final for purpose of SEC Rule 15c2-12(b)(1).

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YEAR ENDED JUNE 30, 2016**

The Table of Contents does not list all of the subjects in this Official Statement and in all instances reference should be made to the complete Official Statement to determine the subjects set forth herein.

OFFICIAL STATEMENT
\$18,350,000
DALLAS SCHOOL DISTRICT
Luzerne County, Pennsylvania
General Obligation Bonds, Series of 2017

INTRODUCTION

This Official Statement of the Dallas School District, Luzerne County, Pennsylvania (the "School District"), provides certain information concerning the School District and its issuance of \$18,350,000 aggregate principal amount General Obligation Bonds, Series of 2017 (the "Bonds"). The School District is a third-class school district (school districts are classified as first, second, third or fourth class according to population) as determined by the Department of Education of the Commonwealth of Pennsylvania.

The Bonds are being issued pursuant to the provisions of a Resolution of the Board of School Directors of the School District duly adopted on May 17, 2017 (the "Resolution"), and in accordance with the Local Government Unit Debt Act, 53 Pa.C.S. Chapters 80-82, as amended (the "Debt Act"). Prior to delivery of the Bonds, the Pennsylvania Department of Community and Economic Development will approve the School District proceedings for the incurring of the nonelectoral debt relating to this project, evidencing that the outstanding nonelectoral and lease rental debt of the School District, including this issue, is within the limitations of the Debt Act. The Bonds are general obligations of the School District, and except as more fully described herein under the heading "LEGISLATION AFFECTING LOCAL TAXING POWERS OF SCHOOL DISTRICTS - ACT 1 OF SPECIAL SESSION 2006 (TAXPAYER RELIEF ACT)", the full faith, credit and taxing power of the School District have been pledged to pay the principal of and interest on the Bonds, which taxing power may be limited as described herein. See also Appendix B, the section entitled "INDEBTEDNESS - Borrowing Base," and the sections herein entitled "TAXING POWER" and "LEGISLATION AFFECTING LOCAL TAXING POWERS OF SCHOOL DISTRICTS - ACT 1 OF SPECIAL SESSION 2006 (TAXPAYER RELIEF ACT)". Copies of the Resolution may be inspected at the Administrative Office of the School District, Conyngham Avenue, Dallas, Pennsylvania 18612.

THE BONDS

Description

The Bonds are being issued in fully registered form and will be dated the initial date of delivery. The Bonds will bear interest payable on January 15 and July 15 of each year ("Interest Payment Dates"), commencing July 15, 2018, as set forth on the inside of the cover page hereof and are issuable in denominations of \$5,000 or any whole multiple thereof. The Bonds mature on the dates and in the amounts shown on the inside front cover page. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication of such Bonds, unless (a) such Bonds are registered and authenticated as of an Interest Payment Date, in which event such Bonds shall bear interest from said Interest Payment Date; or (b) the Bonds are registered and authenticated after a Regular Record Date (hereinafter defined) and before the next succeeding Interest Payment Date, in which event such Bonds shall bear interest from such Interest Payment Date, or (c) the Bonds are registered and authenticated on or prior to the Regular Record Date preceding July 15, 2018, in which event such Bonds shall bear interest from the dated date thereof, or (d) as shown by the records of the Paying Agent (hereinafter defined), interest on such Bonds shall be in default, in which event such Bonds shall bear interest from the date on which interest was last paid on such Bonds.

The principal of the Bonds will be paid to the Registered Owners thereof or registered assigns, when due, upon presentation and surrender thereof at either corporate trust office of the Paying Agent. The person in whose name any Bond is registered at the close of business on any Regular Record Date with respect to an Interest Payment Date (the "Registered Owner") will be entitled to receive the interest payable by check mailed to such Registered Owner on such Interest Payment Date notwithstanding the cancellation of such Bond upon any transfer or exchange thereof subsequent to such Regular Record Date and prior to such Interest Payment Date. Except in the case of defaulted interest, the term "Regular Record Date" with respect to an Interest Payment Date means the fifteenth day (whether or not a business day) next preceding each Interest Payment Date.

If the School District shall be in default in payment of interest due on any Interest Payment Date, such defaulted interest shall be payable to the person in whose name the Bonds are 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 the Bonds not less than ten (10) days preceding such special record date. Such notice shall be mailed to the persons in whose names the Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

Registration, Exchange, and Transfer

The Bonds may be transferred or exchanged only on the bond register (the "Bond Register") of the School District maintained at the principal corporate trust office of U.S. Bank National Association, Philadelphia, Pennsylvania, or its duly authorized successor (the "Registrar, Paying Agent and Sinking Fund Depository" hereinafter referred to as the "Paying Agent"). No transfer or exchange of any Bond will be valid unless made at such office and registered on the Bond Register.

Every Bond presented or surrendered for registration of transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form and with guaranty of signature satisfactory to the Paying Agent, duly executed by the Registered Owner thereof or his duly authorized agent or other legal representative. No service charge shall be made for any transfer or exchange of any Bond, but the School District may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds. The School District and the Paying Agent shall not be required: (i) to issue or 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 (15th) 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 given, or (ii) to register the transfer of or exchange any portion of any Bond selected for redemption, in whole or in part until after the date fixed for redemption. Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate.

The Bonds originally will be issued solely in book-entry form registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). So long as the Bonds are held in the book-entry only system, DTC or its nominee will be the registered owner of the Bonds for all purposes of the Ordinance, the Bonds and this Official Statement. For purposes of this Official Statement, DTC or its nominee, and its successors and assigns, are referred to as the "Securities Depository". See "BOOK-ENTRY ONLY SYSTEM," herein.

Optional Redemption

The Bonds maturing on and after July 15, 2026 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 January 15, 2026, at a price equal to 100% of the principal amount thereof to be redeemed together with interest accrued thereon to the date fixed for such optional redemption. In the event that less than all of the Bonds of a maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent.

Mandatory Redemption

The Bonds stated to mature on July 15, 2022, July 15, 2027, July 15, 2037 and July 15, 2041 are subject to mandatory redemption prior to maturity on July 15 of the years (at a price equal to the principal amount of the Bonds called for mandatory redemption plus accrued interest thereon to the date fixed for such mandatory redemption) and in the principal amounts as set forth in the following schedule, as drawn by lot by the Paying Agent:

The Bonds Stated to Mature on July 15, 2022

<u>Year</u>	<u>Amount</u>
2018	\$5,000
2019	\$5,000
2020	\$5,000
2021	\$5,000
2022	\$5,000 *
*at maturity	

**The Bonds Stated
to Mature on July 15, 2027**

<u>Year</u>	<u>Amount</u>
2023	\$5,000
2024	\$5,000
2025	\$5,000
2026	\$5,000
2027	\$5,000 *

**The Bonds Stated
to Mature on July 15, 2037**

<u>Year</u>	<u>Amount</u>
2028	\$5,000
2029	\$5,000
2030	\$5,000
2031	\$5,000
2032	\$5,000
2033	\$5,000
2034	\$5,000
2035	\$2,645,000
2036	\$2,735,000
2037	\$2,820,000 *

**The Bonds Stated
to Mature on July 15, 2041**

<u>Year</u>	<u>Amount</u>
2038	\$2,915,000
2039	\$3,020,000
2040	\$3,120,000
2041	\$1,010,000 *

*at maturity

Notice of Redemption

As provided more fully in the Resolution and in the form of the Bonds, notice of redemption of Bonds shall be given by mailing a copy of the redemption notice by first-class mail, postage prepaid, at least 30 days, but not more than 60 days prior to the redemption date to the Registered Owners of Bonds to be redeemed at the addresses which appear in the Bond Register. Neither failure to mail such notice nor any defect in the notice so mailed or in the mailing thereof with respect to any one Bond will affect the validity of the proceedings for the redemption of any other Bond. If the School District shall have duly given notice of redemption and shall have deposited with the Paying Agent funds for the payment of the redemption price of the Bonds so called for redemption with accrued interest thereon to the date fixed for redemption, interest on such Bonds will cease to accrue after such redemption date.

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.

Sinking Fund

A sinking fund for the Bonds (the "Sinking Fund") has been created under the Resolution and will be held by the Paying Agent as a separate fund segregated from all other funds of the School District.

The School District will deposit in the Sinking Fund, not later than the date when interest and/or principal is due on the Bonds, a sufficient sum so that on each principal and interest payment date the Sinking Fund will contain, together with any other available funds therein, sufficient money to pay in full, interest and principal then due on the Bonds.

The monies held in the Sinking Fund may be invested in securities or deposited as authorized by law. Such deposits and securities shall be in the name of the School District and subject to withdrawal or collection only by the Paying Agent to pay the debt service on the Bonds and such deposits and securities, together with the interest thereon, shall be part of the Sinking Fund.

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

Book-Entry Only System

The information under this heading 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.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds 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 certificate will be issued for the Bonds of each separate maturity and interest rate, in the aggregate principal amount of such maturity and interest rate, and will be deposited with DTC.

DTC the world’s largest 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 registered 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: 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.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each actual purchaser of each Bond (“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 Bonds 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s

records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, 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, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond 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 the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Disclaimer of Liability for Failures of DTC

The School District and the Underwriter cannot and do not give any assurances that DTC, the Direct or Indirect Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the owner of Bonds, or will distribute any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The School District and the Underwriter are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds, or any error or delay relating thereto.

SECURITY FOR THE BONDS

General

The Bonds are general obligations of the School District, payable from its taxes and other available revenues which presently include ad valorem taxes which may be levied on all taxable real property within the School District for the payment when due of the principal of and the interest on the Bonds. The School District has irrevocably pledged its full faith, credit and all available taxing power, subject to certain limitations provided by law (See **"LEGISLATION AFFECTING LOCAL TAXING POWERS OF SCHOOL DISTRICTS – ACT 1 OF SPECIAL SESSION 2006**

(TAXPAYER RELIEF ACT)” herein). Such pledge is specifically enforceable but is subject to the limitations of bankruptcy, insolvency, and other laws or equitable principles affecting creditor rights generally. Additionally, the School Code presently provides for withholding and direct application of Commonwealth subsidies in the event of the failure of a school district to pay debt service on its bonded indebtedness. (See **“Additional Security – Commonwealth Assistance and Section 633 of the School Code”** herein.)

No recourse shall be had for the payment of the principal of or the interest on any Bond, or for any claim based thereon or in the Resolution against any member of the Board of School Directors, or any officer or employee of the School District, past, present, or future or of any successor body, as such, either directly or through the School District or any such successor body, under any constitutional provision, statute or rule of law, or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, and all such liability of such members of the Board of School Directors, officers, or employees is released as a condition of and as consideration for the issuance of the Bonds.

Bondholder Rights and Remedies

The remedies available to holders of the Bonds upon any failure to pay the principal of, and the interest on the Bonds, when due, include those prescribed by the Act. If such failure should continue for a period of time in excess of thirty days, any holder of the Bonds will, subject to certain priorities, have the right to bring suit for the amount due in the Court of Common Pleas of Luzerne County, Pennsylvania. The Act provides that, if the School District defaults in the payment of the principal of, and the interest on the Bonds, and such default continues for a period of time in excess of thirty days, or if the School District fails to comply with any provision of either the Bonds or the Resolution, then the holders of 25% in aggregate principal amount of the Bonds may appoint a trustee to represent the holders of the Bonds.

Such trustee may, and upon written request of the holders of 25% in aggregate principal amount of the Bonds and being furnished with satisfactory indemnity, must take one or more of the following actions, which will preclude similar action by individual holders: (i) bring suit to enforce all rights of the holders, (ii) bring suit on the Bonds, (iii) petition the Court to levy the amount due plus estimated costs of collection as an assessment upon all taxable real estate and other property subject to ad valorem taxation in the School District (any such assessment will have the same priority and preference as to other liens or security interests as a lien for unpaid taxes), and (iv) by suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the holders, all as set forth more fully in the Act.

Enforcement of a claim for payment of the principal of, premium, if any or the interest on the Bonds may be subject to the provisions of the federal bankruptcy laws and to the provisions of other statutory laws enacted by the Congress or the General Assembly of the Commonwealth, or common law developed by competent courts having jurisdiction extending the time for payment or imposing other constraints upon enforcement insofar as such laws may be constitutionally applied.

BONDHOLDERS’ RISKS

The following information should be considered by prospective investors when evaluating the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks. Other factors which could result in a reduction of revenues available to the School District or increase in expenses and a corresponding reduction in the School District’s ability to fulfill the terms of its debt service obligations are discussed elsewhere in this Official Statement.

Factors Affecting the Financial Condition of the School District

Future economic and other factors may adversely affect the School District’s revenues and expenses, and consequently, the School District’s ability to meet its operating expenses. Among the factors that could have such adverse effects are: decreases in property tax collections; increases in unemployment in the communities surrounding the School District and in the Commonwealth; the School District’s potential inability to gain concessions from its unionized workers and the consequent impact on wage scales and operating costs of the School District; the School District’s potential inability to access capital markets; adverse changes to Commonwealth budgets and appropriations affecting crucial revenue streams from the Commonwealth to the School District; changes in demographic trends; and closure and disinvestment of key industries located in the School District. The School District cannot access or predict the ultimate effect of these factors on its operations or financial results or its ability to make payments on the Bonds.

Competing Commonwealth Intercept Authorities

Under current Pennsylvania law, Commonwealth subsidies to school districts can be intercepted for purposes other than to pay debt service then due and owing on school district debt. For example, Pennsylvania law authorizes the diversion of Commonwealth subsidies directly to charter schools if the relevant school district fails to transfer such subsidies to the charter school. Additionally, Commonwealth law authorizes the diversion of state subsidies to the PSERS if the school district fails to fully fund its annual contribution to the retirement system.

Pension Plans

Future changes in actuarial assumptions, benefit plan modifications or variations in actual experience from actuarial assumptions may result in additional unfunded liability (and amortization payments) or over funding (and credits), as the case may be, that are not currently reflected in reports prepared by the School District's actuary. See page 13 for a more detailed discussion of the School District's pension program.

Funding Adjustments or Failure to Appropriate

For fiscal year ending June 30, 2018, the School District's total Commonwealth appropriation is anticipated to be approximately \$11,947,358 and such appropriation represents approximately 32% of its total revenues.

The School District's appropriation share of Commonwealth funds is dependent upon the adoption by the Commonwealth of its annual budget. The budget for the Commonwealth's fiscal year beginning July 1, 2015 was not enacted in full until April of 2016. The Commonwealth's 2016-2017 budget was enacted by the General Assembly on July 7, 2016. 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. However, as of the date of this Official Statement, the General Assembly has not adopted any legislation to provide revenue that is needed to fund the 2017-18 budget. There can be no certainty of when, or if, such legislation will be adopted by the General Assembly and when, or if, it will be signed or vetoed by the Governor. Therefore, no assurance that future appropriations by the Commonwealth to the School District or to fund the Commonwealth's school district intercept programs will be made in any particular amount or on any particular time table, will be consistent with past levels of subsidy, or at levels needed or requested by the School District now or in the future. See **"SECURITY FOR THE BONDS –State Appropriation Intercept Agreement"** herein.

Pension Funding Pressure

The School District's annual pension contribution obligation is expected to continue to increase over the next several years. As PSERS' pension obligations rise, it should be expected that the annual amount payable by the School District to PSERS will also rise, potentially absorbing a greater share of available revenues and leaving less funding for student learning and negatively impacting the available sources of funds the School District has to pay debt service on the Bonds and its other indebtedness.

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, basic instructional subsidy, is allocated to all school districts based on student-based factors, such as: (1) number of children in the school district who live in poverty; (2) number of children enrolled in charter schools; and (3) number of children who are English language learners, as well as school district based factors such as: (1) wealth of the school district; (2) the school district's current tax effort; and (3) the ability of the school district to raise revenue.

Currently, the Commonwealth also provides a subsidy for certain capital projects of school districts. The rental and sinking fund reimbursement from the Commonwealth ("PlanCon Reimbursements") for such school projects is determined by the "Reimbursable Percentage" assigned to the school building project and by the school district's Market Value Aid Ratio ("MVAR") or Capital Account's Reimbursable Fraction (the "CARF"), whichever is higher. The School District's CARF for fiscal year 2018 is 44.5% and the MVAR is 51.37%. Most school building projects in the

Commonwealth are eligible for state reimbursement. Certain school building projects, such as school administration buildings, swimming pools and tracks are ineligible for reimbursement. A reimbursement percentage, based upon the rated pupil capacity of the new or renovated structure and certain other costs, is assigned to the building project. This reimbursement percentage multiplied by the school district MVAR or CARF, whichever is higher, determines the state share of the annual lease rental or debt service for that school year. The difference between the State share and 100% yields the local share of debt service or lease rental payments. As the school district's MVAR may change each year, so will the State share of such reimbursement.

However, on July 12, 2016, the Commonwealth enacted its 2016-17 budget without providing appropriations for PlanCon Reimbursements to any school district. Additionally, no PlanCon Reimbursement was provided to any school district in the 2015-2016 fiscal year.

Rather than appropriate the amounts committed to be paid from current state revenues, the General Assembly determined to issue bonds through the Commonwealth Financing Authority (the "CFA") to fund its 2015-16 and 2016-17 obligations. House Bill 1589 which included an authorization to issue up to \$2.5 billion of bonds to fund the obligation, became law despite the Governor's refusal to sign the legislation. The first CFA bond issue closed on October 31, 2016, and the proceeds will be used to fund the past due PlanCon reimbursements for the 2015-16 as well as the 2016-17 fiscal year reimbursements. In the 2016-2017 the School District received \$334,233 from the Commonwealth for reimbursement due for fiscal year 2015-2016. As of the date of this official statement, the Commonwealth is current in its provision of reimbursement payments.

