

**QUAKERTOWN COMMUNITY
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2013

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Quakertown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of QUAKERTOWN COMMUNITY SCHOOL DISTRICT, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the QUAKERTOWN COMMUNITY SCHOOL DISTRICT as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 12 and pages 43 through 45, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

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

Report on Summarized Comparative Information

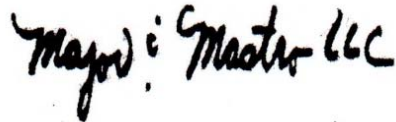
The prior year summarized comparative information has been derived from the School's 2012 financial statements and, in our report dated February 11, 2013, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of the QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over financial reporting and compliance.

January 31, 2014

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

Handwritten signature in black ink that reads "Major & Mastro LLC".

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2013

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the financial performance of Quakertown Community School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this section is to look at the District's performance as a whole; however, it also should be read in conjunction with the basic financial statements and the accompanying notes.

FINANCIAL ANALYSIS

The increase in net position of the governmental activities was \$215,961 and the decrease in the net position of the business-type activities was \$51,289, for a total net asset increase of \$164,672.

The District expended \$3,911,934 on capital assets during the year.

The actual results of the District's General Fund for 2012-2013 show that revenues and other financing sources collected during the year were over budget by \$1,172,315, and expenditures were under budget by \$1,389,935. The General Fund reported a positive fund balance of \$13,681,466 as of June 30, 2013, or 14.4 percent of the 2013-2014 \$95.0 million operating budget. Fund balance of \$215,394 is non spendable and \$4,042,958 is committed, which leaves \$9,423,114 as unassigned, which is 9.9 percent of the 2013-2014 budget.

DATA ANALYSIS: THE BASIC FINANCIAL STATEMENTS

The MD&A introduces the District's basic financial statements which consist of a series of financial statements and notes to those statements. These statements are organized so that the reader, by considering the government-wide financial statements, can understand the District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business. These activities consist of food service operations. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

Government-wide Reporting Process

The MD&A is only one of the components of the District's financial statements. Two statements that provide comprehensive information about the entire District are the following:

- **Statement of Net Position** – identifies what kinds of assets the District owns, what kinds of debts it owes and the composition of the net position that remain.
- **Statement of Activities** – identifies the costs of providing public school services and the resources to finance the services.

The basis of accounting used in these government-wide statements is full accrual with an economic resources focus. All assets and liabilities, both financial and capital, and short-term and long-term are presented. This basis of accounting takes into account all the current year's revenues and expenses regardless of when cash is received or paid.

In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant services, pupil transportation and extracurricular activities. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-type Activities** – the District operates a food service operation which charges fees to staff and students to cover some of the costs of the food service operation. State and federal breakfast and lunch programs further subsidize the costs of operations.

DISTRICT FUND REPORTING

Fund financial statements provide the next level of detail about a district's funds. These statements focus on the District's most significant funds. There are three kinds of fund financial statements – governmental, proprietary and fiduciary funds.

Governmental funds – The District's major governmental funds are the general fund and the capital projects fund. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements include only short-term information: the most readily available assets and currently due liabilities, and the resources that flow into and out of a school district during the year. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. The District's proprietary fund reports the finances of the food services operation. This fund uses the same basis of accounting as business-type activities: therefore, these statements will essentially match government-wide statement reporting of business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds – The District is the trustee, or fiduciary, for some scholarship funds. In addition, the District accounts for funds held on behalf of its students. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. The District excludes these activities from its other financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statement of net position and statement of activities for its governmental and business-type activities (combined) as of June 30, 2013 and 2012 are summarized below.

STATEMENT OF NET POSITION

	2013	2012	Variance
ASSETS			
Current and other assets	\$ 48,069,264	\$ 42,860,944	\$ 5,208,320
Capital assets:			
Land	2,187,468	1,177,235	1,010,233
Land improvements	5,555,859	5,559,035	(3,176)
Buildings and improvements	108,221,862	123,914,687	(15,692,825)
Furniture and equipment	18,170,638	21,105,026	(2,934,388)
Construction-in-progress	4,540,787	1,942,490	2,598,297
Total Capital Assets	138,676,614	153,698,473	(15,021,859)
Less: Accumulated depreciation	(46,937,515)	(56,501,165)	9,563,650
Capital Assets, Net	91,739,099	97,197,308	(5,458,209)
 TOTAL ASSETS	 139,808,363	 140,058,252	 (249,889)
 Current liabilities	 4,700,992	 4,385,174	 315,818
Long-term liabilities:			
Due within one year	5,684,215	5,328,456	355,759
Due after one year	106,939,890	102,554,534	4,385,356
TOTAL LIABILITIES	117,325,097	112,268,164	5,056,933
 Net position:			
Invested in capital assets, net of related debt	9,848,145	13,820,676	(3,972,531)
Unrestricted	12,635,121	13,969,412	(1,334,291)
TOTAL NET POSITION	\$ 22,483,266	\$ 27,790,088	\$ (5,306,822)

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$22,483,266 at the close of the 2012-2013 fiscal year.

A portion of the District's total net position reflects its investment in capital assets net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in 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.