Act 25 of 2016 provides that the Department of Education shall not accept or approve new building or reconstruction project applications, if received after May 15, 2016. Instead, such new projects would be subject to such new or revised system of Commonwealth support for construction or renovation as may be enacted into law in the future.

It should be noted that other legislation has been introduced from time to time by the Pennsylvania General Assembly that contains language that revises or even eliminates the PlanCon Reimbursement program for Pennsylvania school districts. As of the date of this Official Statement, none of these proposals have been signed into law. To the extent that any future legislation contains material changes to the PlanCon Reimbursement program as currently structured, the amount of PlanCon Reimbursement to the School District may be positively or negatively affected. A decrease in the reimbursement could materially impact the amount of local funds needed to be raised by the School District to pay debt service on its debt obligations.

The amount of Commonwealth aid to the School District in the future may change in the event amendments are made to state aid formulas or if changes occur in local conditions which may affect the level of state aid under current formulas.

Section 633 of the School Code, as amended, 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 at 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 are 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 ("Pennsylvania Act 150 School District Intercept Program"). These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

There can be no assurance that any payments made pursuant to this withholding provision will be made by the date on which such payments are due to Bondholders, and the effectiveness of the withholding provisions of the Pennsylvania Act 150 School District Intercept Program may be limited by the application of other withholding provisions contained in the School Code. These provisions may apply to withholding and paying over appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the rights of creditors.

For information regarding certain limitations placed on the taxing power of school districts in the Commonwealth of Pennsylvania, see “**LEGISLATION AFFECTING LOCAL TAXING POWERS AND AUTHORIZED DEBT LIMITS OF SCHOOL DISTRICTS**” herein.

Estimated Coverage of Future Debt Service Requirements by Commonwealth Appropriations

2017-18 Total Budgeted Annual Lease Rental and Debt Service.....	\$5,282,281
2017-18 Total Budgeted Commonwealth Appropriations	\$11,947,358
Estimated Coverage Factor	2.26x

Pennsylvania Budget Adoption and School District Intercept Payments Legislation

Over the past several years, the Commonwealth has, from time to time, started its fiscal year without a fully adopted state budget. In the Commonwealth’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 Commonwealth 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 the Governor signed into law an additional tax and revenue package, known as Act 85 of 2016 that was needed to balance the 2016-17 Commonwealth 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. However, as of the date of this Official Statement, the General Assembly has not adopted any legislation that provides the revenue needed to fund the 2017-18 budget. There can be no certainty of when, or if, such legislation will be adopted by the General Assembly and when, or if, it will be signed or vetoed by the Governor.

During a 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 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**” below.

Act 85 of 2016

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) (“Act 85 of 2016”), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code (“Fiscal Code”). Act 85 of 2016 adds to the Fiscal Code Article 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.

Act 85 is recent legislation. It is not clear how the Commonwealth Department of Education would apply Act 85 in the event of a budget impasse. In particular, in the absence of a fiscal agent agreement or other obligation to make a sinking fund deposit more than 10 days in advance of a debt service payment date, timely payment of the impasse intercept by the Commonwealth Department of Education relies on the required advance notice by the Secretary of Education to legislative officials. As of the date of this Official Statement, no precedent or process for this advance notice has been established. 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.

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), which rating was affirmed on June 26, 2017. An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the

Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$500.3 million, \$68.8 million and \$431.5 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

BOND INSURANCE RISK FACTORS

In the event of a default in the payment of principal or interest with respect to the Bonds when any such payment becomes due, any owner of the Bonds shall have a claim under the applicable Policy for such payment. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or resulting from any default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, any payments to be made pursuant to the Policy will be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. In addition, the Policy does not insure the payment of any redemption premium. To the extent that any payment of principal and interest by the Authority in connection with a mandatory or optional prepayment of the Bonds is recovered by the Authority from any owner of the Bonds as a voidable preference under applicable bankruptcy law, such payments are covered by the Policy. However, such payments will be made by the Insurer at such times and in such amounts as such payments would have been due had there been no such prepayment by the Authority, unless that Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, any default in the payment of principal and interest would not accelerate the obligations of the Bond Insurer without its consent. The Bond Insurer may direct, and must consent to, any remedies that the Paying Agent exercises following such a default.

In the event that the Bond Insurer is unable to make any payments of principal and interest as such payments become due under the Policy, the Bonds would be payable solely from the moneys received by the Paying Agent pursuant to the Resolution. In the event that the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors that could change over time. No assurance is given that the long-term ratings of the Insurer and, therefore, the ratings on the Bonds insured will not be subject to downgrade, and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See **"BOND RATINGS"** herein.

The obligations of the Insurer under the Policy are general obligations of the Insurer and, upon an event of default by the Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to the insolvency of entities like the Insurer.

Neither the School District nor the Underwriter intends to make an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer will be given. Thus, when making an investment decision, potential investors should carefully consider the ability of the School District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of their investment. See **"MUNICIPAL BOND INSURANCE"** herein for further information provided by BAM with respect to itself and the Policy, which includes further instructions for obtaining financial information concerning BAM.

USE OF PROCEEDS

The proceeds to be derived by the School District from the issuance and sale of the Bonds will be used towards (1) various capital improvement projects of the School District including the construction of a new intermediate school; and (2) payment of all costs and expenses incurred by the School District in connection with the issuance and sale of the Bonds.

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Sources and Uses of Funds

It is estimated that monies from this issue will be provided, and applied, substantially in accordance with the following table:

Sources:

Par Amount of Bonds	\$18,350,000.00
Net Original Issue Discount	<u>(509,068.90)</u>
Total Sources	\$17,840,931.10

Uses:

Capital Project Deposit	\$17,600,000.00
Costs of Issuance ⁽¹⁾	<u>240,931.10</u>
Total Uses	\$17,840,931.10

(1) Includes document printing fees, insurance premium, Paying Agent fee, legal fees, rating fee, underwriter's discount and other miscellaneous financing costs.

THE SCHOOL DISTRICT

Introduction

The School District is comprised of one borough and three townships in Luzerne County, Pennsylvania. The municipalities included are: Dallas Borough, Dallas Township, Franklin Township and Kingston Township. The School District covers 46.1 square miles.

The School District is located in the north central section of Luzerne County, about ten miles northwest of the City of Wilkes-Barre. The area comprised of these four municipalities is known locally as the Back Mountain, and through the years has gained the reputation of a prestigious residential area. The Frances Slocum State Park is also located within the School District. The 2010 population of the School District, according to the U.S. Census Bureau, was 20,554.

Organization and Administration

Pursuant to the provisions of the School District Reorganization Law (Act 299 of the General Assembly of the Commonwealth of Pennsylvania, approved August 8, 1963, P.L. 564), the School Districts in the Commonwealth were required to reorganize effective July 1, 1966. On July 1, 1966, Dallas School District was reorganized as a single, third-class district. The former school districts of Dallas Borough, Dallas Township, Kingston Township and Franklin Township formed the Dallas School District. Dallas School District assumed all rights and obligations of the former school districts.

The School District is governed by a board of nine School Directors who are citizens of the School District and who are elected for four-year terms on a staggered basis. The daily operations and management of the School District are performed by a central administrative staff which is led by the District Superintendent and the Business Manager who are appointed by the Board of School Directors.

School District Employment

The following table shows School District employment for fiscal 2017:

<u>Type of Personnel</u>	<u>Number</u>
Instructional	171
Administrative	10
Support	<u>117</u>
Total	298

School District Employee Relations

The teachers, nurses and guidance counselors of the School District are represented by the Dallas Education Association (DEA) which is part of the Pennsylvania State Education Association. The DEA currently represents all 171 full-time professionals. The present 5-year contract expired August 31, 2015 and is currently in negotiations. On November 14, 2016 the DEA teachers walked out on strike against the District. The teachers returned to work on December 19, 2016. Negotiations have continued to this date. On August 28, 2017, the DEA notified the District that unless a successor agreement is reached on or before September 22, 2017, the DEA will commence a strike against the District.

The maintenance and clerical personnel are represented by the Dallas School Education Support Personnel Association. The current contract expired on June 30, 2016 and is currently in negotiation.

Aides and other personnel are not represented by any bargaining unit.

School District Pension Program

School districts in the Commonwealth participate in The Public School Employees' Retirement System ("PSERS"), a State administered, governmental cost sharing multiple employer defined benefit plan established under legislative authority. Established by the Authority of Public School Employees' Retirement Code (Act 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535), contributions are made by each of three parties: the School District, the Commonwealth, and the employee. The plan provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. All of the School District's full-time employees, part-time employees salaried over eighty days, and hourly employees working more than 500 hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

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

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

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

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

Employer Contributions

The School District's 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.

Recent School District payments have been as follows:

2010-11	\$764,715
2011-12	1,245,359
2012-13	1,798,573
2013-14	2,420,130
2014-15	2,902,782
2015-16	3,498,264
2016-17	2,223,810 *
2017-18	2,567,399 **

SOURCE: School District Officials.

*Estimated

**Budgeted

The School District is current in all payments. Future projections are indicating increases in the contribution rate for future years. The PSERS complete report is available on its website on the Internet: www.psers.state.pa.us.

Employer (School District and Commonwealth) Contributions

Both the employer and the Commonwealth are responsible for paying a portion of the employer contribution rate. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. Non-school entities and the Commonwealth each contribute one-half of the total employer rate. Total employer contributions for FY 2016/2017 are estimated at \$4.1 billion.

The employer contribution rate-setting methodology is set forth in statute. The chart below shows the employer contribution rate history over the past 11 years and the certified rate for 2016/2017 fiscal year.

HISTORY OF EMPLOYER CONTRIBUTION RATES

<u>Fiscal Year</u>	<u>Employer Normal Cost %</u>	<u>Employer Pension Rate %</u>	<u>Health Care Contributions %</u>	<u>Total Employer Contribution %</u>
2004-05	7.48	4.00	0.23	4.23
2006-07	6.62	5.72	0.74	6.46
2007-08	6.68	6.44	0.69	7.13
2008-09	6.68	4.00	0.76	4.76
2009-10	7.35	4.00	0.78	4.78
2010-11	8.08	5.00	0.64	5.64
2011-12	8.12	8.00	0.65	8.65
2012-13	8.66	11.50	0.86	12.36
2013-14	8.57	16.00	0.93	16.93
2014-15	8.46	20.50	0.90	21.40
2015-16	8.38	25.00	0.84	25.84
2016-17	8.31	29.20	0.83	30.03

PSERS is the 20th largest state-sponsored defined benefit pension fund in the nation. PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. As of June 30, 2016, PSERS had net assets of approximately \$50.2 billion and a membership of approximately 260,000 active school employees and nearly 225,000 retirees.

As of June 30, 2016, the date of the most recent actuarial valuation, the PSERS plan was 57.3% funded, with an unfunded actuarial liability of \$42.7 billion. For more information, visit the PSERS website at: www.psers.state.pa.us.

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

At June 30, 2016, the District reported a liability of \$49,986,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the District's proportion was 0.1154 percent, which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following represents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
District's proportionate share of the net pension liability	\$61,612,000	\$49,986,000	\$40,214,000

Pension Plan Fiduciary Net Position

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

The financial statements in the PSERS, Comprehensive Annual Financial Report ("CAFR") are presented in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides for specific early retirement incentive payments and healthcare benefits until age 65 to all retirees. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report for any public employee retirement system or any other entity.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014, 2015 and 2016 are as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$1,019,934	62.97%	\$1,376,681
2015	\$1,003,069	64.77%	\$1,730,029
2016	\$849,430	68.03%	\$2,001,601
2017*	\$845,961	60.83%	\$2,332,888

SOURCE: School District Officials.

*Projected

The following table shows the components of the District's 2016 OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual OPEB cost (expense)	\$849,430
Contributions made	<u>(577,858)</u>
Increase in net OPEB obligation	271,572
Net OPEB obligation – beginning of year	<u>1,730,029</u>
Net OPEB obligation – end of year	\$2,001,601

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$6,700,723, all of which was unfunded. The covered payroll (annual payroll of active employees was \$12,482,489 and the ratio of the unfunded actuarial accrued liability ("UAAL") to the covered payroll was 53.68%.

Actuarial valuations involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District 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 supplementary information following the note to the financial statements, presents information about whether the actuarial value of 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 substantive benefits (the benefits as understood by the District and employees) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and retirees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.00% discount rate and an annual healthcare cost trend rate of 10.00%, decreasing 1.00% each year to an ultimate rate of 5.00% in 2018 and later. The UAAL is being amortized based on the level dollar, 15-year closed period.

School Building Facilities

The School District currently operates two elementary school buildings, a middle school and a senior high school building. Administrative offices are located within these facilities. A summary of the existing facilities is provided below:

<u>Facility</u>	<u>Year Built</u>	<u>Addition/ Renovation</u>	<u>Grades Housed</u>	<u>Pupil Capacity</u>	<u>2017-2018 Enrollment</u>
Elementary:					
Dallas Elementary	1979	1979/1989/1999	K-5	725	560
Wycalis Elementary	1999	1999	K-5	750	542
Secondary:					
Dallas Middle School	1969	2003	6-8	923	623
Dallas Senior High School	2011	2011	9-12	1,302	<u>895</u>
TOTAL SCHOOL DISTRICT:					2,620

Student Transportation

The School District contracts with one individual contractor to provide transportation for students. This contractor operates a total of 25 buses, mini-school buses and vans. The Superintendent and Business Manager are in charge of transportation and oversee the entire transportation operation.

TAXING POWER

As a school district of the third class, the School District is empowered to impose the following taxes under the School Code, as amended; PROVIDED, HOWEVER, THAT THE SCHOOL DISTRICT'S TAXING POWER HAS BEEN MODIFIED AND IS LIMITED BY THE PROVISIONS OF THE TAXPAYER RELIEF ACT, ACT 1 OF SPECIAL SESSION 2006. SEE "RECENT LEGISLATION AFFECTING LOCAL TAXING POWERS AND AUTHORIZED DEBT LIMITS OF SCHOOL DISTRICTS" BELOW.

1. An annual ad valorem tax on all taxable real estate, not to exceed 25 mills, for general school purposes.
2. An annual ad valorem tax on all taxable real estate, without limit, to provide for the payment of:
 - (a) Salaries and increments of the teaching and supervising staff provided for in the School Code.
 - (b) Rentals due any municipal authority, nonprofit corporation, or the State Public School Building Authority.
 - (c) Principal of and interest on any indebtedness incurred pursuant to the Debt Act.
 - (d) The amortization of a bond issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident over 18 years of age, not to exceed \$5.00.

Under Act No. 511 of 1965, P.L. 1257, ("Act 511"), additional taxes may be levied by the School District, as a school district of the third class, provided that the aggregate amount of taxes imposed under Act 511 does not exceed 1-1/5%, or 12 mills, of the market valuation of the real estate in the School District, as determined by the State Tax Equalization Board.

Section 8 of Act 511 provides for the following limits on taxes levied under this Act:

1. Per Capita.....\$10.00

2. Gross receipts of wholesalers 1 mill
3. Gross receipts of retailers and restaurants 1-1/2 mills
4. Wages, salaries, commissions and other earned income
of individual residents 1%
5. Retail sales of tangible personal property..... 2%
6. Sales involving transfer of title of real property 1%
7. Amusement admissions (except motion pictures)..... 10%
8. Flat rate occupational privilege taxes not using millage
or percentage as a basis\$10.00

The taxes provided for in Section 8 of Act 511 are subject to apportionment with municipalities co-extensive with the School District where such municipalities exercise the right to such apportionment.

2017 Real Estate Tax Rates

The following table lists the current real estate tax rates (expressed in mills) levied on the residents of the School District:

	<u>Real Estate Millage</u>	<u>Per Capita (School Code)</u>	<u>Per Capita</u>	<u>Earned Income</u>	<u>Local Services Tax</u>	<u>Real Estate Transfer</u>	<u>Mechanical Devices</u>
Dallas School District	13.1381	\$10.00	-	1.000	52.00	.500	-
Dallas Borough	1.3100	-	-0-	.500	47.00	.500	50.00
Dallas Township	1.2500	-	-0-	.500	47.00	.500	-0-
Franklin Township	.6350	-	-0-	.500	5.00	.500	-0-
Kingston Township	.0010	-	-0-	1.050	42.00	.500	-0-

SOURCE: newpa.com

Real Estate Valuation

A trend in market values of real property in the School District as reported by the Pennsylvania State Tax Equalization Board is shown hereunder:

<u>Year</u>	<u>Market Valuation</u>
2016	\$1,341,116,366
2015	1,276,891,302
2014	1,272,718,851
2013	1,222,565,597
2012	1,219,017,423
2011	1,162,246,443
2010	1,161,554,591

Realty Tax Collection Procedure

The School District mails tax notices to taxpayers on or about July 15 of each year. The tax collection process of the School District allows taxpayers remitting in full prior to September 15 of each year a 2% discount on their tax obligations. Remittances between September 16 and November 16 are paid at par and taxpayers remitting between November 16 and December 31 pay a 10% penalty. After December 31, all unpaid real estate taxes are turned over to the Luzerne County Tax Claim Bureau for collection and delinquent collections are remitted monthly to the School District.

Ten Largest Real Estate Taxpayers in the School District

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Current Assessed Valuation</u>
Bayard LLC	Nursing Home	\$6,068,700
Finlay LLC	Real Estate Development	5,350,000
100 CTE Drive LLC	Communication Services	5,311,700
Hass & Banta	Real Estate Development	4,633,400
C&N Dining LLC	Real Estate Development	4,277,000
Irem Temple	County Club	3,644,800
Offset Paperback Manufacturing	Book Publisher	3,442,100
Personal Residence	Residence	2,300,000
Personal Residence	Residence	2,293,400
Reishtein Allen, Et al.	Real Estate Development	<u>2,263,700</u>
		\$39,584,800

The ten largest taxpayers represent approximately 2.43% of the total 2017 assessed value of the School District of \$1,631,527,900.

SOURCE: School District Officials.

LEGISLATION AFFECTING LOCAL TAXING POWERS OF SCHOOL DISTRICTS

ACT 1 OF SPECIAL SESSION 2006 (TAXPAYER RELIEF ACT)

Pennsylvania Act No. 1 of the Special Session of 2006 (“Act 1”), which became effective June 27, 2006 provides, inter alia, that a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions provided therein. On June 30, 2011, the General Assembly adopted legislation (Act 25 of 2011) amending Act 1 eliminating several exceptions previously permitted under Act 1 and providing for the rescission of certain prior approved referendum exceptions for disaster/emergency costs, implementation of a court order, school construction and non-academic school construction (effective after the last payment of principal and interest on debt incurred to finance same). (Act 1 together with Act 25 of 2011 will hereinafter be referred to as the “Taxpayer Relief Act”).

The exceptions available under the Taxpayer Relief Act are summarized as follows:

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, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004 (the School District did not so elect); to pay interest and principal on any indebtedness approved by the voters at referendum;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances;
3. to make payments into the State Public School Employees’ Retirement System when the increase in the actual dollar amount of estimated payments between the current year and the upcoming year is greater than the Index.

A school district intending to utilize the foregoing exceptions is entitled to apply to the Pennsylvania Department of Education (“PDE”) for approval thereof, if and to the extent a tax increase greater than the Index is needed in any particular fiscal year. The Taxpayer Relief Act provides that PDE shall approve a school district’s request if a review of the data demonstrates that the school district qualifies for the exception sought and the sum of the dollar amounts of all exceptions for which the school district qualifies is not more than what is necessary to balance the budget after giving effect to the revenue to be raised by the allowable increase under the Index. There can be no assurance, however, that approval will be given by PDE to utilize a referendum exception in any future fiscal year or years.

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 the court or PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

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

Payments of debt service on the Bonds described in this Official Statement are NOT eligible for exception from the provisions of Act 1. Therefore, the debt service on the Bonds is subject to tax rate limitations of Act 1, as amended.

THE FOREGOING SUMMARY OF THE TAXPAYER RELIEF ACT IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF THE TAXPAYER RELIEF ACT NOR A LEGAL INTERPRETATION OF ANY PROVISION OF THE TAXPAYER RELIEF ACT, AND A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF THE TAXPAYER RELIEF ACT AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

State Law Authorizing Replacement of the School District's Occupation Tax with an Increase in the Local Earned Income Tax

Act 24 of 2001 of the Commonwealth, which became law on June 22, 2001, authorizes a Board of School Directors to schedule a public hearing and conduct a ballot referendum on replacing the school district's occupation tax with an increase in the local earned income tax. Currently, school districts in Pennsylvania share a 1.0% tax on the annual amount of residents' wages and other earned income (which excludes unearned or investment income), with the resident municipality. Under Act 24, this tax could be increased by the percentage necessary to generate revenue equal to what was collected during the preceding year on the occupation tax. The occupation tax is a flat amount for all employed individuals, or assessed by various trade, occupation and professional titles, regardless of income. The restructured tax is designed to be revenue neutral to school districts.

The School District has taken no action to implement Act 24.

Legislation Limiting Unreserved Fund Balances

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

Total Budgeted Expenditures	Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures
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	9.2%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

SCHOOL DISTRICT FINANCES

Budgeting

The Pennsylvania Public School Code of 1949 (Section 687) requires the Board of School Directors to adopt an annual budget. This requires estimation of all expected revenues and expenditures by the District administration. The Pennsylvania Department of Education assists school districts in their estimates of all state subsidies expected to be received, by providing estimates of both the median local school district tax effort in equalized mills and the median school district instructional expenditures per weighted average daily membership (see "Commonwealth Aid to School Districts in Pennsylvania"). This data can be used in order to help establish reasonable estimates of the amount of state revenues for which the School District might qualify.

After the budget is prepared it must be made available for public inspection. The Board of the School Directors must adopt the Budget before the beginning of each fiscal year and levy the taxes necessary to meet the revenues budgeted.

Basis of Accounting

The basis of accounting for the general fund follows the modified accrual basis of accounting under which expenditures other than interest on long-term debt are recorded when incurred and revenues are recorded as received in cash unless susceptible to accrual.

For the fiscal year ending each June 30, the School District is required to have audits completed by a certified public accountant or an independent public accountant, selected by the School District. The following tables reflect the four-year history of the financial position of the School District.

DALLAS SCHOOL DISTRICT General Fund Balance Sheet – Governmental Funds

As of June 30,	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>ASSETS</u>				
Cash	\$5,720,690	\$5,520,198	\$5,016,295	\$5,912,029
Taxes Receivable	1,505,532	1,598,151	1,853,913	1,416,734
Due From Other Government	435,841	865,460	923,348	1,385,947
Other Receivables	-0	-0-	17,329	17,329
Inventories	<u>35,730</u>	<u>17,332</u>	<u>-0-</u>	<u>-0-</u>
TOTAL ASSETS	\$7,697,793	\$8,001,141	\$7,810,885	\$8,732,039
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$547,195	\$520,107	\$396,666	\$378,391
Due to Other Funds	32,223	104,188	90,307	309,732
Accrued Salaries, payroll withholdings and benefits	3,774,371	3,836,626	4,246,284	4,381,013
Deferred Revenues	-0-	-0-	-0-	-0-
Other liabilities	<u>56,108</u>	<u>56,244</u>	<u>56,386</u>	<u>56,527</u>
TOTAL LIABILITIES	\$4,409,897	\$4,517,165	\$4,789,643	\$5,125,663
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable revenues – property taxes	725,112	912,893	992,363	733,239
<u>FUND BALANCES (DEFICIT)</u>				
Nonspendable Inventories	\$35,730	\$17,332	\$17,329	\$17,329
Restricted to Capital Projects	-0-	-0-	68	237,714
Committed to Capital projects	1,598,178	1,501,117	1,386,501	1,386,501
Unassigned (deficit)	<u>928,876</u>	<u>1,052,634</u>	<u>625,049</u>	<u>1,231,593</u>
TOTAL FUND BALANCES (DEFICIT)	\$2,562,784	\$2,571,083	\$2,028,879	\$2,873,137
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$7,697,793</u>	<u>\$8,001,141</u>	<u>\$7,810,885</u>	<u>\$8,732,039</u>

Source: School District Audited Financial Statements

DALLAS SCHOOL DISTRICT
Statement of General Fund Revenues and Expenditures
As of June 30,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Revenues</u>				
Local Sources	\$22,323,522	\$22,436,251	\$23,092,387	\$23,987,685
State Sources	9,556,133	10,035,422	10,785,510	11,114,423
Federal Sources	<u>1,097,824</u>	<u>1,035,679</u>	<u>994,442</u>	<u>1,040,502</u>
TOTAL REVENUES	\$32,977,479	\$33,507,352	\$34,872,339	\$36,142,610
<u>Expenditures</u>				
Instruction	\$17,991,594	\$18,731,905	\$20,362,637	\$20,549,444
Support Services	8,930,484	9,619,410	9,666,739	9,551,359
Operation of Non-Instructional Services	663,747	629,021	781,905	785,482
Facilities acquisition, construction and improvement services	-0-	89,894	100	19,500
Debt service	<u>4,531,965</u>	<u>4,296,398</u>	<u>4,488,048</u>	<u>4,322,504</u>
TOTAL EXPENDITURES	\$32,117,790	\$33,366,628	\$35,299,429	\$35,228,289
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	859,689	140,724	(427,090)	914,321
<u>Other Financing Sources (Uses)</u>				
Debt Refinancing	-0-	-0-	-0-	-0-
Refund of Prior Year Expenditures	(2,577)	(35,364)	(498)	(32,777)
Transfers out	(566,265)	(97,061)	(114,616)	(275,000)
Budgetary Reserve	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$(568,842)	\$(132,425)	\$(115,114)	\$(307,777)
NET CHANGE IN FUND BALANCES	290,847	8,299	(542,204)	606,544
FUND BALANCE – JULY 1,	\$2,271,937	\$2,562,784	\$2,571,083	\$2,028,879
FUND BALANCE – JUNE 30,	<u>\$2,562,784</u>	<u>\$2,571,083</u>	<u>\$2,028,879</u>	<u>\$2,635,423</u>

Source: School District Audited Financial Statements.

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**DALLAS SCHOOL DISTRICT
General Fund Budget**

	<u>2016-2017</u>	<u>2017-2018</u>
<u>Revenues & Other Financing Sources</u>		
Local Sources	\$24,239,945	\$24,989,687
State Sources	11,491,897	11,947,358
Federal Sources	<u>754,000</u>	<u>796,000</u>
TOTAL REVENUES & OTHER FINANCING SOURCES	\$36,485,842	\$37,733,045
<u>Expenditures & Other Financing Uses</u>		
Instruction	\$20,819,422	\$21,078,019
Support Services	9,505,443	10,241,591
Non-Instructional Services	<u>771,855</u>	<u>817,279</u>
Total Estimated Expenditures	\$31,096,720	\$32,136,889
<u>Other Expenditures and Financing Uses</u>		
Debt Service	\$4,794,161	\$5,282,281
Interfund Transfers - Out	250,000	-0-
Debt Service Interest	-0-	-0-
Budgetary Reserve	<u>875,000</u>	<u>875,000</u>
TOTAL EXPENDITURES, & FINANCING USES	\$37,015,881	\$38,294,170
 ENDING COMMITTED, ASSIGNED & UNASSIGNED FUND BALANCE	 \$2,196,107	 \$2,074,298
 BUDGETARY RESERVE	 <u>875,000</u>	 <u>875,000</u>
 TOTAL ESTIMATED ENDING COMMITTED, ASSIGNED & UNASSIGNED FUND BALANCE	 \$3,071,107	 \$2,949,298

SOURCE: Final General Fund Budget filed with Pennsylvania Department of Education.

INDEBTEDNESS

The borrowing capacity of the School District is regulated by the Debt Act which establishes the debt limits for local government units, including school districts and municipalities. Under the Debt Act, the School District may incur debt in an unlimited amount when such debt is approved by a majority of the School District's voters at a municipal, general or primary election. Nonelectoral debt, or debt not approved by the School District's electorate, together with lease rental debt may not exceed 225% (\$79,663,961) of the School District's borrowing base, as that term is defined in the Debt Act, after the deduction of any authorized exclusions from nonelectoral, or lease rental, debt, as calculated below.

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Borrowing Base

	<u>Fiscal Year Ended June 30</u>		
	<u>2015</u>	<u>2016</u>	<u>2017*</u>
Gross Revenues	\$34,872,339	\$36,142,610	\$36,485,842
Less: Statutory Deductions			
a. Subsidy Rental and Sinking Fund Payments	606,479	289,497	386,201
b. Revenues Pledged for Self-Liquidating Debt	-0-	-0-	-0-
c. Interest on Sinking Funds	-0-	-0-	-0-
d. Grants and Gifts for Special Federally Funded Projects	-0-	-0-	-0-
e. Disposition of Assets and Nonrecurring Items	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Deductions	606,479	289,497	386,401
Total Revenues	\$34,265,860	\$35,853,113	\$36,099,641
Total Revenues for Three Years			\$106,218,614
Borrowing Base-Average Total Revenue for Three Year Period			\$35,406,205
Net Nonelectoral Borrowing Capacity			\$79,663,961
LESS: Net Direct Debt (including this issue)			<u>\$72,691,669</u>
Remaining Borrowing Capacity			\$6,972,291
*Unaudited.			

Debt Ratio Calculations

	<u>Amount Outstanding</u>
Net Direct Debt Per Capita	\$3,199.93
Net Direct Debt to Market Value	4.90%
Net Direct & Overlapping Debt Per Capita	\$4,175.30
Net Direct & Overlapping Debt to Market Value	6.40%

2010 Population: 20,554

STEB Market Value (2016): \$1,341,116,366

Assessed Value (2016-17): \$1,631,527,900

Future Financing

The School District does not anticipate the need to borrow additional funds for additional capital projects in the next 3 years.

LEGAL MATTERS

Pending Legal Proceedings

At closing, the President of the Board of School Directors and the Solicitor will certify that there is no presently pending litigation that would materially and adversely affect the validity of the Bonds or that questions the proceedings for the issuance thereof.

Legal Opinions

The issuance and delivery of the Bonds are subject to the approving legal opinion of Stevens & Lee, P.C., Forty Fort, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon by Vito Deluca, Esquire, Kingston, Pennsylvania, Solicitor to the School District.

Bond Counsel states in its opinion issued with respect to the Bonds that (1) they have not been engaged to verify nor have they independently verified, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement, dated September 21, 2017 (the “Preliminary Official Statement”), or the Official Statement, dated September 27, 2017 (the “Official Statement”), or otherwise used in connection with the offer and sale of the Bonds or set forth in or delivered by the School District officials, and (ii) Bond Counsel expresses no opinion with respect to whether the School District in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, have made any untrue statement of a material fact necessary in order to make any statement made therein not misleading.

RELATED PARTIES

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Service Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has other banking and financial relationships with the School District.

TAX MATTERS

Federal Tax Laws

Numerous provisions of the Internal Revenue Code of 1986, as amended, (the “Code”), affect the issuers of state and local government unit bonds, such as the School District, and impair or restrict the ability of the School District to finance projects on a tax exempt basis. Failure on the part of the School District to comply with any one or more of such provisions of the Code, or any regulations under the Code, could render interest on the Bonds includable in the gross income of the owners thereof for purposes of federal income tax retroactively to the date of issuance of the Bonds. Among these provisions are more restrictive rules relating to: (a) investment of funds treated as proceeds of the Bonds; (b) the advance refunding of tax-exempt bonds; and (c) the use of proceeds of the Bonds to benefit private activities. In addition, under the Code, the School District is required to file an information return with respect to the Bonds and, if applicable, to “rebate” to the federal government certain arbitrage profits on an ongoing basis throughout the term of the issue constituting the Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

Other provisions of the Code affect the purchasers and holders of certain state and local government bonds such as the Bonds. Prospective purchasers of the Bonds should be aware that: (i) Section 265 of the Code denies a deduction for interest on (a) indebtedness incurred or continued to purchase or carry certain state or local government bonds, such as the Bonds, or, (b) in the case of a financial institution, that portion of a financial institution’s interest expense allocated to interest on certain state or local government bonds, such as the Bonds, unless the issuer of the state or local government bonds designates the bonds as “qualified tax-exempt obligations” for the purpose and effect contemplated by Section 265(b)(3)(B) of the Code (the School District has not designated the Bonds as “qualified tax exempt obligations” under Section 265(b)(3)(B) of the Code, as such phrase is defined in the Code); (ii) certain corporations must take into account interest on certain state and local government bonds, such as the Bonds, in determining adjusted earnings for the purpose of computing the alternative minimum tax imposed on such corporations; (iii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest and amounts treated as such on certain state or local government bonds such as the Bonds; (iv) interest on certain state or local government bonds, such as 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; (v) if a Subchapter S corporation has passive investment income (which passive investment income will include interest on state and local government bonds such as the Bonds) exceeding 25% of such Subchapter S corporation’s gross receipts and if such Subchapter S corporation has Subchapter “C” earnings and profits, then interest income derived from state and local government bonds, such as the Bonds, may be subject to federal income tax under Section 1375 of the Code; and (vi) 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 certain state or local government bonds such as the Bonds.

Proposals to alter or eliminate the exclusion of interest on tax-exempt bonds from gross income for some or all taxpayers have been made in the past and may be made again in the future. Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING ANY PROPOSED FEDERAL TAX LEGISLATION.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service or the courts.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds.

Tax Exemption

In the opinion of Bond Counsel, assuming continuing compliance by the School District with certain certifications and agreements relating to the use of Bond proceeds and covenants to comply with provisions of the Code and any applicable regulations thereunder, now or hereafter enacted, interest on the Bonds is not includable in the gross income of the holders of the Bonds under Section 103(a) of the Code and interest on the Bonds is not an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes, except as described above under the caption "Federal Tax Laws" above. The tax exemption described above does not extend to corporations required to include interest on the Bonds in the calculation of alternative minimum taxable income within the meaning provided in Section 56 of the Code. Other provisions of the Code will affect certain purchasers and holders of the Bonds. See "Federal Tax Laws" above.

The School District has not designated and determined under and for purposes of Section 265(b)(3)(B) of the Code to qualify each of the Bonds as a "qualified tax-exempt obligation" as such phrase is defined in the Code.

In the opinion of Bond Counsel under the laws of the Commonwealth, the Bonds and interest on the Bonds shall at all times be free from taxation for State and local purposes within the Commonwealth, but this exemption shall not extend to gift, estate, succession or inheritance taxes or any other taxes not levied 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 the Bonds are subject to State and local taxation within the Commonwealth of Pennsylvania.

The School District will issue its certificate regarding the facts, estimates and circumstances in existence on the date of delivery of the Bonds and regarding the anticipated use of the proceeds of the Bonds. The School District will certify that, on the basis of the facts, estimates and circumstances in existence on the date of issuance of the Bonds, the School District does not reasonably expect to use the proceeds of the Bonds in a manner that would cause the Bonds to be or become "arbitrage bonds" or "private activity bonds" as those terms are defined in Section 148 and Section 141 of the Code.