The District reported an increase in its unrestricted net position as a result of the current year operations. The District's investment in capital assets net of related debt decreased as a result of an updated appraisal of capital assets which determined that capital assets were overstated.

STATEMENT OF ACTIVITIES

	2013	2012	Variance
EXPENDITURES			
Governmental activities	\$ 88,366,661	\$ 84,698,728	\$ 3,667,933
Business-type activities	2,020,919	2,069,247	(48,328)
TOTAL EXPENDITURES	90,387,580	86,767,975	3,619,605
REVENUES			
Program revenues:			
Charges for services	2,200,785	2,184,726	16,059
Operating grants and contributions	8,153,673	7,073,316	1,080,357
Capital grants and contributions	545,433	563,954	(18,521)
Total Program Revenues	10,899,891	9,821,996	1,077,895
General revenues	79,652,361	78,898,938	753,423
TOTAL REVENUES	90,552,252	88,720,934	1,831,318
Change in Net Position	164,672	1,952,959	(1,788,287)
Prior period adjustment	(5,471,494)	0	(5,471,494)
Net Position, Beginning of Year	27,790,088	25,837,129	1,952,959
Net Position, End of Year	\$ 22,483,266	\$ 27,790,088	\$ (5,306,822)

The cost of all District activities in 2012-2013 was \$90,387,580. The amount that taxpayers ultimately financed for those activities through tax revenues was \$65,879,670, or 72.9 percent. A majority of the other cost was paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions, as well as charges for services (\$22,702,952 or 25.1 percent).

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

General local revenues increased due primarily to real estate tax revenues which increased commensurate with the increased millage rate. State revenues increased due to the state reimbursement subsidy of the district's payment towards the Public Employees' Retirement System. Overall revenues exceeded expenses by \$164,672.

General Fund Revenues

The District receives its General Fund revenues from three major sources, categorized as local, state and federal. The primary source of revenue, 77 percent, is from local sources, most of which comes from real estate taxes. State revenues account for 22 percent, and federal revenues 1 percent.

The largest increase in local revenues came from real estate taxes. This increase was realized as a result of a 1.25 millage rate increase.

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Local Revenues			
Real estate taxes	\$ 54,394,514	\$ 53,685,907	\$ 708,607
Interim real estate taxes	162,130	239,540	(77,410)
Earned income taxes	8,559,320	8,616,185	(56,865)
IDEA	778,723	774,179	4,544
Other	3,984,537	3,865,716	118,821
	<u>67,879,224</u>	<u>67,181,527</u>	<u>697,697</u>
State Revenues			
Basic instructional subsidy	8,840,579	8,841,198	(619)
Special education	2,583,566	2,504,595	78,971
Transportation	1,248,311	1,242,990	5,321
Social security and retirement	4,104,244	3,279,919	824,325
Other	2,998,992	3,056,265	(57,273)
	<u>19,775,692</u>	<u>18,924,967</u>	<u>850,725</u>
Federal Revenues			
ARRA funds	-	40,600	(40,600)
Title I	410,661	383,154	27,507
Ed Jobs	-	9,670	(9,670)
Other	352,176	164,992	187,184
	<u>762,837</u>	<u>598,416</u>	<u>164,421</u>
Other sources	<u>1,073,375</u>	<u>320,000</u>	<u>753,375</u>
TOTAL	<u>\$ 89,491,128</u>	<u>\$ 87,024,910</u>	<u>\$ 2,466,218</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

General Fund Expenses

The expenditures of the District are categorized into four major areas, as follows:

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Instruction	\$ 54,436,607	\$ 51,874,543	\$ 2,562,064
Support services	27,193,227	25,467,895	1,725,332
Operation of noninstructional services	852,776	814,839	37,937
Debt service/other	8,345,352	7,569,173	776,179
	<u>\$ 90,827,962</u>	<u>\$ 85,726,450</u>	<u>\$ 5,101,512</u>

The largest area of expenditures is the instruction to the students, represented on the first line of the preceding table. Support services include guidance, attendance, psychological and social services, tax collection, legal fees, administrative expenses, staff and curriculum development, health, transportation, technology, and operation and maintenance of buildings and grounds,

Non-instructional services include student activities, athletics, and community services such as crossing guards.

Fund Balances

The General Fund Fund Balance decreased by \$1,336,834. This is the difference between the revenues and other financing sources of \$89,491,128 and the expenditures and other financing uses of \$90,827,962, as shown above. In other words, the expenditures exceeded the revenues by \$1,336,834. The fund balance, as a percentage of total expenditures, was 15.1 percent.

The recommended fund balance level is between five percent and eight percent. During the budget process for the 2012-13 fiscal year, the Board of School Directors (the Board) intended to bring the fund balance within that range. However, a district-wide effort to be conservative on all expenditures resulted in a higher fund balance than expected.

The Capital Projects fund balance increased by \$6,170,120 to an ending balance of \$27,594,589. The increase in fund balance was due to the issuance of debt for planned spending for the Senior High School Renovation. Construction will commence June 2013 and the High School Renovation will be completed in September 2017.

General Fund Budget Information

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. However, the Board also maintains budgets for the Capital Projects Fund and the Food Service Fund.