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE. ALL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

Regulations, Future Legislation

Under the provisions of the Code the Treasury Department is authorized and empowered to promulgate regulations implementing the intent of Congress under the Code, which could affect the tax-exemption and/or tax consequences of holding tax-exempt obligations, such as the Bonds. In addition, legislation may be introduced and enacted in the future which could change the provisions of the Code relating to tax-exempt bonds of a state or local government unit, such as the School District, or the taxability of interest in general.

No representation is made or can be made by the School District, or any other party associated with the issuance of the Bonds as to whether or not any other legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the Bonds to federal income taxes or so as to otherwise affect the marketability or market value of the Bonds.

EACH PURCHASER OF THE TAX EXEMPT BONDS SHOULD CONSULT HIS OR HER OWN TAX ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED FEDERAL TAX LEGISLATION.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12, as amended (the “Rule”), promulgated by the Securities and Exchange Commission, and the Ordinance, the School District (being an “obligated person” within the meaning of the Rule) will execute a Continuing Disclosure Certificate. Under the terms of the Continuing Disclosure Certificate, the School District will undertake to file with the Municipal Securities Rulemaking Board (“MSRB”) financial and other information concerning the School District, all as set forth in the proposed form of Continuing Disclosure Certificate, as attached hereto as Appendix D.

The School District has entered into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) for the benefit of the holders of the Notes with Digital Assurance Certification, L.L.C. (“DAC”), under which the School District has designated DAC as its Disclosure Dissemination Agent.

The School District may modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary as a result of a change in legal requirements or change in the nature of the School District; provided that any such modification will be done in a manner consistent with the Rule and will not, in the opinion of the School District (which may rely on an opinion of counsel) substantially impair the interest of the holders of the Bonds. The School District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the holders of the Bonds. Breach of the undertaking will not be a default under the Ordinance.

The School District reserves the right to terminate its obligations to provide annual financial information and notices of material events, as set forth above, if and when the School District no longer remains an “obligated person” with respect to the applicable series of Bonds within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described under this heading 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 such Bonds; provided that the right of the holders and beneficial owners of the Bonds to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the School District’s obligations thereunder 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.

As referenced above, as of July 1, 2009, municipal securities issuers are required to electronically file the Continuing Disclosures, as necessary, solely with the MSRB. These filings shall be made at the MSRB’s Electronic Municipal Market Access (“EMMA”) System, which will be the sole repository recognized for purposes of the Rule.

Summary of Continuing Disclosure Undertaking Compliance

The School District has entered into continuing disclosure undertakings for previously issued bonds that have been outstanding within the past five years (collectively, the “Prior Undertakings”). Under the Prior Undertakings, the School District agreed to provide audited financial statements relating to the School District, along with certain annual information. In the previous five years, the School District has failed to comply with certain provisions of the prior undertakings, including: (a) failing to file or timely file audited financial statements; (b) failing to file or timely file certain annual information; and (c) failing to file or timely file certain notices, including notices of the aforementioned late filings and notices of enhanced and insured rating changes.

As previously discussed, the School District will enter into the Disclosure Dissemination Agreement pursuant to which DAC will provide for automated filing of rating events, templates consolidating all outstanding filing requirements that accompany reminder notices of annual or interim mandatory filings, review of all template filings by professional accountants, as well as a time and date stamp record of each filing along with the unique ID from EMMA accompanying the copy of the actual document filed. DAC also offers its clients a series of training webinars each year.

MISCELLANEOUS

Ratings

Standard & Poor's, a division of McGraw-Hill Companies, New York, New York ("Standard & Poor's"), is expected to assign its credit rating of "AA" (stable outlook) to the Bonds, with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy will be issued by Build America Mutual Assurance Company ("BAM"). Such rating reflects only the view of such organization furnishing such rating. Any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: 55 Water Street, New York, New York 10041-0003

Moody's Investors Service has assigned an underlying municipal Bond rating of "A1" to this issue of Bonds. Such rating reflects only the view of such organization furnishing such rating. Any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: 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 any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Underwriting

The Bonds are being purchased by PNC Capital Markets LLC, as Underwriter (the "Underwriter"), for a Purchase Price of \$17,730,831.10 (which consists of the aggregate par amount of the Bonds, less a net Original Issue Discount of \$509,068.90 and less an Underwriting Discount of \$110,100.00), to the date of delivery. The purchase contract for the Bonds provides that the Underwriter will purchase all the Bonds, if any are purchased, in accordance with the terms of the Purchase Contract. The initial public offering prices, set forth on the cover page of this Official Statement, may be changed by the Underwriter from time to time without any requirement of prior notice. The Underwriter reserves the right to join with other dealers in offering the Bonds to the public and said Bonds offered to other dealers may be at prices lower than those offered to the public.

Paying Agent

The principal of and interest on the Bonds will be payable at either corporate trust office of U.S. Bank National Association, Philadelphia, Pennsylvania, provided that interest may be paid by checks drawn on the Paying Agent and mailed to the registered owners on the appropriate Regular Record Date.

Certification

At closing, the Underwriter will also receive a certificate signed by the President of the Board of School Directors to the effect that (a) this Official Statement, as of its date and as of the date of closing, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading, and (b) there has been no material adverse change in the financial condition of the School District since June 30, 2016, the end of the last fiscal year for which audited financial statements are available.

Other

All the summaries of the provisions of the Debt Act, the School Code and other laws, the Bonds and the Resolution hereinabove set forth are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all such provisions.

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

Appendices attached hereto are expressly incorporated herein as a part hereof.

DALLAS SCHOOL DISTRICT
Luzerne County, Pennsylvania

By: /s/ Sherri Newell
President, Board of School Directors

APPENDIX A
ECONOMIC AND DEMOGRAPHIC DATA

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General

The Dallas School District is comprised of one borough and three townships in Luzerne County, Pennsylvania. The municipalities included are: Dallas Borough, Dallas Township, Franklin Township and Kingston Township. The District covers 46.1 square miles.

The School District is located in the north central section of Luzerne County, about ten miles northwest of the City of Wilkes-Barre. The area comprised of these four municipalities is known locally as the Back Mountain, and through the years has gained the reputation of a prestigious residential area. The Frances Slocum State Park is also located within the School District.

Transportation

The Greater Wilkes-Barre area is a strategic highway location, being literally at the crossroads of the northeastern United States; major north/south and east/west links of the Federal highway system converge or intersect here. These include Interstate Highway 80 and 81, with 80 being the most direct route from the New York City area to Cleveland and the West and 81 from New Orleans to Harrisburg and the North. Interstate 84 connects with the New England area.

The Northeast extension of the Pennsylvania Turnpike also passes through the area, which is served by two interchanges.

The Cross Valley Expressway, Route 309, connects the Dallas area to Wilkes-Barre, bypasses the City of Wilkes-Barre and the Borough of Kingston and connects the Dallas area with the Northeast Extension of the Pennsylvania Turnpike and Interstate Highway 81. The District is also crisscrossed by state routes 415 and 118.

Population Trend by Municipality

<u>Municipality</u>	<u>Area in Sq. Miles</u>	<u>Population</u>		<u>% Change 2000-2010</u>	<u>Population Estimates*</u>
		<u>2000</u>	<u>2010</u>		
Dallas Borough	2.2	2,557	2,804	9.66%	2,793
Dallas Township	17.8	8,179	8,994	9.96%	9,200
Franklin Township	12.4	1,601	1,757	9.74%	1,857
Kingston Township	<u>13.7</u>	<u>7,145</u>	<u>6,999</u>	<u>-2.04%</u>	<u>6,999</u>
School District	46.1	19,482	20,554	5.50%	20,849
Luzerne County	891.0	319,250	320,918	.52%	320,095
Commonwealth	44,820.0	12,281,054	12,702,379	3.43%	12,779,559

Source: U.S. Department of Commerce, Bureau of the Census

*2011-2015 American Community Survey 5-year Estimates

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Housing Units

The number of housing units in the School District increased by 10.47% from 2000 to 2010. The following chart shows comparable housing data for the School District, Luzerne County and Pennsylvania.

	<u>Number of Units</u>		<u>2000-2010</u>	<u>Median Housing</u>
	<u>2000</u>	<u>2010</u>	<u>% Change</u>	<u>Value 2010 Owner</u>
				<u>Occupied Home</u>
Dallas Borough	1,094	1,196	9.32%	\$165,400
Dallas Township	3,125	3,672	17.50%	\$161,800
Franklin Township	679	789	16.20%	\$163,100
Kingston Township	<u>2,923</u>	<u>2,983</u>	<u>5.97%</u>	\$159,500
The School District	7,821	8,640	10.47%	
Luzerne County	144,686	148,515	2.65%	\$113,300
Pennsylvania	5,249,750	5,537,308	5.48%	\$159,300

SOURCE: U.S. Department of Commerce-Bureau of Census.

Estimated Per Capita Income

	<u>2000</u>	<u>2010</u>	<u>% Change</u>
Dallas Borough	\$24,466	\$34,323	40.29%
Dallas Township	24,501	27,377	11.74
Franklin Township	21,014	23,191	10.36
Kingston Township	23,885	38,223	60.03
Luzerne County	\$18,228	23,245	27.52
Pennsylvania	20,880	27,049	29.55

SOURCE: U.S. Department of Commerce-Bureau of Census.

Major Employers

Major employers located in the School District are listed below:

<u>Name of Firm/Organization</u>	<u>Product or Service</u>	<u>Approximate Number</u>
		<u>of Employees</u>
Misericordia University	Higher Education	1,040
Caregivers America Medical Sta.	Home Health Care	517
Offset Paperback Mfrs. Inc.	Paper Manufacturer	431
Dallas School District	Education	308
Citizens Telecom Services Co.	Internet, Cable & Telephone provider	236
Ecumenical Enterprises Inc.	Housing	186
Metz Culinary Management Inc.	Food Management	186
Weis Markets Inc.	Grocery	173
Mercy Center Nursing Unit	Skilled nursing	163
Kingston Sales Inc.	Roofing and Siding contractor	156

Source: School District Officials. Information as of First Quarter of 2017.

Unemployment Rates

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017*</u>
Luzerne County	4.9%	7.7%	10.1%	9.9%	9.4%	9.7%	9.4%	7.3%	6.3%	6.4%	6.2%
Pennsylvania	4.5%	6.4%	8.8%	8.5%	7.9%	7.9%	7.4%	5.8%	5.3%	5.4%	5.3%
U.S.	4.9%	7.1%	10.0%	9.6%	8.5%	7.8%	7.4%	6.2%	5.3%	4.5%	4.6%

SOURCE: Pennsylvania Department of Labor and Industry, Bureau of Employment.

*as of July

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APPENDIX B

OPERATING AND FINANCIAL DATA

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School District Enrollment

Student enrollment trends for the School District are illustrated by the following record of actual enrollments and five-year projection of future enrollments, as reported by the School District and the Pennsylvania Department of Education:

Actual Enrollments

<u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2010-11	1,205	1,571	2,776
2011-12	1,185	1,608	2,793
2012-13	1,184	1,569	2,753
2013-14	1,181	1,573	2,754
2014-15	1,170	1,539	2,709
2015-16	1,175	1,543	2,718

SOURCE: School District Officials.

Projected Enrollments*

<u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2018-19	928	1,543	2,471
2019-20	898	1,491	2,389
2020-21	856	1,464	2,320
2021-22	930	1,502	2,432
2022-23	925	1,480	2,405

*Stable enrollment

SOURCE: Pennsylvania Department of Education.

Real Estate Tax Collection History

<u>Year</u>	<u>Assessed Valuation</u>	<u>Tax Levy at Assessed Valuation</u>	<u>Mills</u>	<u>Current Collections Amount⁽¹⁾</u>	<u>% of Current Levy</u>	<u>Total Collections Amount⁽²⁾</u>	<u>% of Current Levy</u>
2011-12	\$1,572,775,894	\$18,185,064	11.5624	\$17,185,194	94.5	\$17,336,842	95.3
2012-13	1,583,859,486	18,697,778	11.8052	17,590,870	94.1	17,710,748	94.7
2013-14	1,609,323,300	19,378,345	12.0413	17,931,533	92.5	18,778,766	96.9
2014-15	1,609,278,000	19,862,244	12.3423	18,574,533	93.5	19,290,865	97.1
2015-16	1,618,323,961	20,433,282	12.6262	19,045,955	93.2	20,155,253	98.7
2016-17 ⁽³⁾	1,621,047,900	21,297,327	13.1380	19,806,514	93.0	20,871,380	98.0

SOURCE: School District Officials.

(1) Includes additions and penalties less discounts, exonerations and abatements

(2) Includes delinquent real estate taxes collected, interest and penalties

(3) Estimated

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Debt Statement

Shown below is the debt statement of the School District after issuance of the Bonds:

	<u>Amount Outstanding</u>	<u>Local Share</u>
<u>DIRECT DEBT:</u>		
Series of 2017 (this issue)	\$18,350,000	\$17,063,665
Series of 2016 ⁽¹⁾	13,420,000	12,039,082
Series of 2015	4,770,000	4,177,566
Series A of 2014 PNC Bank Note	1,627,943	1,415,822
Series B of 2014 PNC Bank Note	1,078,727	1,078,727
Series of 2013	5,690,000	5,059,548
Series of 2012	9,565,000	8,593,196
Series B of 2010	<u>18,190,000</u>	<u>16,343,715</u>
TOTAL GENERAL OBLIGATION DEBT	\$72,691,669	\$65,771,320
 <u>OVERLAPPING DEBT⁽²⁾</u>		
Dallas Borough ⁽³⁾	\$60,000	\$60,000
Dallas Township ⁽³⁾	-0-	-0-
Franklin Township ⁽³⁾	7,500	7,500
Kingston Township ⁽³⁾	-0-	-0-
Luzerne County ⁽⁴⁾	<u>19,967,867</u>	<u>19,967,867</u>
TOTAL OVERLAPPING DEBT	\$20,047,867	\$20,047,867
 TOTAL DIRECT AND OVERLAPPING	\$92,739,536	\$85,819,187

(1) A portion is excluded as Subsidized Debt

(2) SOURCE: Pennsylvania Department of Community and Economic Development as of September 1, 2017.

(3) 100% overlapping

(4) 8.50% overlapping. As of September 1, 2017, Luzerne County had outstanding debt of \$232,994,273. The School District's share is calculated by dividing the assessed value of the School District by the assessed value of the County and multiplying that ratio by the total outstanding debt of the County.

Tax and Revenue Anticipation Borrowing

The School District's has not utilized tax and revenue anticipation borrowings in the past 5 years.

SOURCE: School District Officials.

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

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STEVENS & LEE
LAWYERS & CONSULTANTS

1460 Wyoming Avenue
Forty Fort, PA 18704
(570) 718-0300 Fax (570) 718-0400
www.stevenslee.com

October 31, 2017

RE: \$18,350,000 Dallas School District, Luzerne County, Pennsylvania, General Obligation Bonds, Series of 2017

TO: THE REGISTERED OWNERS OF THE ABOVE-CAPTIONED BONDS

We have served as Bond Counsel in connection with the issuance by Dallas School District, Luzerne County, Pennsylvania (the "School District"), of its \$18,350,000 aggregate principal amount General Obligation Bonds, Series of 2017, dated and bearing interest from October 31, 2017 (the "Bonds"). The Bonds are being issued, without the assent of the electors, in registered form, without coupons, in the aggregate principal amount of \$18,350,000, pursuant to the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as amended, 53 Pa.C.S. Chs. 80-82 (the "Act"), and a Resolution adopted by the Board of School Directors of the School District (the "Board of School Directors") on May 17, 2017 (the "Resolution").

The Bonds are being issued to provide funds for (1) planning, designing, acquiring, constructing, installing, furnishing and equipping of a new intermediate school of the School District; (2) planning, designing, acquiring, constructing, installing, furnishing and equipping of improvements and renovations to existing facilities of the School District; (3) purchasing capital equipment for use by the School District; (4) additional capital projects of the School District to the extent approved by the Board; and (5) paying the costs and expenses of issuance of the Bonds (collectively, the "Project").

The School District has covenanted in the Resolution that it will make no use of the proceeds of the Bonds and it has neither done nor suffered and will neither do nor suffer any other action which, if such use or action had been reasonably expected on the date of issue of the Bonds, would cause the Bonds to be "arbitrage bonds," or "private activity bonds" as those terms are defined in the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable regulations thereunder. The School District has further covenanted that it will comply with the requirements of Section 148 and Section 141 of the Code and with the applicable regulations thereunder throughout the term of the Bonds.

In the Resolution, the School District has covenanted that (1) it will include in its budget in each fiscal year the amount required to pay debt service on the Bonds for such year, (2) it will appropriate from its general revenues in each such fiscal year, the amount required to pay debt service on the Bonds for such year, and (3) it will duly and punctually pay or cause to be paid

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October 31, 2017

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when due, from its sinking fund or any other of its revenues or funds, the principal of and interest on the Bonds at the dates and place and in the manner stated therein, according to the true intent and meaning thereof. For such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power, subject to such limitations provided by law. In addition, the School District has established with U.S. Bank National Association, Philadelphia, Pennsylvania (the "Paying Agent"), as paying agent and sinking fund depository, a sinking fund, and has covenanted to deposit into such sinking fund amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due and payable.