The final budget for expenditures reflects required changes in functional categories due to spending patterns. All budget transfers at the function level are approved by the Board. The budgetary comparison statement for the general fund provides more detail on these adjustments in the financial statements. The original budget was modified to incorporate approved federal programs. This modification was the reason for the significant changes between the original and final budgets.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Capital Assets

The District has \$91,739,099 invested in capital assets net of depreciation, with \$91,695,959 attributed to governmental activities. Acquisitions for governmental activities totaled \$3,911,934 and depreciation was \$3,924,338. The majority of the acquisitions was for Construction in progress for the Senior High School Renovation (See notes to the basic financial statements-Note 5).

Debt

At June 30, 2013, the District had \$109,599,000 in outstanding notes and bonds payable. The District paid \$5,258,000 in principal on outstanding debt during the fiscal year. Other long-term obligations include accrued sick leave and retirement severance for employees of the District. Detailed information regarding long-term debt is included in the notes to the financial statements (note 6).

Labor Relations

The Quakertown Community Education Association (QCEA), an affiliation of the National Education Association, represents the professional staff of the Quakertown Community School District is under contract through 2016. The Quakertown Educational Personnel Association (QESPA), an affiliation of the National Education Association, represents the support staff of Quakertown Community School District and is under contract through 2017.

Strategic Plan

In August 2007, the District adopted a comprehensive Strategic Plan for 2007 through the fall of 2013 that focused on the purpose and resources of the District. With the help of board members, administrators, teachers, support staff, parents, community members, business leaders and students, five goals were adopted at that time. The District is committed to implementing those goals.

- Continue, develop, implement and support effective programs and strategies that meet the specific needs of every student and that result in increased student achievement.
- Implement and support methods for improved communication with all stakeholders.
- Provide a variety of staff development programs that empower the staff to grow professionally and that support District initiatives.
- Review processes and procedures to ensure efficient and effective use of District resources. Continue planning and implementation to provide safe, physically sound and appropriate facilities for all students and staff.
- Create and support an educational and work environment that welcomes and celebrates diversity.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Major Financial Issues and Future Changes

Enrollment at Quakertown Community School District has increased less than 100 students over the last 10 years. While the number of new homes being built is slow, the student population is expected to grow somewhat over the next five years.

To accommodate past growth, the District opened Strayer Middle School in the fall of 2004. Pfaff Elementary School was opened in the fall of 2005, and the former middle school was renovated and opened as the Freshman Center in fall of 2005, relieving the overcrowding at the high school. The Richland Elementary School renovation was completed for the fall of 2010 including small additions to replace four modular classrooms, to comply with ADA and to increase the size of the kitchen. Renovations have been completed to the building at 100 Commerce Drive, the District Services Center which now houses the administrative staff and an alternative school. The area formerly used for the District offices is now used for two new programs: Options Academy and Infinity Cyber School.

In the summer of 2013, a major four-phase renovation to the High School will begin. The \$76 million dollar project will be completed in September of 2017. The millage impact of the project will be a 7.50 Mills phased in over a 7 year period. \$42,660,000 of the funding is now in place.

Employer contribution rates for the Public School Employees' Retirement System (PSERS) are projected to increase significantly. The rates are projected as follows:

2013-14		16.93%		2.6 Mills
2014-15		21.31%		2.6 Mills
2015-16		25.80%		2.8 Mills
2016-17		28.30%		1.7 Mills
2017-18		29.15%		0.5 Mills

Tax assessment appeals have slowed, but there has not been any significant growth in the assessment rolls since 2007-08.

2008-09		400,050,702		
2009-10		401,522,240		0.37%
2010-11		401,198,336		-0.08%
2011-12		399,450,798		-0.44%
2012-13		401,139,569		0.42%
2013-14		399,774,960		-0.34%

In June 2006, Act 1 of 2006 (the Taxpayer Relief Act) was passed by the Pennsylvania State Legislature. As a result, future school district tax increases that exceed the state-mandated index plus allowable exceptions will require a referendum. There continue to be no provisions for unfunded mandates by the state or federal government. Construction costs related to the Senior High School Renovation could have a material impact on a district's future budgets.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Contacting the District Financial Management

The financial reports are designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Robert L. Riegel, CPA, Business Administrator, at Quakertown Community School District, 100 Commerce Drive, Quakertown, PA 18951, (215) 529-2031.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

(With Summarized Comparative Data for June 30, 2012)

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 38,244,635	\$ 191,542	\$ 38,436,177	\$ 31,683,765
Investments	3,264,000		3,264,000	3,973,526
Taxes receivable, net	2,152,519		2,152,519	2,188,706
Internal balances	125,143	(125,143)	-	-
Due from other governments	2,376,166	56,187	2,432,353	2,512,789
Other receivables, net	452,722	10,564	463,286	274,853
Prepaid expenses	139,445		139,445	1,005,124
Inventories	75,949	70,239	146,188	180,852
Total Current Assets	<u>46,830,579</u>	<u>203,389</u>	<u>47,033,968</u>	<u>41,819,615</u>
Noncurrent Assets:				
Capital assets:				
Land	2,187,468		2,187,468	1,177,235
Land improvements	5,555,859		5,555,859	5,559,035
Construction in progress	4,540,787		4,540,787	1,942,490
Buildings and building improvements	108,221,862		108,221,862	123,914,687
Property and equipment	17,560,285	610,353	18,170,638	21,105,026
Accumulated depreciation	(46,370,302)	(567,213)	(46,937,515)	(56,501,165)
Bond costs, net	1,035,296		1,035,296	1,041,329
Total Noncurrent Assets	<u>92,731,255</u>	<u>43,140</u>	<u>92,774,395</u>	<u>98,238,637</u>
TOTAL ASSETS	<u>139,561,834</u>	<u>246,529</u>	<u>139,808,363</u>	<u>140,058,252</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	1,534,922	-	1,534,922	1,144,453
Accrued salaries and benefits	2,423,247		2,423,247	2,449,117
Accrued interest	609,503		609,503	651,307
Unearned revenue	75,035	58,285	133,320	140,297
Portion due or payable within one year				
Capital lease payable	327,215		327,215	70,456
Notes payable	3,647,000		3,647,000	3,468,000
Bonds payable	1,710,000		1,710,000	1,790,000
Total Current Liabilities	<u>10,326,922</u>	<u>58,285</u>	<u>10,385,207</u>	<u>9,713,630</u>
Long-term Liabilities:				
Portion due or payable after one year				
Capital lease payable	594,624		594,624	144,974
Notes payable	26,397,000		26,397,000	30,044,000
Bonds payable	77,845,000		77,845,000	70,325,000
Accumulated compensated absences	1,755,830		1,755,830	1,771,065
Other post-employment benefits	347,436		347,436	269,495
Total Long-term Liabilities	<u>106,939,890</u>		<u>106,939,890</u>	<u>102,554,534</u>
TOTAL LIABILITIES	<u>117,266,812</u>	<u>58,285</u>	<u>117,325,097</u>	<u>112,268,164</u>
NET POSITION				
Net investment in capital assets	9,805,005	43,140	9,848,145	13,820,676
Unrestricted	12,490,017	145,104	12,635,121	13,969,412
TOTAL NET POSITION	<u>\$ 22,295,022</u>	<u>\$ 188,244</u>	<u>\$ 22,483,266</u>	<u>27,790,088</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013
(With Summarized Comparative Data for June 30, 2012)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2013	2012
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 54,655,665	\$ 625,619	\$ 4,814,363	\$ -	\$ (49,215,683)	\$ -	\$ (49,215,683)	\$ (47,482,626)
Instructional Student Support	8,360,490		589,689		(7,770,801)		(7,770,801)	(6,463,130)
Administrative Support Services	7,926,131		431,073		(7,495,058)		(7,495,058)	(7,756,013)
Operation and Maintenance of Plant Services	9,553,914	264,461	238,659		(9,050,794)		(9,050,794)	(9,556,309)
Pupil Transportation	3,853,324		1,248,311		(2,605,013)		(2,605,013)	(2,559,366)
Student Activities	843,908	126,963	46,262		(670,683)		(670,683)	(743,115)
Community Services	16,992				(16,992)		(16,992)	(11,812)
Interest on long-term debt	3,156,237			545,433	(2,610,804)		(2,610,804)	(2,311,523)
TOTAL GOVERNMENTAL ACTIVITIES	88,366,661	1,017,043	7,368,357	545,433	(79,435,828)	-	(79,435,828)	(76,883,894)
BUSINESS-TYPE ACTIVITIES								
Food service	2,020,919	1,183,742	785,316	-	-	(51,861)	(51,861)	(62,085)
TOTAL BUSINESS TYPE ACTIVITIES	2,020,919	1,183,742	785,316	-	-	(51,861)	(51,861)	(62,085)
TOTAL PRIMARY GOVERNMENT	\$ 90,387,580	\$ 2,200,785	\$ 8,153,673	\$ 545,433	(79,435,828)	(51,861)	(79,487,689)	(76,945,979)
GENERAL REVENUES								
Property taxes, levied for general purposes					56,257,841		56,257,841	55,469,993
Taxes levied for specific purposes					9,621,829		9,621,829	9,635,470
Grants and entitlements not restricted to specific programs					13,409,142		13,409,142	13,381,389
Investment earnings					186,079	572	186,651	111,504
Miscellaneous					176,898		176,898	300,582
TOTAL GENERAL REVENUES					79,651,789	572	79,652,361	78,898,938
CHANGE IN NET POSITION					215,961	(51,289)	164,672	1,952,959
NET POSITION AT BEGINNING OF YEAR								
As Previously Reported					27,550,555	239,533	27,790,088	25,837,129
Adjustment (See Note 13)					(5,471,494)		(5,471,494)	
BALANCE AT BEGINNING OF YEAR, AS RESTATED					22,079,061	239,533	22,318,594	25,837,129
NET POSITION AT END OF YEAR					\$ 22,295,022	\$ 188,244	\$ 22,483,266	\$ 27,790,088

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2013
(With Summarized Comparative Data for June 30, 2012)