In our capacity as Bond Counsel, we have reviewed: (a) a certified copy of the Resolution; (b) the sworn debt statement and borrowing base certificate of the School District filed with the Department of Community and Economic Development of the Commonwealth of Pennsylvania (the "Department") in accordance with the provisions of the Act; (c) the proceedings of the School District and the various proofs of publication in connection with the advertisement of the Resolution, all of which were filed with the Department as required by the provisions of the Act; (d) the approval of the Department; (e) a specimen copy of one of the Bonds; (f) the Nonarbitrage Certificate of the School District executed and delivered pursuant to the provisions of the Code and the regulations applicable thereto; (g) the General Certificate signed by officials of the School District; (h) a completed and executed Form 8038-G to be filed with the Internal Revenue Service; (i) the opinion of Vito J. DeLuca, Esquire, Kingston, Pennsylvania, Solicitor to the School District (the "Solicitor's Opinion"); (j) the Certificate of PNC Capital Markets LLC, Pittsburgh, Pennsylvania, as purchaser of the Bonds, dated the date hereof; and (k) the other documents, certificates and opinions executed and delivered at the closing held this day.

Based and in reliance upon our review of the foregoing, our attendance at the closing held this day and subject to the qualifications set forth herein, it is our opinion that, as of the date hereof, under existing law:

1. The School District is empowered under provisions of the Constitution and laws of the Commonwealth of Pennsylvania to issue the Bonds.
2. The Resolution was duly adopted by the Board of School Directors and continues to be in full force and effect as of the date hereof.
3. The Bonds have been duly authorized and executed and constitute valid and binding obligations of the School District, enforceable in accordance with their terms, except as the legality, validity, binding nature and enforceability thereof may be limited by (a) applicable bankruptcy, insolvency or other laws or

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LAWYERS & CONSULTANTS

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equitable principles now or hereafter affecting the enforcement of creditors' rights generally or (b) general principles of equity.

4. Interest on the Bonds is not includable in gross income for federal income tax purposes under Section 103(a) of the Code.
5. Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to State and local taxation within the Commonwealth of Pennsylvania.
6. Under the Code, interest on the Bonds held by persons other than corporations (as defined for federal tax purposes) does not constitute an item of tax preference under Section 57 of the Code and thus is not subject to alternative minimum tax for federal income tax purposes.
7. Under the Code, interest on the Bonds held by a corporation (as defined for federal tax purposes) does not constitute an item of tax preference under Section 57 of the Code, however, corporations subject to alternative minimum tax will be required to include, among other things, interest on the Bonds as an adjustment in computing alternative minimum taxable income in the manner provided in Section 56 of the Code.

In connection with providing the foregoing opinions, we call to your attention to the following:

- A. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other documents, agreements, instruments, reports and certificates furnished to us at or in connection with the issuance of the Bonds (including, without limitation, certificates and agreements by the School District as to the expected use of proceeds of the Bonds, and as to its continuing compliance with Sections 148 and 141 of the Code to assure that the Bonds do not become "arbitrage bonds" or "private activity bonds") without undertaking to verify the same by independent investigation. We have also relied upon the accuracy of the representations and warranties and the performance of the

STEVENS & LEE
LAWYERS & CONSULTANTS

October 31, 2017

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covenants and agreements of the School District set forth in the Resolution and the various certificates and other agreements delivered at or in connection with the closing held this day.

- B. In providing the opinions set forth in paragraphs 2 and 3 above, we have relied, without independent investigation, on the Solicitor's Opinion.
- C. In providing the opinion set forth in paragraph 4, above, we have assumed continuing compliance by the School District with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon be and remain excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.
- D. In providing the opinions set forth in paragraphs 6 and 7 above, we have assumed continuing compliance by the School District with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon not constitute an item of tax preference under Section 57 of the Code. Failure to comply with such requirements could cause the interest on the Bonds to constitute an item of tax preference under Section 57 of the Code retroactive to the date of issuance of the Bonds.
- E. Except as specifically set forth above, we express no opinion regarding other federal income tax consequences arising with respect to the Bonds, including, without limitation, the treatment for federal income tax purposes of gain or loss, if any, upon the sale, redemption, or other disposition of the Bonds prior to maturity of the Bonds subject to original issue discount and the effect, if any, of certain other provisions of the Code which could result in collateral federal income tax consequences to certain investors as a result of adjustments in the computation of tax liability dependent on tax-exempt interest.
- F. We have not been engaged to verify, nor have we independently verified, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement, dated September 21, 2017 (the "Preliminary Official Statement"), or the Official Statement, dated September 27, 2017 (the "Official Statement"), or otherwise used in connection with the offer and sale of the Bonds or set forth in or delivered by the School District officials. We express no opinion with respect to whether

STEVENS & LEE
LAWYERS & CONSULTANTS

October 31, 2017

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the School District, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, has made any untrue statement of a material fact necessary in order to make any statements made therein not misleading.

- G. We have not verified, and express no opinion as to the accuracy of, any “CUSIP” identification number which may be printed on any Bond. We have also assumed the genuineness of the signatures appearing upon all the certificates, documents and instruments executed and delivered at closing.
- H. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement as Bond Counsel has concluded with the issuance of the Bonds and we disclaim any obligation to update this letter.

STEVENS & LEE, P.C.

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APPENDIX D

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

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\$18,350,000
AGGREGATE PRINCIPAL AMOUNT
DALLAS SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
GENERAL OBLIGATION BONDS
SERIES OF 2017

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Dallas School District, Luzerne County, Pennsylvania (the "School District"), in connection with the issuance of its \$18,350,000 aggregate principal amount General Obligation Bonds, Series of 2017 (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the School District, dated May 17, 2017 (the "Resolution"). The School District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the School District for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the School District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Bondholders" or "Holders" shall mean the registered owners of the Bonds and, if registered in the name of Cede & Co., through The Depository Trust Company, New York, New York ("DTC"), any Beneficial Owners (as such term is used by DTC to define holders other than nominees) of the Bonds, unless the Rule, or an authoritative interpretation thereof by the Securities and Exchange Commission (the "Commission") or its staff, does not require this Disclosure Certificate to be for the benefit of such Beneficial Owners.

"Bond Insurance Company" shall mean Build American Mutual Assurance Company, its successors and assigns.

"Commission" shall mean the Securities and Exchange Commission.

"Dissemination Agent" shall mean any person or entity designated from time to time in writing by the School District and which has filed with the School District a written acceptance of such designation and of the duties of the Dissemination Agent under this Disclosure Certificate.

"EMMA" shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule as further described in Section 14 hereof.

"Filing" shall mean, as applicable, any Annual Report or Listed Event filing or any other notice or report made public under this Disclosure Certificate made with each NRMSIR or the MSRB and the SID, if any, together with a completed copy of a cover sheet in such form acceptable to each NRMSIR, the MSRB or SID, if applicable, describing the event by checking the box in said form when filing pursuant to the pertinent sections of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of the Rule. Currently, MSRB's address, phone number and fax number for purposes of the Rule are:

MSRB
c/o CDINet
1900 Duke Street
Suite 600
Alexandria, VA 22314
Phone: (703) 797-6000
Fax: (703) 683-1930

"NRMSIR" shall mean any Nationally Recognized Municipal Securities Information Repository recognized for purposes of the Rule and the MSRB, as reflected on the website of the Securities and Exchange Commission at www.sec.gov. **As of the date of this Disclosure Certificate, the sole NRMSIR shall be the MSRB, through the operation of EMMA, as provided in Section 14 hereof.**

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each NRMSIR and the SID, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SID" shall mean any public or private state information depository or entity designated by the Commonwealth of Pennsylvania as a state information depository for the purpose of the Rule, if any. As of the date of this Disclosure Certificate, no SID has been designated.

SECTION 3. Provision of Annual Reports.

(a) The School District shall not later than 275 days after the end of each fiscal year of the School District, commencing with the fiscal year ending June 30, 2017, provide directly or through the Dissemination Agent to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In connection therewith, not later than fifteen (15) Business Days prior to said date, the School District shall

provide the Annual Report to the Dissemination Agent (if one has been designated by the School District under this Disclosure Certificate). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the School District may be submitted separately from the remainder of the Annual Report when such audited financial statements are available. If the audited financial statements are not submitted as part of the Annual Filing to each Repository pursuant to this Section 3(a), the School District shall provide to each Repository such audited financial statements when they are available to the School District.

(b) If the School District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the School District shall send or cause the Dissemination Agent to send a notice to each NRMSIR and the SID in substantially the form attached as Exhibit A.

(c) The School District or the Dissemination Agent, if applicable, shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each NRMSIR and the SID, if any; and

(ii) if a Dissemination Agent has been designated hereunder, file a report with the School District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(iii) The School District shall promptly file a notice of any change in its fiscal year and the new annual filing date with each NRMSIR and the SID.

(d) If the Dissemination Agent does not receive the Annual Report from the School District by the fifteenth Business Day specified in Section 3(a) above, the Dissemination Agent shall provide a written reminder notice to the School District with respect to the School District's obligations under Section 3(a) above no later than five (5) Business Days after such fifteenth Business Day.

SECTION 4. Content of Annual Reports. The School District's Annual Report shall contain or incorporate by reference the following:

(a) a copy of the School District's annual financial statements prepared in accordance with generally accepted auditing standards; and

(b) an update of certain information set forth in "APPENDIX B - OPERATING AND FINANCIAL DATA" of the Official Statement, dated September 27, 2017, as follows:

- (i) School District Enrollment;
- (ii) Real Estate Tax Collection History;
- (iii) Debt Statement; and
- (iv) Tax and Revenue Anticipation Borrowing.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the School District or related public entities, which have been submitted to each of the Repositories or the Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The School District shall clearly identify each such other document so incorporated by reference. The School District reserves the right to modify from time to time specific types of information provided hereunder or the format of the presentation of such information, to the extent necessary or appropriate; provided, however, that any such modification will be done in a manner consistent with the Rule.

SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to a particular series of the Bonds, constitutes a “Listed Event” only with respect to such series of the Bonds. This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (i) Principal and interest payment delinquencies;
- (ii) Nonpayment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) Modifications to rights of securities holders, if material;
- (viii) Bond calls, if material, and tender offers for the Bonds;

- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar events of the School District;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or paying agent or the change of name of a trustee or paying agent, if material; and
- (xv) Failure to provide annual financial information as required.

(b) Whenever the School District obtains knowledge of the occurrence of a Listed Event, the School District shall as soon as possible (with respect to those Listed Events where a determination of materiality by the School District is applicable) determine if such event would constitute material information for Holders of Bonds under applicable federal securities laws.

(c) If (i) a Determination of materiality by the School District is not relevant to the obligation to give notice of a Listed Event or (ii) the School District determines (with respect to those Listed Events where a determination of materiality by the School District is applicable) that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the School District shall promptly file in a timely manner, not in excess of ten (10) business days after the occurrence of the Listed Event, or cause the Dissemination Agent to so file (if a Dissemination Agent has been designated hereunder) a notice of such occurrence with each NRMSIR and the SID, if any, with a copy to the Paying Agent.

(d) For purposes of the Listed Events in Section 5(a)(xii), the School District and the Dissemination Agent acknowledge the following interpretive note which the Commission has set forth in the Rule: *“Note: for the purposes of the event identified in subparagraph (b)(5)(i)(C)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the*

supervision and orders of a court or governmental authority, or the entry of an 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 obligated person;”

SECTION 6. Termination of Reporting Obligation. The School District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

In the event that any person or entity subsequent to the execution hereof becomes an "obligated person," as such term is defined in the Rule, with respect to the Bonds, the School District covenants to use its best effort to cause such obligated person to enter into a written undertaking to comply with the provisions of the Rule or to cause this Disclosure Certificate to be amended and to cause such obligated person to join in the execution of such amendment.

SECTION 7. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The School District shall cause the Dissemination Agent appointed hereunder and any successors to execute and deliver an acknowledgment of acceptance of the designation and duties of Dissemination Agent under this Disclosure Statement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the School District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws 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, as well as any change in circumstances.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the School District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the School District to comply with any provision of this Disclosure Certificate, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the School District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bonds

or the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the School District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent, if other than the School District. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the School District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the School District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Disclosure to Bond Insurance Company. As long as the municipal bond insurance policy issued by Bond Insurance Company insuring the payment when due of the principal of and interest on the Bonds is in full force and effect, the School District shall provide a copy of (a) each Annual Report distributed pursuant to Section 3 hereof and (b) each notice of the occurrence of a Listed Event distributed pursuant to Section 5 hereof to Bond Insurance Company, if any.

SECTION 13. Undertaking with Respect to Certain Procedures and Policies. The School District agrees to begin the process of establishing internal policies and procedures for the purpose of continuing disclosure compliance. Without intending to preclude the adoption of other necessary or useful policies and procedures, a single School District official will be designated with ultimate responsibility for continuing disclosure compliance and will oversee the process of informing and training appropriate deputies and other School District employees with respect to the School District's continuing disclosure undertakings.

SECTION 14. EMMA. Filings shall be made to the continuing disclosure service portal provided through EMMA as provided at <http://www.emma.msrb.org>, or any similar system that is acceptable to the Commission.

SECTION 15. Alternative Filing. Notwithstanding the other provisions of this Disclosure Certificate, any filing under this Disclosure Certificate, and any additional supplements hereto, may be made with such depositories and using such electronic filing systems as may be approved by the United States Securities and Exchange Commission (in lieu of the procedures currently in this Disclosure Certificate).

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SECTION 16. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the School District, the Paying Agent, the Bond Insurance Company, the Dissemination Agent (if any), the Participating Underwriter and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

DALLAS SCHOOL DISTRICT
Luzerne County, Pennsylvania

By: _____
President

Attest: _____
Secretary

(SEAL)

Date: October 31, 2017

EXHIBIT A¹

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Dallas School District
Luzerne County, Pennsylvania

Name of Bond Issue: Dallas School District
Luzerne County, Pennsylvania
\$18,350,000 aggregate principal amount General Obligation Bonds,
Series of 2017

Date of Issuance: October 31, 2017

NOTICE IS HEREBY GIVEN that Dallas School District, Luzerne County, Pennsylvania (the "School District"), has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated October 31, 2017, executed by the School District. The School District anticipates that the Annual Report will be filed by _____.

Dated: _____

DALLAS SCHOOL DISTRICT, LUZERNE
COUNTY, PENNSYLVANIA, [OR
DISSEMINATION AGENT ON BEHALF OF
DALLAS SCHOOL DISTRICT, LUZERNE
COUNTY, PENNSYLVANIA]

cc: Paying Agent

¹ The substantive content of this notice shall be provided in any applicable notice filing. Appropriate modifications may be made to accommodate the electronic submission format requirements of the EMMA system or other successor electronic filing system.

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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APPENDIX F

**SCHOOL DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2016**

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Dallas School District
Dallas, Pennsylvania
Luzerne County

Financial Statements
Year Ended June 30, 2016



1835 Market Street, 26th Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

DALLAS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dallas School District, Dallas, Pennsylvania as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Dallas School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dallas School District, Dallas, Pennsylvania as of June 30, 2016, 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

Report on Summarized Comparative Information

We have previously audited Dallas School District's 2015 financial statements, and we expressed unmodified opinions on those audited financial statements in our report dated January 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the other post-employment benefits schedule of funding progress and the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 13 and 41 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2017, on our consideration of Dallas 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 Dallas School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
February 9, 2017**

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Management's discussion and analysis ("**MD&A**") of the Dallas School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2016. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of four schools – two elementary schools, a middle school and a senior high school consisting of approximately 2,700 students. The District encompasses the municipal subdivisions of the Borough of Dallas and the Townships of Dallas, Franklin and Kingston in Luzerne County Pennsylvania and covers approximately 46.1 square miles. The area comprised of these four municipalities is known locally as the Back Mountain and through the years has gained the reputation of a prestigious residential area. The District is located in the north central section of Luzerne County, Pennsylvania, about ten miles northwest of the City of Wilkes Barre. There are approximately 310 employees in the District including 183 instructional staff, 10 administrators and 117 support staff.

The mission of the District is to provide excellence in education to enable all students to learn, lead and succeed.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and the deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit of total net position at the close of the 2015-2016 fiscal year of \$45,415,516. During the 2015-2016 fiscal year, the District had a decrease in total net position of \$1,329,393. The net position of governmental activities decreased by \$1,329,194 and the net position of the business-type activities decreased by \$199.
- The General Fund reported an increase in fund balance of \$606,544, bringing the cumulative balance to \$2,635,423 at the conclusion of the 2015-2016 fiscal year.
- At June 30, 2016, the General Fund fund balance includes \$17,329 which is considered nonspendable, \$1,386,501 committed to capital projects and unassigned amounts of \$1,231,593 or 3.33% of the \$37,015,881 2016-2017 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditure budget.
- During prior years, the School Board had committed a total of \$3,204,486 of accumulated fund balance to be used for future capital projects of which \$1,386,501 remained as of June 30, 2015 and available for appropriation during the 2015-2016 fiscal year. During 2015-2016, the District did not utilize any fund balance committed for capital projects.
- Budgeted amounts in the General Fund used \$533,163 of fund balance as of June 30, 2015 to balance the 2015-2016 General Fund budget. Actual results during 2015-2016 resulted in an increase of \$606,544 to the General Fund fund balance for a positive variance of \$1,139,707.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position (deficit). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 14 and 15 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two major individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded healthcare plan. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service fund. The proprietary fund financial statements can be found on Pages 20 through 22 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of a student activity fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statement can be found on Page 23 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 24 through 40 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and District pension contributions.