	General Fund	Capital Projects Fund	Totals	
			2013	2012
ASSETS				
Cash and cash equivalents	\$ 10,650,046	\$ 27,594,589	\$ 38,244,635	\$ 31,504,903
Investments	3,264,000		3,264,000	3,973,526
Taxes receivable, net	2,152,519		2,152,519	2,188,706
Due from other governments	2,376,166		2,376,166	2,411,062
Interfund receivable	125,143		125,143	68,309
Other receivables	452,722		452,722	267,243
Prepaid expenses	139,445		139,445	1,005,124
Inventories	75,949		75,949	115,799
TOTAL ASSETS	\$ 19,235,990	\$ 27,594,589	\$ 46,830,579	\$ 41,534,672
LIABILITIES				
Accounts payable	\$ 1,534,922	\$	\$ 1,534,922	\$ 1,133,524
Accrued salaries and benefits	2,423,247		2,423,247	2,449,117
Deferred revenue	75,035		75,035	128,368
TOTAL LIABILITIES	4,033,204	-	4,033,204	3,711,009
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - real estate taxes	1,470,107		1,470,107	1,329,710
Unavailable revenue - other taxes	51,213		51,213	51,184
TOTAL DEFERRED INFLOWS OF RESOURCES	1,521,320	-	1,521,320	1,380,894
FUND BALANCES				
Nonspendable:				
Prepaid items	139,445		139,445	1,005,124
Inventories	75,949		75,949	115,799
Committed:				
PSERS liability	2,792,958		2,792,958	2,042,958
Capital reserve	1,250,000		1,250,000	
Assigned:				
Capital Projects		27,594,589	27,594,589	21,424,469
Unassigned	9,423,114		9,423,114	11,854,419
TOTAL FUND BALANCES	13,681,466	27,594,589	41,276,055	36,442,769
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 19,235,990	\$ 27,594,589	\$ 46,830,579	\$ 41,534,672

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2013

TOTAL GOVERNMENTAL FUND BALANCES	\$ 41,276,055
Amounts reported for governmental activities on the statement of net position are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$138,066,261, and the accumulated depreciation is \$46,370,302.	91,695,959
Some of the District's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	1,521,320
Bond issuance costs are recorded as expenditures in the Governmental Funds. The statement of net position includes these amounts as other assets.	1,035,296
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued interest	(609,503)
Bonds and notes payable	(109,599,000)
Capital lease obligation	(921,839)
Other post-employment benefits	(347,436)
Accumulated compensated absences	<u>(1,755,830)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 22,295,022</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013
(With Summarized Comparative Data for the Year Ended June 30, 2012)

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>	
			2013	2012
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 67,879,224	\$ 34,068	\$ 67,913,292	\$ 67,327,648
State sources	19,775,692		19,775,692	18,924,967
Federal sources	762,837		762,837	598,416
TOTAL REVENUES	<u>88,417,753</u>	<u>34,068</u>	<u>88,451,821</u>	<u>86,851,031</u>
Other Financing Sources:				
Issuance of debt		8,955,000	8,955,000	9,710,000
Issuance of debt - refunding		9,535,000	9,535,000	-
Bond premium		77,390	77,390	19,428
Proceeds from capital lease	1,043,000		1,043,000	290,000
Sale of/Compensation for capital assets	30,375		30,375	30,000
TOTAL OTHER FINANCING SOURCES	<u>1,073,375</u>	<u>18,567,390</u>	<u>19,640,765</u>	<u>10,049,428</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>89,491,128</u>	<u>18,601,458</u>	<u>108,092,586</u>	<u>96,900,459</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction	54,436,607		54,436,607	51,874,543
Support services	27,193,227	249,710	27,442,937	25,712,339
Operation of non-instructional services	852,776		852,776	814,839
Capital outlay	-	2,638,728	2,638,728	1,650,247
Debt service	8,356,573		8,356,573	7,569,173
TOTAL EXPENDITURES	<u>90,839,183</u>	<u>2,888,438</u>	<u>93,727,621</u>	<u>87,621,141</u>
Other Financing Uses:				
Payment of debt - refunding		9,444,001	9,444,001	
Bond discount		98,899	98,899	
Refund of prior year receipts	(11,221)		(11,221)	53,870
TOTAL OTHER FINANCING USES	<u>(11,221)</u>	<u>9,542,900</u>	<u>9,531,679</u>	<u>53,870</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>90,827,962</u>	<u>12,431,338</u>	<u>103,259,300</u>	<u>87,675,011</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,336,834)	6,170,120	4,833,286	9,225,448
FUND BALANCE AT BEGINNING OF YEAR	<u>15,018,300</u>	<u>21,424,469</u>	<u>36,442,769</u>	<u>27,217,321</u>
FUND BALANCE AT END OF YEAR	<u>\$ 13,681,466</u>	<u>\$ 27,594,589</u>	<u>\$ 41,276,055</u>	<u>\$ 36,442,769</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 4,833,286
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:</p>	
Capital outlay	3,911,932
Depreciation expense	(3,924,338)
<p>Because some property taxes will not be collected for several months after year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. This amount is net of current year uncollectable accounts.</p>	
	100,426
<p>Repayment of bond and note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
	5,258,000
<p>Repayment of capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
	336,590
<p>Bond discounts, premiums and issuance costs are amortized over the lives of the bonds in the Statement of Activities, but are recorded as expenditures and other financing uses in the Governmental Funds.</p>	
	(6,033)
<p>Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.</p>	
	15,235
<p>Other Post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.</p>	
	(77,941)
<p>Issuance of long-term debt provides current financial resources to Governmental Funds, but has no effect on net position.</p>	
	(10,273,000)
<p>Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt in the statement of activities.</p>	
	<u>41,804</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 215,961</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUND

JUNE 30, 2013

(With Comparative Data for the Year Ended June 30, 2012)

	Enterprise Fund	
	Food	
	Service Fund	
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash & cash equivalents	\$ 191,542	\$ 178,862
Due from other governments	56,187	101,727
Other receivables	10,564	7,610
Inventories	70,239	65,053
TOTAL CURRENT ASSETS	328,532	353,252
PROPERTY AND EQUIPMENT	610,353	580,143
Accumulated depreciation	(567,213)	(562,695)
PROPERTY AND EQUIPMENT, Net	43,140	17,448
TOTAL ASSETS	371,672	370,700
CURRENT LIABILITIES		
Accounts payable		10,929
Interfund payable	125,143	68,309
Deferred revenue	58,285	51,929
TOTAL CURRENT LIABILITIES	183,428	131,167
NET POSITION		
Net investment in capital assets	43,140	17,448
Unrestricted	145,104	222,085
TOTAL NET POSITION	\$ 188,244	\$ 239,533

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013
 (With Comparative Data for the Year Ended June 30, 2012)

	Enterprise Fund	
	Food	
	Service Fund	
	2013	2012
OPERATING REVENUES		
Food service revenues	\$ 1,183,742	\$ 1,287,329
OPERATING REVENUES	1,183,742	1,287,329
OPERATING EXPENSES		
Payroll	801,496	846,113
Employee benefits	274,502	252,180
Other purchased services	116,458	123,753
Supplies	815,651	835,538
Depreciation	9,319	7,701
Dues and fees	2,431	2,082
Other operating expenses	1,062	1,880
TOTAL OPERATING EXPENSES	2,020,919	2,069,247
OPERATING LOSS	(837,177)	(781,918)
NONOPERATING REVENUES		
Earnings on investments	572	831
State sources	126,002	116,739
Federal sources	659,314	603,094
TOTAL NONOPERATING REVENUES	785,888	720,664
CHANGE IN NET POSITION	(51,289)	(61,254)
NET POSITION AT BEGINNING OF YEAR	239,533	300,787
NET POSITION AT END OF YEAR	\$ 188,244	\$ 239,533

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Data for the Year Ended June 30, 2012)

	Enterprise Fund	
	Food	
	Service Fund	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,187,144	\$ 1,290,458
Cash received from other operating revenue	-	64,347
Payments to suppliers	(891,390)	(1,106,174)
Payments to employees	(1,075,998)	(1,098,293)
Payments for other operating expenses	(3,493)	-
	<u>(783,737)</u>	<u>(849,662)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	125,286	109,154
Federal sources	705,569	555,584
	<u>830,855</u>	<u>664,738</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(35,010)	(3,760)
	<u>(35,010)</u>	<u>(3,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	572	831
	<u>572</u>	<u>831</u>
NET INCREASE (DECREASE) IN CASH	12,680	(187,853)
CASH AT BEGINNING OF YEAR	<u>178,862</u>	<u>366,715</u>
CASH AT END OF YEAR	<u>\$ 191,542</u>	<u>\$ 178,862</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (837,177)	\$ (781,918)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	9,319	7,701
(Increase) decrease in assets:		
Receivables	(2,953)	4,781
Inventory	(5,187)	3,524
Increase (decrease) in liabilities:		
Accounts payable	(10,927)	10,927
Interfund payable	6,354	(93,027)
Deferred revenues	56,834	(1,650)
	<u>(783,737)</u>	<u>(849,662)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (783,737)</u>	<u>\$ (849,662)</u>
Schedule of noncash noncapital financing activities		
USDA donated commodities	105,943	93,875

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2013

	<u>Private-Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 134,663	\$ 276,996
TOTAL ASSETS	<u>134,663</u>	<u>276,996</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Due to student organizations	<u> </u>	<u>276,996</u>
TOTAL LIABILITIES	<u>-</u>	<u>276,996</u>
NET POSITION		
Reserved for trust	<u>134,663</u>	<u> </u>
TOTAL NET POSITION	<u>\$ 134,663</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND**

FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Data for the Year Ended June 30, 2012)

	Private-Purpose Trust Fund	
	<u>2013</u>	<u>2012</u>
ADDITIONS		
Local contributions	\$ 8,150	\$ 5,925
TOTAL ADDITIONS	<u>8,150</u>	<u>5,925</u>
DEDUCTIONS		
Fees paid and scholarships awarded	<u>9,275</u>	<u>12,150</u>
TOTAL DEDUCTIONS	<u>9,275</u>	<u>12,150</u>
CHANGE IN NET POSITION	(1,125)	(6,225)
NET POSITION AT BEGINNING OF YEAR	<u>135,788</u>	<u>142,013</u>
NET POSITION AT END OF YEAR	<u>\$ 134,663</u>	<u>\$ 135,788</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

QUAKERTOWN COMMUNITY SCHOOL DISTRICT (the District) operates six elementary schools, two middle schools, one freshman center and one senior high school to provide education to the residents of Quakertown, Richlandtown and Trumbauersville Boroughs and Haycock, Milford and Richland Townships. The financial statements of the District are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to generally accepted accounting principles as applicable to governmental units.