The required supplementary information can be found on Pages 41 through 44 of this report.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial position. At the close of the 2015-2016 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$45,415,516. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	\$ 8,667,120	\$ 7,782,076	\$253,852	\$141,836	\$ 8,920,972	\$ 7,923,912
Noncurrent assets	<u>58,912,594</u>	<u>61,134,849</u>	<u>47,121</u>	<u>54,416</u>	<u>58,959,715</u>	<u>61,189,265</u>
Total assets	<u>67,579,714</u>	<u>68,916,925</u>	<u>300,973</u>	<u>196,252</u>	<u>67,880,687</u>	<u>69,113,177</u>
DEFERRED OUTFLOWS						
Deferred charges - pensions	<u>4,123,264</u>	<u>3,727,782</u>	<u>-</u>	<u>-</u>	<u>4,123,264</u>	<u>3,727,782</u>
LIABILITIES						
Current liabilities	5,600,347	5,471,494	230,301	125,381	5,830,648	5,596,875
Noncurrent liabilities	<u>111,168,225</u>	<u>108,040,495</u>	<u>-</u>	<u>-</u>	<u>111,168,225</u>	<u>108,040,495</u>
Total liabilities	<u>116,768,572</u>	<u>113,511,989</u>	<u>230,301</u>	<u>125,381</u>	<u>116,998,873</u>	<u>113,637,370</u>
DEFERRED INFLOWS						
Deferred credits - pensions	<u>420,594</u>	<u>3,289,712</u>	<u>-</u>	<u>-</u>	<u>420,594</u>	<u>3,289,712</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	(54,003)	759,660	47,121	54,416	(6,882)	814,076
Restricted	237,714	-	-	-	237,714	-
Unrestricted	<u>(45,669,899)</u>	<u>(44,916,654)</u>	<u>23,551</u>	<u>16,455</u>	<u>(45,646,348)</u>	<u>(44,900,199)</u>
Total net position (deficit)	<u>\$ (45,486,188)</u>	<u>\$ (44,156,994)</u>	<u>\$ 70,672</u>	<u>\$ 70,871</u>	<u>\$ (45,415,516)</u>	<u>\$ (44,086,123)</u>

The District's total assets as of June 30, 2016 were \$67,880,687 of which \$6,054,826 or 8.92% consisted of cash and \$58,959,715 or 86.86% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2016 were \$116,998,873 of which \$58,860,576 or 505.31% consisted of general obligation debt used to acquire and construct capital assets and \$49,986,000 or 42.72% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$45,646,348 at June 30, 2016. The District's unrestricted net position decreased by \$746,149 primarily due to the results of current year operations.

A portion of the District's net position reflects its restricted net position which totaled \$237,714 as of June 30, 2016. All of the District's restricted net position related to amounts restricted for capital expenditures.

Another portion of the District's net assets reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2016, the District's net investment in capital assets decreased by \$820,958 because the District's capital assets were being depreciated faster than the debt used to acquire the capital assets was being repaid.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

The following table presents condensed information for the *Statement of Activities* of the District for 2016 and 2015:

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues						
Charges for services	\$ 34,567	\$ 71,905	\$595,201	\$562,932	\$ 629,768	\$ 634,837
Operating grants and contributions	6,017,307	5,897,362	371,326	333,972	6,388,633	6,231,334
General revenues						
Property taxes levied for general purposes	19,955,628	19,610,583	-	-	19,955,628	19,610,583
Earned income taxes levied for general purposes	3,177,288	2,819,783	-	-	3,177,288	2,819,783
Other taxes levied for general purposes	497,706	479,442	-	-	497,706	479,442
Grants and entitlements not restricted to specific programs	6,137,620	5,915,467	-	-	6,137,620	5,915,467
Investment earnings	20,784	19,437	259	219	21,043	19,656
Total revenues	<u>35,840,900</u>	<u>34,813,979</u>	<u>966,786</u>	<u>897,123</u>	<u>36,807,686</u>	<u>35,711,102</u>
EXPENSES						
Instruction	22,947,499	22,984,185	-	-	22,947,499	22,984,185
Instructional student support services	2,219,184	2,014,613	-	-	2,219,184	2,014,613
Administrative and financial support services	3,618,051	3,373,833	-	-	3,618,051	3,373,833
Operation and maintenance of plant services	3,520,656	3,925,054	-	-	3,520,656	3,925,054
Pupil transportation	1,349,175	1,310,723	-	-	1,349,175	1,310,723
Student activities	836,738	849,666	-	-	836,738	849,666
Community services	31,504	24,982	-	-	31,504	24,982
Interest and amortization expense related to noncurrent liabilities	2,647,287	2,582,885	-	-	2,647,287	2,582,885
Food service	-	-	966,985	903,592	966,985	903,592
Total expenses	<u>37,170,094</u>	<u>37,065,941</u>	<u>966,985</u>	<u>903,592</u>	<u>38,137,079</u>	<u>37,969,533</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ (1,329,194)</u>	<u>\$ (2,251,962)</u>	<u>\$ (199)</u>	<u>\$ (6,469)</u>	<u>\$ (1,329,393)</u>	<u>\$ (2,258,431)</u>

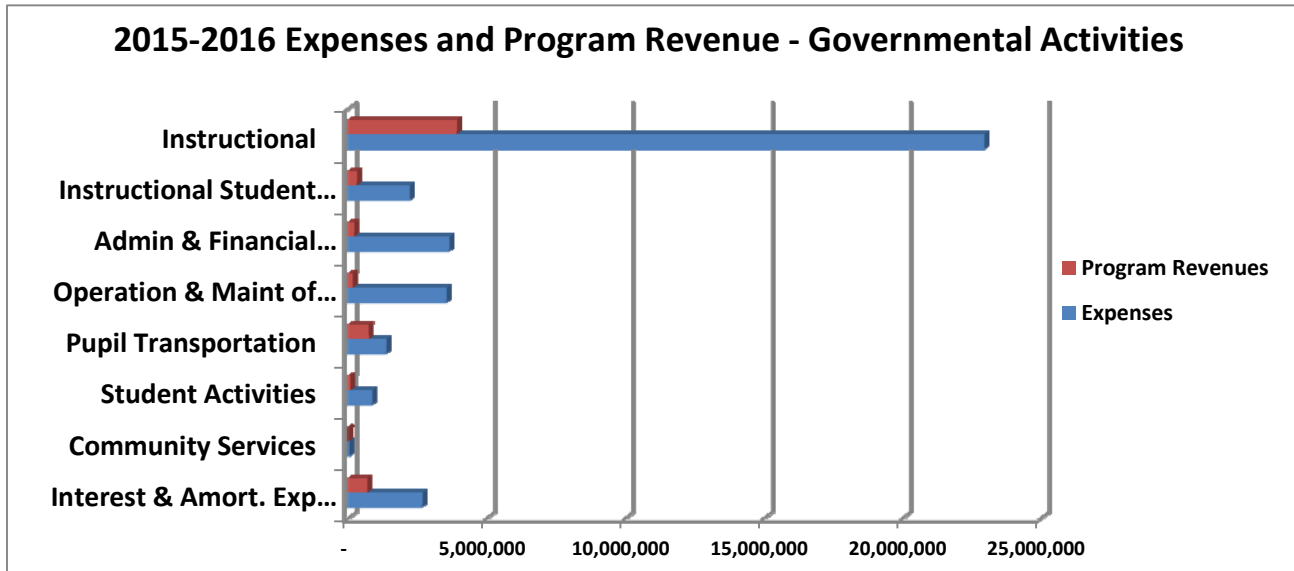
During 2015-2016, the District's net position decreased by \$1,329,393, in part due to increased health insurance costs, pension contributions, state-mandated programs and negotiated contracts. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

DALLAS SCHOOL DISTRICT

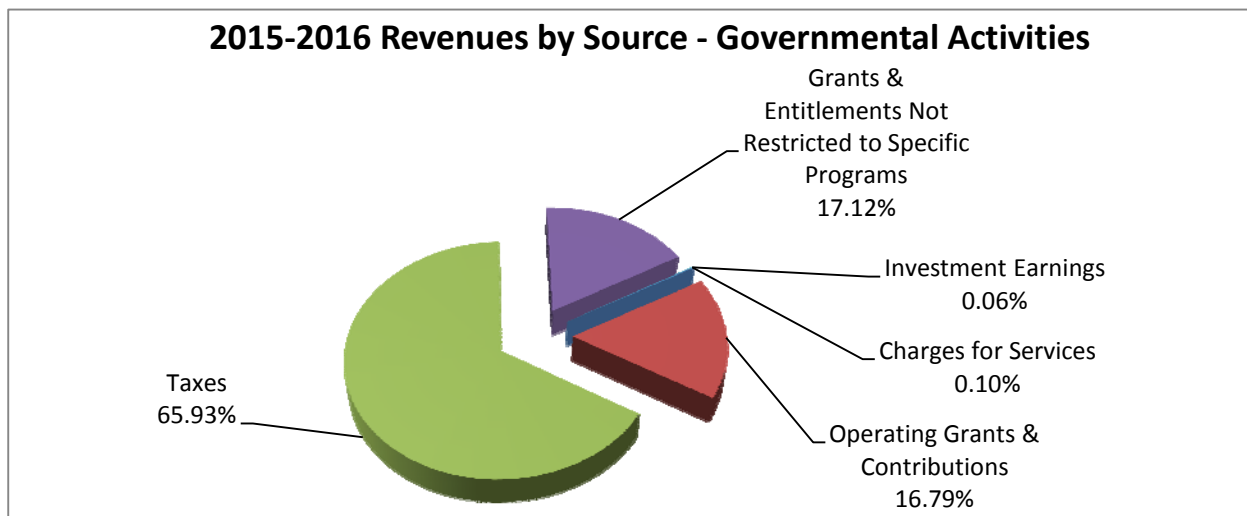
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENTAL FUNDS

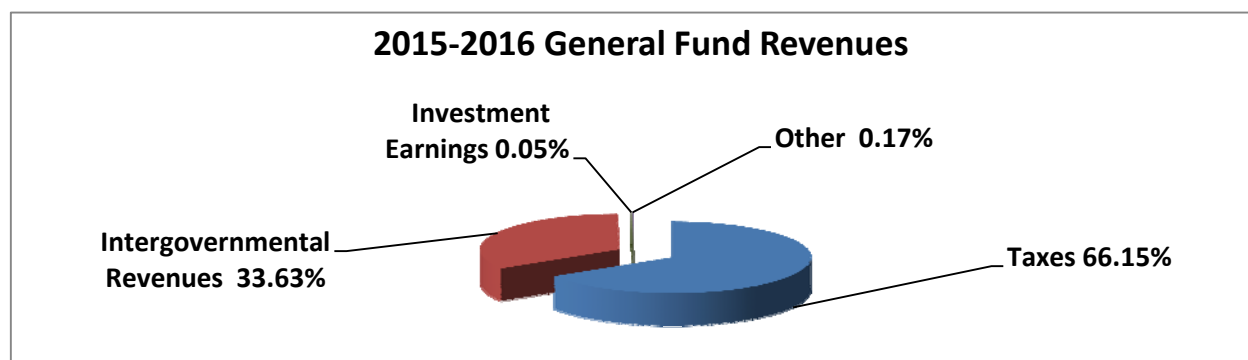
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2016, the District's governmental funds reported a combined fund balance of \$2,873,137 which is an increase of \$844,190 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2016 and 2015 and the total 2016 change in governmental fund balances.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund	\$2,635,423	\$2,028,879	\$606,544
Capital Projects Fund	<u>237,714</u>	<u>68</u>	<u>237,646</u>
	<u>\$2,873,137</u>	<u>\$2,028,947</u>	<u>\$844,190</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2015-2016 fiscal year, the General Fund fund balance was \$2,635,423 representing an increase of \$606,544 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2015-2016 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 66.15% of General Fund revenues are derived from local taxes.



General Fund Revenues

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$23,906,773	\$22,830,337	\$1,076,436	4.71
Intergovernmental revenues	12,154,925	11,776,737	378,188	3.21
Investment earnings	20,263	17,838	2,425	13.59
Other	<u>60,649</u>	<u>247,427</u>	<u>(186,778)</u>	<u>(75.49)</u>
	<u>\$36,142,610</u>	<u>\$34,872,339</u>	<u>\$1,270,271</u>	<u>3.64</u>

Tax revenues increased \$1,076,436 or 4.71% primarily due to an increase in the real estate tax millage to 12.6261 mills or 2.30% in 2015-2014 compared to 12.3423 mills in 2014-2015 coupled with increased collections for both realty transfer and earned income taxes in 2015-2016 compared to 2014-2015.

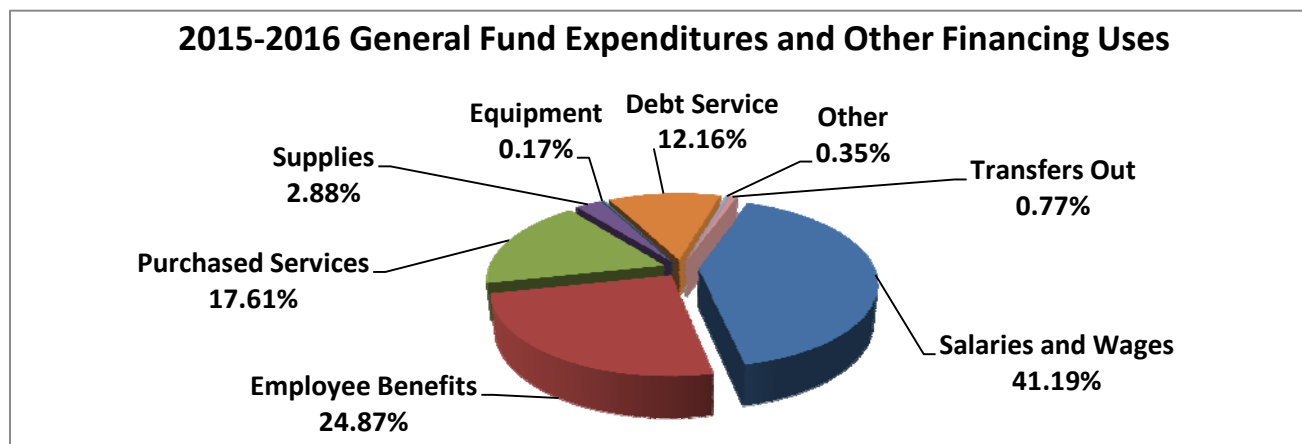
Intergovernmental revenues increased by \$378,188 or 3.21% in 2015-2016 when compared to 2014-2015 primarily due to additional funding received for the state retirement subsidy which increased commensurate with the employee annual contribution percentage.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$14,636,652	\$15,276,263	\$(639,611)	(4.19)
Employee benefits	8,836,949	8,293,852	543,097	6.55
Purchased services	6,258,385	5,831,868	426,517	7.31
Supplies	1,022,961	1,277,303	(254,342)	(19.91)
Equipment	60,720	54,664	6,056	11.08
Other	122,895	77,929	44,966	57.70
Debt service	4,322,504	4,488,048	(165,544)	(3.69)
Transfers out	<u>275,000</u>	<u>114,616</u>	<u>160,384</u>	<u>139.93</u>
	<u>\$35,536,066</u>	<u>\$35,414,543</u>	<u>\$ 121,523</u>	<u>0.34</u>

Salaries and wages decreased by \$639,611 or 4.19% in 2015-2016 compared to 2014-2015 as a result of not replacing or delaying staff vacancies, reducing support staff hours where practical and combining job assignments.

Employee benefits increased primarily due to an increase in the required employer annual retirement contribution to 25.84% in 2015-2016 from 21.40% in 2014-2015 which represents a 20.75% increase over the prior year. Increasing health insurance costs also contributed to the increase.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2015-2016, the Capital Projects Fund reported an increase in its fund balance of \$237,646 due to transfers from the General Fund in excess of current year capital outlay. As of June 30, 2016, the Capital Projects Fund had a fund balance of \$237,714 which is restricted for capital expenditures.

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Budgeted amounts in the General Fund used \$533,163 as of June 30, 2015 to balance the 2015-2016 General Fund budget. Actual results during the 2015-2016 fiscal year resulted in an increase of \$606,544 for a positive variance of \$1,139,707. Total General Fund revenues were \$875,893 or 2.48% more than budgeted amounts and total General Fund expenditures and other financing uses were \$263,814 or 0.74% less than budgeted amounts.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2015-2016, the net position of the business-type activities and Food Service Fund decreased by \$199. As of June 30, 2016, the business-type activities and Food Service Fund had net position of \$70,672.

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounted to \$58,959,715 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$2,229,550 or 3.64%. The decrease was the result of current year depreciation expense in excess of current year capital additions.

Current year capital additions were \$36,400 and depreciation expense was \$2,265,950.

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$58,860,576 consisting of \$53,425,000 in bonds payable, \$3,820,357 in notes payable and net deferred credits of \$1,615,219. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$1,342,647 or 2.23% during the fiscal year.

During 2015-2016, the District issued general obligation bonds, Series of 2015 and Series of 2016, which currently refunded general obligation bond Series of 2010A and 2010C, and advance refunded general obligation bonds, Series of 2007. The District refunded these general obligation bonds to reduce total future debt service payments by approximately \$2.0 million.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$58,860,576 is within the current debt limitation of the District which was \$78,395,432 as of June 30, 2016.

The District maintains an A1 rating from Moody's Investors Service.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System ("**PSERS**"). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$49,986,000 as of June 30, 2016. The District's net pension liability increased by \$4,270,000 or 9.34% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for capital leases, compensated absences and its net obligation for post-employment benefits, which totaled \$2,321,649 as of June 30, 2016. These liabilities increased by \$200,377 or 9.45% during the fiscal year primarily due to the increase in the District's estimated net post-employment benefit (OPEB).

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District adopted a balanced 2016-2017 budget totaling \$37,015,881 which used \$530,039 of General Fund fund balance as of June 30, 2016 to balance the 2016-2017 budget and the real estate tax millage was increased to 13.1380 mills or 4.06% in comparison to the 2015-2016 real estate tax millage rate.
- The District is anticipating a moderate decrease in enrollment over the next several fiscal years.
- The District's collective bargaining agreement with the Dallas Education Association expired at the conclusion of the 2015-2016 school year and is currently still in negotiations, while the collective bargaining agreement with the Dallas Educational Support Personnel Association expires at the conclusion of the 2016-2017 school year.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increased real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ♦ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (2.80% for Dallas School District for 2016-2017), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ♦ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
 - ♦ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders.
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employee's retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation, the employer contribution rate for 2017-2018 is projected at 32.57%. Currently, the employer contribution rate for 2016-2017 is 30.03% which is an increase of 16.22% from the 2015-2016 employer contribution rate of 25.84%. The increase in the employer contribution rate in 2016-2017 is estimated to increase the District's retirement contribution by approximately \$620,000, of which the District's share is approximately \$310,000.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Dallas School District, P.O. Box 2000, Dallas, Pennsylvania 18612.

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016 with summarized comparative totals for 2015

	Governmental Activities	Business-type Activities	Totals	
			2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 5,962,136	\$ 92,690	\$ 6,054,826	\$ 5,084,694
Taxes receivable	1,416,734	-	1,416,734	1,853,913
Due from other governments	1,385,947	32,222	1,418,169	954,911
Internal balances	(115,026)	115,026	-	-
Inventories	17,329	13,914	31,243	30,394
Total current assets	<u>8,667,120</u>	<u>253,852</u>	<u>8,920,972</u>	<u>7,923,912</u>
NONCURRENT ASSETS				
Capital assets, net	58,912,594	47,121	58,959,715	61,189,265
Total assets	<u>67,579,714</u>	<u>300,973</u>	<u>67,880,687</u>	<u>69,113,177</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension	4,123,264	-	4,123,264	3,727,782
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	378,391	212,565	590,956	504,862
Accrued salaries, payroll withholdings and benefits	4,381,013	-	4,381,013	4,246,284
Insurance claims payable	244,813	-	244,813	170,322
Accrued interest payable	539,603	-	539,603	601,836
Unearned revenues	-	17,736	17,736	17,185
Other liabilities	56,527	-	56,527	56,386
Total current liabilities	<u>5,600,347</u>	<u>230,301</u>	<u>5,830,648</u>	<u>5,596,875</u>
NONCURRENT LIABILITIES				
Due within one year	2,617,444	-	2,617,444	2,151,993
Due in more than one year	108,550,781	-	108,550,781	105,888,502
Total noncurrent liabilities	<u>111,168,225</u>	<u>-</u>	<u>111,168,225</u>	<u>108,040,495</u>
Total liabilities	<u>116,768,572</u>	<u>230,301</u>	<u>116,998,873</u>	<u>113,637,370</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits of proportionate share of pension	420,594	-	420,594	3,289,712
NET POSITION (DEFICIT)				
Net investment in capital assets	(54,003)	47,121	(6,882)	814,076
Restricted	237,714	-	237,714	-
Unrestricted	(45,669,899)	23,551	(45,646,348)	(44,900,199)
Total net position (deficit)	<u>\$ (45,486,188)</u>	<u>\$ 70,672</u>	<u>\$ (45,415,516)</u>	<u>\$ (44,086,123)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with summarized comparative totals for 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position (Deficit)			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	
							<u>2016</u>	<u>2015</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$22,947,499	\$ 5,392	\$3,900,618	\$ -	\$(19,041,489)	\$ -	\$(19,041,489)	\$(19,231,902)
Instructional student support services	2,219,184	-	298,352	-	(1,920,832)	-	(1,920,832)	(1,855,808)
Administrative and financial support services	3,618,051	-	203,005	-	(3,415,046)	-	(3,415,046)	(3,175,230)
Operation and maintenance of plant services	3,520,656	-	158,271	-	(3,362,385)	-	(3,362,385)	(3,764,219)
Pupil transportation	1,349,175	-	732,550	-	(616,625)	-	(616,625)	(666,940)
Student activities	836,738	29,175	48,605	-	(758,958)	-	(758,958)	(785,730)
Community services	31,504	-	-	-	(31,504)	-	(31,504)	(24,982)
Interest and amortization expense related to noncurrent liabilities	2,647,287	-	675,906	-	(1,971,381)	-	(1,971,381)	(1,591,863)
Total governmental activities	<u>37,170,094</u>	<u>34,567</u>	<u>6,017,307</u>	<u>-</u>	<u>(31,118,220)</u>	<u>-</u>	<u>(31,118,220)</u>	<u>(31,096,674)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	966,985	595,201	371,326	-	-	(458)	(458)	(6,688)
Total primary government	<u>\$38,137,079</u>	<u>\$629,768</u>	<u>\$6,388,633</u>	<u>\$ -</u>	<u>(31,118,220)</u>	<u>(458)</u>	<u>(31,118,678)</u>	<u>(31,103,362)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					19,955,628	-	19,955,628	19,610,583
Earned income taxes levied for general purposes					3,177,288	-	3,177,288	2,819,783
Other taxes levied for general purposes					497,706	-	497,706	479,442
Grants and entitlements not restricted to specific programs					6,137,620	-	6,137,620	5,915,467
Investment earnings					20,784	259	21,043	19,656
Total general revenues					<u>29,789,026</u>	<u>259</u>	<u>29,789,285</u>	<u>28,844,931</u>
CHANGE IN NET POSITION (DEFICIT)					(1,329,194)	(199)	(1,329,393)	(2,258,431)
NET POSITION (DEFICIT)								
Beginning of year					(44,156,994)	70,871	(44,086,123)	(41,827,692)
End of year					<u>\$(45,486,188)</u>	<u>\$70,672</u>	<u>\$(45,415,516)</u>	<u>\$(44,086,123)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2016 with summarized comparative totals for 2015

	Major Funds		Totals	
	General	Capital		
	Fund	Projects	2016	2015
		Fund		
ASSETS				
Cash	\$ 5,674,315	\$ 237,714	\$ 5,912,029	\$ 5,016,363
Taxes receivable	1,416,734	-	1,416,734	1,853,913
Due from other governments	1,385,947	-	1,385,947	923,348
Other receivables	17,329	-	17,329	17,329
Total assets	\$ 8,494,325	\$ 237,714	\$ 8,732,039	\$ 7,810,953
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 378,391	\$ -	\$ 378,391	\$ 396,666
Due to other funds	309,732	-	309,732	90,307
Accrued salaries, payroll withholdings and benefits	4,381,013	-	4,381,013	4,246,284
Other liabilities	56,527	-	56,527	56,386
Total liabilities	5,125,663	-	5,125,663	4,789,643
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property and per capita taxes	733,239	-	733,239	992,363
FUND BALANCES				
Nonspendable				
Inventories	17,329	-	17,329	17,329
Restricted for				
Capital projects	-	237,714	237,714	68
Committed to				
Capital projects	1,386,501	-	1,386,501	1,386,501
Unassigned	1,231,593	-	1,231,593	625,049
Total fund balances	2,635,423	237,714	2,873,137	2,028,947
Total liabilities, deferred inflows of resources and fund balances	\$ 8,494,325	\$ 237,714	\$ 8,732,039	\$ 7,810,953

See accompanying notes

DALLAS SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 2,873,137
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Amounts reported for governmental activities in the statement of net position (deficit) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	58,912,594
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Some of the District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	733,239
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The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position.	-
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Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	3,702,670
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Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(111,168,225)
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Accrued interest payable on noncurrent liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	(539,603)
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NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (45,486,188)</u>
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DALLAS SCHOOL DISTRICT

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

Year ended June 30, 2016 with summarized comparative totals for 2015

	Major Funds		Totals	
	General	Capital	2016	2015
	Fund	Projects Fund		
REVENUES				
Local sources	\$ 23,987,685	\$ 521	\$ 23,988,206	\$ 23,096,162
State sources	11,114,423	-	11,114,423	10,785,510
Federal sources	1,040,502	-	1,040,502	994,442
Total revenues	<u>36,142,610</u>	<u>521</u>	<u>36,143,131</u>	<u>34,876,114</u>
EXPENDITURES				
Current				
Instruction	20,549,444	-	20,549,444	20,362,637
Support services	9,551,359	303,115	9,854,474	9,666,739
Operation of noninstructional services	785,482	-	785,482	781,905
Facilities acquisition, construction and improvement services	19,500	37,875	57,375	1,595,451
Debt service	4,322,504	-	4,322,504	4,488,048
Total expenditures	<u>35,228,289</u>	<u>340,990</u>	<u>35,569,279</u>	<u>36,894,780</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>914,321</u>	<u>(340,469)</u>	<u>573,852</u>	<u>(2,018,666)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(32,777)	-	(32,777)	(498)
Issuance of debt - refunding	-	19,405,000	19,405,000	-
Payment of debt - refunding	-	(20,937,190)	(20,937,190)	-
Bond premiums	-	1,835,305	1,835,305	-
Transfers in	-	275,000	275,000	114,616
Transfers out	(275,000)	-	(275,000)	(114,616)
Total other financing sources (uses)	<u>(307,777)</u>	<u>578,115</u>	<u>270,338</u>	<u>(498)</u>
NET CHANGE IN FUND BALANCES	<u>606,544</u>	<u>237,646</u>	<u>844,190</u>	<u>(2,019,164)</u>
FUND BALANCES				
Beginning of year	<u>2,028,879</u>	<u>68</u>	<u>2,028,947</u>	<u>4,048,111</u>
End of year	<u>\$ 2,635,423</u>	<u>\$ 237,714</u>	<u>\$ 2,873,137</u>	<u>\$ 2,028,947</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

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

Year ended June 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 844,190
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay expenditures	\$ 36,400	
Depreciation expense	<u>(2,258,655)</u>	(2,222,255)

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

Deferred inflows of resources June 30, 2015	(992,363)	
Deferred inflows of resources June 30, 2016	<u>733,239</u>	(259,124)

The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.

108,892

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

Issuance of debt - refunding	(19,405,000)	
Repayment of bonds payable - refunding	20,260,000	
Repayment of bonds and notes payable	1,884,561	
Proceeds from bond premiums	(1,835,305)	
Amortization of discounts and premiums	438,391	
Repayment of extended-term financing	<u>66,013</u>	1,408,660

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

Change in net pension liability and related deferred inflows and outflows	(1,005,400)	
Current year change in accrued interest payable	62,233	
Current year change in compensated absences	5,182	
Current year change in net post-employment benefit (OPEB) obligation	<u>(271,572)</u>	(1,209,557)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,329,194)</u>
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See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUNDS

June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 92,690	\$ 50,107	\$ 142,797	\$ 68,331
Due from other governments	32,222	-	32,222	31,563
Due from other funds	115,026	194,706	309,732	90,307
Inventories	13,914	-	13,914	13,065
Total current assets	<u>253,852</u>	<u>244,813</u>	<u>498,665</u>	<u>203,266</u>
NONCURRENT ASSETS				
Capital assets, net	47,121	-	47,121	54,416
Total assets	<u>300,973</u>	<u>244,813</u>	<u>545,786</u>	<u>257,682</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	212,565	-	212,565	108,196
Insurance claims payable	-	244,813	244,813	170,322
Unearned revenues	17,736	-	17,736	17,185
Total liabilities	<u>230,301</u>	<u>244,813</u>	<u>475,114</u>	<u>295,703</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	47,121	-	47,121	54,416
Unrestricted (deficit)	23,551	-	23,551	(92,437)
Total net position (deficit)	<u>\$ 70,672</u>	<u>\$ -</u>	<u>\$ 70,672</u>	<u>\$ (38,021)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
OPERATING REVENUES				
Charges for services	\$ 595,201	\$ 3,771,536	\$ 4,366,737	\$ 4,161,998
OPERATING EXPENSES				
Employee benefits	-	3,587,774	3,587,774	3,415,253
Purchased services	435,465	75,277	510,742	589,782
Supplies	468,711	-	468,711	482,154
Depreciation	7,295	-	7,295	7,293
Other	55,514	-	55,514	65,147
Total operating expenses	<u>966,985</u>	<u>3,663,051</u>	<u>4,630,036</u>	<u>4,559,629</u>
Operating loss	<u>(371,784)</u>	<u>108,485</u>	<u>(263,299)</u>	<u>(397,631)</u>
NONOPERATING REVENUES				
Earnings on investments	259	407	666	647
State sources	25,133	-	25,133	24,998
Federal sources	346,193	-	346,193	308,974
Total nonoperating revenues	<u>371,585</u>	<u>407</u>	<u>371,992</u>	<u>334,619</u>
CHANGE IN NET POSITION (DEFICIT)	(199)	108,892	108,693	(63,012)
NET POSITION (DEFICIT)				
Beginning of year	<u>70,871</u>	<u>(108,892)</u>	<u>(38,021)</u>	<u>24,991</u>
End of year	<u>\$ 70,672</u>	<u>\$ -</u>	<u>\$ 70,672</u>	<u>\$ (38,021)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 571,033	\$ -	\$ 571,033	\$ 581,571
Cash received for assessments made to other fund	-	3,576,830	3,576,830	3,599,066
Cash payments to suppliers for goods and services	(788,166)	-	(788,166)	(917,157)
Cash paid for insurance claims	-	(3,513,283)	(3,513,283)	(240,784)
Cash paid for operating expenses	-	(75,277)	(75,277)	(3,346,263)
Net cash used for operating activities	<u>(217,133)</u>	<u>(11,730)</u>	<u>(228,863)</u>	<u>(323,567)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	25,272	-	25,272	23,390
Federal sources	<u>277,391</u>	<u>-</u>	<u>277,391</u>	<u>236,812</u>
Net cash provided by noncapital financing activities	<u>302,663</u>	<u>-</u>	<u>302,663</u>	<u>260,202</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	<u>259</u>	<u>407</u>	<u>666</u>	<u>647</u>
Net increase (decrease) in cash	<u>85,789</u>	<u>(11,323)</u>	<u>74,466</u>	<u>(62,718)</u>
CASH				
Beginning of year	<u>6,901</u>	<u>61,430</u>	<u>68,331</u>	<u>131,049</u>
Ending of year	<u>\$ 92,690</u>	<u>\$ 50,107</u>	<u>\$ 142,797</u>	<u>\$ 68,331</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	\$ (371,784)	\$ 108,485	\$ (263,299)	\$ (397,631)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation	7,295	-	7,295	7,293
Donated commodities used	68,004	-	68,004	54,806
(Increase) decrease in				
Due from other funds	(24,720)	(194,706)	(219,426)	13,881
Inventories	(849)	-	(849)	(2,508)
Increase (decrease) in				
Accounts payable	104,369	-	104,369	(73,156)
Insurance claims payable	-	74,491	74,491	68,990
Unearned revenue	<u>552</u>	<u>-</u>	<u>552</u>	<u>4,758</u>
Net cash used for operating activities	<u>\$ (217,133)</u>	<u>\$ (11,730)</u>	<u>\$ (228,863)</u>	<u>\$ (323,567)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	<u>\$ 68,004</u>	<u>\$ -</u>	<u>\$ 68,004</u>	<u>\$ 54,806</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUND

June 30, 2016 with summarized comparative totals for 2015

	<u>Agency</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	<u>\$ 117,626</u>	<u>\$ 103,626</u>
LIABILITIES		
Due to student groups	<u>\$ 117,626</u>	<u>\$ 103,626</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dallas School District (the "**District**") operates two elementary schools, a middle school and a senior high school to provide education and related services to the residents in the Townships of Dallas, Kingston and Franklin and the Borough of Dallas. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

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

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements

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

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

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

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Revenue Recognition

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

Expenditure Recognition

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Proprietary Funds

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

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

The Internal Service Fund is used to account for the District's self-funded healthcare plan.

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

Fiduciary Funds

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

Cash and Cash Equivalents

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

Interfund Receivables and Payables

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

Property Taxes

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

July 15 – September 14	- Discount period, 2% of gross levy
September 15 – November 14	- Face period
November 15 - collection	- Penalty period, 10% of gross levy
January 1	- Lien date

The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2015-2016 was 12.6262 mills (\$12.62 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Installment One	- August 31
Installment Two	- October 31
Installment Three	- December 15

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

Prepaid Items and Inventories

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

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

Unearned Revenues

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

Capital Assets

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

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

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

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

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2016.

Compensated Absences

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Long-Term Obligations

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

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

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

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

Unassigned

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

The School Board has set a General Fund maximum unassigned fund balance of 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

Use of Estimates

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

Effective July 1, 2015, the District adopted the provisions of GASB Statement No. 72, *"Fair Value Measurement and Application"*. GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

New Accounting Pronouncements

GASB Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"* will be effective for the District for the year ended June 30, 2017. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77, *"Tax Abatement Disclosures"* will be effective for the District for the year ended June 30, 2017. GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements.

GASB Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"* will be effective for the District for the year ended June 30, 2017. GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*" will be effective for the District for the year ended June 30, 2017. The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

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

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

(3) DEPOSITS

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2016, the carrying amount of the District's deposits was \$6,172,452 and the bank balance was \$6,293,446. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$500,000 was covered by federal depository insurance and \$5,793,446 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 371,280	\$ -	\$ -	\$ 371,280
Capital assets being depreciated				
Buildings and improvements	80,417,222	36,400	-	80,453,622
Furniture and equipment	3,195,810	-	-	3,195,810
Total capital assets being depreciated	<u>83,613,032</u>	<u>36,400</u>	<u>-</u>	<u>83,649,432</u>
Less accumulated depreciation for				
Buildings and improvements	(20,276,194)	(2,120,476)	-	(22,396,670)
Furniture and equipment	(2,573,269)	(138,179)	-	(2,711,448)
Total accumulated depreciation	<u>(22,849,463)</u>	<u>(2,258,655)</u>	<u>-</u>	<u>(25,108,118)</u>
Total capital assets being depreciated, net	<u>60,763,569</u>	<u>(2,222,255)</u>	<u>-</u>	<u>58,541,314</u>
Governmental activities, net	<u>\$ 61,134,849</u>	<u>\$(2,222,255)</u>	<u>\$ -</u>	<u>\$ 58,912,594</u>
Business-type activities				
Machinery and equipment	\$ 214,543	\$ -	\$ -	\$ 214,543
Less accumulated depreciation	(160,127)	(7,295)	-	(167,422)
Business-type activities, net	<u>\$ 54,416</u>	<u>\$(7,295)</u>	<u>\$ -</u>	<u>\$ 47,121</u>

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

Governmental activities	
Instruction	\$1,572,886
Instructional student support	154,194
Administrative and financial support services	228,924
Operation and maintenance of plant services	243,386
Student activities	59,265
Total depreciation expense – governmental activities	<u>\$2,258,655</u>
Business-type activities	
Food service	<u>\$ 7,295</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Food Service Fund	\$115,026	General Fund	\$115,026
Internal Service Fund	194,706	General Fund	194,706
	<u>\$309,732</u>		<u>\$309,732</u>

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

A summary of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$275,000</u>	General Fund	<u>\$275,000</u>

Transfers represent monies to subsidize costs associated with capital projects.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 55,065,000	\$19,405,000	\$21,045,000	\$ 53,425,000	\$1,300,000
Notes payable	4,919,918	-	1,099,561	3,820,357	1,113,688
Bond premiums	357,648	1,835,305	567,119	1,625,834	136,259
Bond discounts	(139,343)	-	(128,728)	(10,615)	(1,061)
Total general obligation debt	<u>60,203,223</u>	<u>21,240,305</u>	<u>22,582,952</u>	<u>58,860,576</u>	<u>2,548,886</u>
Other noncurrent liabilities					
Capital leases	172,034	-	66,013	106,021	68,558
Compensated absences	219,209	-	5,182	214,027	-
OPEB obligation	1,730,029	849,430	577,858	2,001,601	-
Net pension liability (See Note 7)	<u>45,716,000</u>	<u>4,270,000</u>	<u>-</u>	<u>49,986,000</u>	<u>-</u>
Total other noncurrent liabilities	<u>47,837,272</u>	<u>5,119,430</u>	<u>649,053</u>	<u>52,307,649</u>	<u>68,558</u>
Total noncurrent liabilities	<u>\$108,040,495</u>	<u>\$26,359,735</u>	<u>\$23,232,005</u>	<u>\$111,168,225</u>	<u>\$2,617,444</u>

Noncurrent liabilities are generally liquidated by the General Fund.

General Obligation Debt

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

General obligation debt outstanding as of June 30, 2016 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2010B	6.34% - 6.54%	\$18,190,000	09/01/2034	\$18,190,000
Series of 2012	1.00% - 3.125%	\$9,845,000	04/15/2031	9,825,000
Series of 2013	0.45% - 3.375%	\$7,580,000	10/15/2025	6,240,000
Series of 2015	0.45% - 2.75%	\$5,980,000	09/01/2026	5,745,000
Series of 2016	3.00% - 5.00%	\$13,425,000	04/01/2029	<u>13,425,000</u>
Total general obligation bonds				<u>53,425,000</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

General obligation notes				
Series of 2014A	1.10%	\$4,367,818	04/15/2019	2,599,236
Series of 2014B	1.95%	\$1,500,000	04/15/2024	<u>1,221,121</u>
Total general obligation notes				<u>3,820,357</u>
Total general obligation debt				<u>\$57,245,357</u>

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

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2017	\$ 2,413,688	\$ 2,380,563	\$ 4,794,251
2018	2,484,185	2,330,087	4,814,272
2019	2,417,048	2,288,021	4,705,069
2020	2,165,966	2,241,274	4,407,240
2021	2,223,993	2,187,905	4,411,898
2022-2026	13,630,477	9,823,986	23,454,463
2027-2031	16,245,000	7,057,831	23,302,831
2032-2035	<u>15,665,000</u>	<u>2,103,428</u>	<u>17,768,428</u>
	<u>\$57,245,357</u>	<u>\$30,413,095</u>	<u>\$87,658,452</u>

Series of 2015 General Obligation Bonds

On August 26, 2015, the District issued \$5,980,000 of general obligation bonds, Series of 2015, the proceeds from which were used to currently refund the District's general obligation bonds, Series of 2010A and 2010C, in the amount of \$5,800,000 and to pay for the costs of issuance. The District currently refunded a portion of the general obligation bonds, Series of 2010A and 2010C, to reduce future debt service payments by \$297,526.

Series of 2016 General Obligation Bonds

On March 23, 2016, the District issued \$13,425,000 of general obligation bonds, Series of 2016, the proceeds from which were used to advance refund the District's general obligation bonds, Series of 2007, in the amount of \$14,460,000 and to pay for the costs of issuance. The District advance refunded the general obligation bonds, Series of 2007, to reduce future debt service payments by \$1,728,947.

In-Substance Defeasance

The District has defeased bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2016, the amount of defeased outstanding debt was as follows:

	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Series of 2007	04/01/2017	<u>\$14,460,000</u>

Build America Bonds

On July 22, 2010 the District issued General Obligation Bonds, Series of 2010B, in the amount of \$18,190,000 under the Build America Bonds ("BABs") program proceeds from which were used for the construction of a new senior high school. The BABs program was created by the American Recovery and Reinvestment Act ("ARRA") and provides a federal subsidy of 35% of the interest paid on the bonds to fund capital expenditures.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Capital Leases

The District has entered into long-term lease agreements for computer and transportation equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2016 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 68,558	\$3,324	\$ 71,882
2018	<u>37,463</u>	<u>1,098</u>	<u>38,561</u>
	<u>\$106,021</u>	<u>\$4,422</u>	<u>\$110,443</u>

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides for specific early retirement incentive payments and healthcare benefits until age 65 to all retirees. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016, 2015 and 2014 was as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 849,430	68.03%	\$2,001,601
2015	\$1,003,069	64.77%	\$1,730,029
2014	\$1,019,934	62.97%	\$1,376,681

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual OPEB cost (expense)	\$ 849,430
Contributions made	<u>(577,858)</u>
Increase in net OPEB obligation	271,572
Net OPEB obligation – beginning of year	<u>1,730,029</u>
Net OPEB obligation – end of year	<u>\$2,001,601</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$6,700,723, all of which was unfunded. The covered payroll (annual payroll of active employees was \$12,482,489 and the ratio of the unfunded actuarial accrued liability ("**UAAL** ") to the covered payroll was 53.68%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District 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 supplementary information following the notes to the financial statements, presents information about whether the actuarial value of 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 substantive benefits (the benefits as understood by the District and employees) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and retirees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.00% discount rate and an annual healthcare cost trend rate of 8.00%, decreasing 1.00% each year to an ultimate rate of 5.00% in 2018 and later. The UAAL is being amortized based on the level dollar, 15-year closed period.

(7) PENSION PLAN

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

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 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.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Benefits Provided

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

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

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

Contributions

Member Contributions

Active members who joined 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.

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.

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.

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 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 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%.

Employer Contributions

The school district's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% 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 \$3,498,264 for the year ended June 30, 2016.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

At June 30, 2016, the District reported a liability of \$49,986,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the District's proportion was 0.1154 percent, which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,005,400. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$206,278
Net difference between projected and actual investment earnings	-	101,172
Changes in proportions	625,000	34,000
Difference between employer contributions and proportionate share of total contributions	-	79,144
Contributions subsequent to the measurement date	<u>3,498,264</u>	<u>-</u>
	<u>\$4,123,264</u>	<u>\$420,594</u>

\$3,498,264 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (71,214)
2018	(71,214)
2019	(71,214)
2020	<u>418,048</u>
	<u>\$204,406</u>

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the system's total pension liability as the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50% includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real growth wage of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. 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.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using 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>Long-Term Target Allocation</u>	<u>Expected Real Rate of Return</u>
Public markets global equity	22.5 %	4.8%
Private markets (equity)	15.0 %	6.6%
Private real estate	12.0 %	4.5%
Global fixed income	7.5 %	2.4%
U.S. long-term treasuries	3.0 %	1.4%
TIPS	12.0 %	1.1%
High yield bonds	6.0 %	3.3%
Cash	3.0 %	0.7%
Absolute return	10.0 %	4.9%
Risk parity	10.0 %	3.7%
MLPs/Infrastructure	5.0 %	5.2%
Commodities	8.0 %	3.1%
Financing (LIBOR)	(14.0)%	1.1%
	<u>100.0 %</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following represents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

	<u>1% Decrease</u> <u>6.50%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.50%</u>	<u>1% Increase</u> <u>8.50%</u>
District's proportionate share of the net pension liability	\$61,612,000	\$49,986,000	\$40,214,000

Pension Plan Fiduciary Net Position

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

(8) JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

West Side Career and Technology Center

The District and four other Luzerne County school districts participate in the West Side Area Career and Technology Center (the "**WSCTC**"). The WSCTC provides vocational-technical training and education to students of the participating school districts. The WSCTC is controlled by a joint board comprised of representative school board members of participating school districts. District oversight of the WSCTC operations is the responsibility of the joint board. The District's share of operating costs for the WSCTC fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2015-2016 was \$462,412.

The WSCTC prepares financial statements that are available to the public from their administrative office located at 75 Evans Street, Kingston, Pennsylvania 18704.

Luzerne County Intermediate Unit

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

(9) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including workers compensation. For insured programs, there were no significant reductions in insurance coverages during the 2015-2016 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2016 which has historically been satisfied within 60 days after June 30.

The following table presents the components of the self-insurance claims liability and the related changes in the claims liability for the year ended June 30, 2016:

Insurance claims liability – beginning of year	\$ 170,322
Current year insurance claims and changes in estimates	3,587,774
Insurance claims paid	<u>(3,513,283)</u>
Insurance claims liability – end of year	<u>\$ 244,813</u>

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 9, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DALLAS SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Local sources	\$23,118,863	\$23,987,685	\$ 868,822
State sources	11,142,854	11,114,423	(28,431)
Federal sources	<u>1,005,000</u>	<u>1,040,502</u>	<u>35,502</u>
Total revenues	<u>35,266,717</u>	<u>36,142,610</u>	<u>875,893</u>
EXPENDITURES			
Instruction			
Regular programs	15,263,271	15,252,085	11,186
Special programs	4,395,449	4,386,990	8,459
Vocational programs	759,333	866,181	(106,848)
Other instructional programs	<u>38,063</u>	<u>44,188</u>	<u>(6,125)</u>
Total instruction	<u>20,456,116</u>	<u>20,549,444</u>	<u>(93,328)</u>
Support services			
Pupil support services	1,087,744	1,253,262	(165,518)
Instructional staff services	439,642	416,702	22,940
Administrative services	1,777,008	1,916,866	(139,858)
Pupil health	276,105	281,323	(5,218)
Business services	842,489	830,636	11,853
Operation and maintenance of plant services	3,235,747	3,179,785	55,962
Student transportation services	1,123,850	1,366,217	(242,367)
Support services - central	183,667	243,341	(59,674)
Other support services	<u>71,500</u>	<u>63,227</u>	<u>8,273</u>
Total support services	<u>9,037,752</u>	<u>9,551,359</u>	<u>(513,607)</u>
Operation of non-instructional services			
Student activities	739,973	774,292	(34,319)
Community services	<u>12,000</u>	<u>11,190</u>	<u>810</u>
Total operation of non-instructional services	<u>751,973</u>	<u>785,482</u>	<u>(33,509)</u>
Facilities acquisition, construction and improvement services	<u>-</u>	<u>19,500</u>	<u>(19,500)</u>
Debt service	<u>4,534,039</u>	<u>4,322,504</u>	<u>211,535</u>
Total expenditures	<u>34,779,880</u>	<u>35,228,289</u>	<u>(448,409)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>486,837</u>	<u>914,321</u>	<u>427,484</u>
OTHER FINANCING SOURCES (USES)			
Refund of prior year receipts	-	(32,777)	(32,777)
Transfers out	(100,000)	(275,000)	(175,000)
Budgetary reserve	<u>(920,000)</u>	<u>-</u>	<u>920,000</u>
Total other financing sources (uses)	<u>(1,020,000)</u>	<u>(307,777)</u>	<u>712,223</u>
NET CHANGE IN FUND BALANCE	<u>\$ (533,163)</u>	<u>606,544</u>	<u>\$1,139,707</u>
FUND BALANCE			
Beginning of year		<u>2,028,879</u>	
End of year		<u>\$ 2,635,423</u>	

DALLAS SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2015	\$ -	\$6,700,723	\$6,700,723	0.00%	\$12,482,489	53.68%
07/01/2013	\$ -	\$7,435,400	\$7,435,400	0.00%	\$12,383,983	60.04%
07/01/2011	\$ -	\$7,308,500	\$7,308,500	0.00%	\$12,480,000	58.56%

DALLAS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year ended June 30

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.1154%	0.1155%
District's proportionate share of the net pension liability (asset)	\$49,986,000	\$45,716,000
District's covered-employee payroll	\$14,848,381	\$14,735,882
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	54%	57%

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

DALLAS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,980,000	\$ 2,301,000
Contributions in relation to the contractually required contribution	<u>2,902,782</u>	<u>2,274,056</u>
Contribution deficiency (excess)	77,218	26,944
District's covered-employee payroll	\$14,848,381	\$14,735,882
Contributions as a percentage of covered-employee payroll	20%	16%

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

SINGLE AUDIT

DALLAS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>U.S. Department of Education</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
Title I - Improving Basic Programs	I	84.010	013-150111	07/01/14 - 09/30/15	\$248,007	\$ 95,474	\$ 95,474	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-160111	07/01/15 - 09/30/16	296,013	196,290	-	296,013	296,013	99,723
Total CFDA #84.010						291,764	95,474	296,013	296,013	99,723
Title II - Improving Teacher Quality	I	84.367	020-150111	07/01/14 - 09/30/15	90,657	42,256	42,256	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-160111	07/01/15 - 09/30/16	90,842	60,645	-	90,842	90,842	30,197
Total CFDA #84.367						102,901	42,256	90,842	90,842	30,197
<u>Passed Through the Luzerne County Intermediate Unit</u>										
I.D.E.A. - Part B, Section 611	I	84.027	N/A	07/01/15 - 06/30/16	226,591	226,591	-	226,591	226,591	-
Total U.S. Department of Education						621,256	137,730	613,446	613,446	129,920
<u>U.S. Department of Agriculture</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
State Matching Share	S	N/A	N/A	07/01/14 - 06/30/15	N/A	2,750	2,750	-	-	-
State Matching Share	S	N/A	N/A	07/01/15 - 06/30/16	N/A	22,522	-	25,133	25,133	2,611
Total State Matching Share						25,272	2,750	25,133	25,133	2,611

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
Passed-Through										
<u>Department of Education (cont'd)</u>										
Breakfast Program	I	10.553	N/A	07/01/14 - 06/30/15	N/A	4,494	4,494	-	-	-
Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	35,245	-	40,008	40,008	4,763
Total CFDA #10.553						39,739	4,494	40,008	40,008	4,763
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	N/A	24,318	24,318	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	213,333	-	238,181	238,181	24,848
<u>Passed-Through the Pennsylvania Department of Agriculture</u>										
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	68,854	(13,065)	68,004	68,004	(13,915)
Total CFDA #10.555						306,505	11,253	306,185	306,185	10,933
Total U.S. Department of Agriculture						371,516	18,497	371,326	371,326	18,307
Total Federal Awards and Certain State Grants						\$992,772	\$156,227	\$984,772	\$984,772	\$148,227
Total Federal Awards						\$967,500	\$153,477	\$959,639	\$959,639	\$145,616
Total State Awards						25,272	2,750	25,133	25,133	2,611
Total Federal Awards and Certain State Grants						\$992,772	\$156,227	\$984,772	\$984,772	\$148,227
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						\$346,244	\$ 15,747	\$346,193	\$346,193	\$ 15,696

Source Codes

D - Direct Funding

I - Indirect Funding

S - State Share

DALLAS SCHOOL DISTRICT

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

June 30, 2016

(1) FEDERAL EXPENDITURES

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

(2) BASIS OF ACCOUNTING

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

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2015-2016 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2016 was \$40,647.

(5) BUILD AMERICA BONDS PROGRAM

The District participates in the Build America Bonds ("**BABs**") program which was created by the American Recovery and Reinvestment Act ("**ARRA**"). In conjunction with the BABs program, the District receives subsidy reimbursements for a portion of the interest paid on the bonds. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of BABs subsidy payments recognized for the year ended June 30, 2016 was \$386,409.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2016.

DALLAS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2016

There were no audit findings for the year ended June 30, 2015.



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

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dallas School District, Dallas, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Dallas School District's basic financial statements, and have issued our report thereon dated February 9, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
February 9, 2017**



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

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Dallas School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Dallas School District's major federal programs for the year ended June 30, 2016. Dallas School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Dallas School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania
February 9, 2017**

DALLAS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

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

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

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