Financial Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14, the District is financially accountable if it appoints a voting majority of the organization's governing board (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this criteria, there have been no component units defined within our reporting entity.

New Accounting Pronouncements Implemented

During the current year the District implemented GASB Statements No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The effect of this statement is incorporating deferred inflows and outflows of resources and the renaming of "Net Assets" to "Net Position".

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Quakertown Community School District does not have any nonmajor funds. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Government Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The financial statements for Governmental

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All Proprietary Fund Types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's proprietary fund are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds are reported using the economic resources measurement focus.

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

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which constitutes a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts. The various funds of the district are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental fund types:

General Fund

The General Fund is for the general operations of the District and all financial transactions not required to be accounted for in another fund.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Governmental Fund Types, continued

Capital Projects Fund

The Capital Projects fund is used to account for financial resources to be used for the acquisition, construction and renovation of major capital facilities and their related capital assets.

Proprietary Fund Type

Enterprise (Food Service) Fund

The Enterprise Fund accounts for the District's Food Service operations, which is maintained to account for operations that are financed and operated in a manner similar to a private business enterprise. The fund accounts for all revenues, food purchases, costs, and expenses for the food service program on the accrual method of accounting. This method recognizes expenses when incurred and revenues when earned. All proprietary activities are accounted for using GASB pronouncements as established by GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*.

Fiduciary Fund Types

Private-Purpose Trust Fund

The Private-Purpose Trust Fund accounts for activities in various scholarship accounts whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations.

Agency Fund

The agency fund accounts for funds held by the District on behalf of students of the District. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations. The School District's Agency Fund consists of the Student Activities Fund.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For the purposes of reporting cash flows for proprietary fund financial statements, cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Intergovernmental Receivables/Payables

During the course of operations, numerous transactions occur between governmental units for payment of services and subsidy payments. These receivables and payables are classified as intergovernmental receivables and payables on the balance sheet.

Inventories

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

Capital Assets

Capital assets, which includes land, land improvements, buildings, building improvements, property and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated.

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.

The District defines capital assets as assets with an initial, individual cost equal to or greater than \$1,000 and an estimated useful life in excess of one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

	<u>Years</u>
Land improvements	20-40
Buildings and building improvements	20-40
Furniture and equipment	5-10

Compensated Absences

The District's employees are permitted to accumulate unused allowable sick leave without limitation. Retiring employees shall be entitled to a retirement severance based upon the employee's daily rate, maximum number of days stated in the applicable contract and the number of accumulated sick days. Unused allowable vacation days do not accumulate and must be used within six months of each fiscal year end. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available resources.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Unavailable and Unearned Revenues

Governmental funds report unearned and unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition with resources that have been received, but not yet earned. At the end of the current fiscal year, unearned and unavailable revenue reported in the governmental funds resulted from delinquent property taxes receivable, federal grants received that have not satisfied eligibility requirements and revenue received but not yet earned.

Unearned revenue in the government-wide financial statements represents resources that have been received but not yet earned.

Long-Term Obligations

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

In the fund financial statements, Governmental Funds 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 payment of principal and interest reported as expenditures. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2012, from which the comparative data was derived.

Fund Balance

The District implemented GASB Statement No. 54 for the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (board motion) of the school board – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects amounts constrained by the school's "intent" to be used for specific purposes, but are neither restricted nor committed. The business manager has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance , continued

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Use of fund balance. The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed. If the board has approved a plan for periodic use of committed fund balance, the balance will not be reduced by more than the amount designated in the plan.

2. CASH AND INVESTMENTS

Cash

Under Act No. 72 enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured by the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2013, \$19,450,723 of the District's bank balance of \$20,200,723 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2013, PLGIT was rated as AAAM by Standard & Poor's.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 141.51 mills (\$141.51 per \$1,000 of assessed valuation) for fiscal 2013. Assessed valuation of property is established by the Bucks County Board of Assessments, and the District is responsible for collection. Real property in the district for the July 1, 2012 levy was assessed at \$401,139,569. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 – August 31	2% discount period
September 1 – October 31	Face value period
November 1 – collection	10% penalty period
January 15	Lien date

The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Delinquent occupational and per capita taxes receivable are presented net of allowances for estimated uncollectables of \$3,594,590. The allowance for doubtful accounts is calculated on a percentage of outstanding amounts based on historical collection trends. Management believes that the District has adequately provided for probable future losses.

4. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund activity for the year ending June 30, 2013:

	Interfund Receivables	Interfund Payables
General Fund	\$ 125,143	\$
Proprietary Fund, Food Service Fund		125,143
	\$ 125,143	\$ 125,143

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital Asset Activity for the year ended June 30, 2013, was as follows:

Governmental Activities:

	Balance July 1, 2012	*	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated					
Land	\$ 2,187,468	\$		\$	\$ 2,187,468
Construction in progress	1,942,490		2,598,297		4,540,787
Total Capital assets not being depreciated	<u>4,129,958</u>		<u>2,598,297</u>	<u>-</u>	<u>6,728,255</u>
Capital assets being depreciated					
Land improvements	5,555,859				5,555,859
Buildings and improvements	108,182,153		39,709		108,221,862
Property and equipment	16,286,357		1,273,928		17,560,285
Total capital assets being depreciated at historical cost	<u>130,024,369</u>		<u>1,313,637</u>	<u>-</u>	<u>131,338,006</u>
Less accumulated depreciation for					
Land improvements	(3,002,486)		(253,682)		(3,256,168)
Buildings and improvements	(26,630,999)		(2,710,680)		(29,341,679)
Property and Equipment	(12,812,479)		(959,976)		(13,772,455)
Total accumulated depreciation	<u>(42,445,964)</u>		<u>(3,924,338)</u>	<u>-</u>	<u>(46,370,302)</u>
Total capital assets being depreciated, net	<u>87,578,405</u>		<u>(2,610,701)</u>	<u>-</u>	<u>84,967,704</u>
Governmental Activities capital assets, net	<u>\$ 91,708,363</u>	<u>\$</u>	<u>(12,404)</u>	<u>\$</u>	<u>\$ 91,695,959</u>

* Beginning balance restated for the effects of a prior period adjustment.

Business-type Activities:

Capital assets being depreciated					
Property and equipment	\$ 580,143	\$	35,010	\$	4,800
Less accumulated depreciation	(562,694)		(9,319)	(4,800)	(567,213)
Business-type activities capital assets, net	<u>\$ 17,449</u>	<u>\$</u>	<u>25,691</u>	<u>\$</u>	<u>\$ 43,140</u>

Depreciation expense for Governmental Activities was charged as direct expense to programs of the primary government as follows:

Instruction	\$ 157,098
Instructional Student Support	532,351
Administrative Support Services	2,355
Operation and Maintenance of Plant Services	3,217,210
Student Activities	15,324
Total Governmental Activities depreciation expense	<u>\$ 3,924,338</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the district for the year ending June 30, 2013:

Type	Principal Outstanding July 1, 2012	Additions	Repayments	Principal Outstanding June 30, 2013	Due within One Year
General Obligation Note - 1997B	\$ 1,718,000	\$	\$ 246,000	\$ 1,472,000	\$ 261,000
General Obligation Note - 2000	4,746,000		896,000	3,850,000	930,000
General Obligation Note - 2000B	3,116,000		162,000	2,954,000	169,000
General Obligation Note - 2000C	7,740,000		716,000	7,024,000	749,000
General Obligation Note - 2003	3,880,000		205,000	3,675,000	272,000
General Obligation Note -2004 Emmaus	10,000,000		700,000	9,300,000	700,000
General Obligation Note - 2006	2,312,000		543,000	1,769,000	566,000
General Obligation Bond - 2008	9,430,000		9,430,000	-	-
General Obligation Bond - 2009	8,100,000		470,000	7,630,000	480,000
General Obligation Bond -2009A	20,355,000		565,000	19,790,000	575,000
General Obligation Bond - 2010	14,995,000		5,000	14,990,000	5,000
General Obligation Bond - 2010A	9,525,000		575,000	8,950,000	585,000
General Obligation Bond - 2011	9,710,000		5,000	9,705,000	5,000
General Obligation Bond - 2012		8,955,000		8,955,000	5,000
General Obligation Bond - 2013		9,535,000		9,535,000	55,000
	<u>105,627,000</u>	<u>18,490,000</u>	<u>14,518,000</u>	<u>109,599,000</u>	<u>5,357,000</u>
Capital Lease Obligation	215,430	1,043,000	336,591	921,839	327,215
Compensated Absences	1,771,065	27,988	43,223	1,755,830	-
Other Post-employment Benefits	269,495	681,137	603,196	347,436	-
Total	<u>\$ 107,882,990</u>	<u>\$ 20,242,125</u>	<u>\$ 15,501,010</u>	<u>\$ 112,624,105</u>	<u>\$ 5,684,215</u>

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

Notes and Bonds payable at June 30, 2013 consisted of:

General Obligation Note Series B of 1997, maturing through October 2017, bearing interest at 4.20%,. Interest is payable monthly. \$ 1,472,000

General Obligation Note Series 2000, maturing through March 2017, bearing interest at 4.38%. Interest is payable monthly. 3,850,000

General Obligation Note Series B of 2000, maturing through July 2021, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. 2,954,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

<p>General Obligation Note Series C of 2000, maturing through August 2020, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.</p>	7,024,000
<p>General Obligation Note Series 2003, maturing through October 2025, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.</p>	3,675,000
<p>General Obligation Note Series 2004 Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.</p>	9,300,000
<p>General Obligation Note Series of 2006, maturing through April 2016, bearing interest at 4.02%. Interest is payable monthly.</p>	1,769,000
<p>General Obligation Bond Series 2009, maturing through August 2025, bearing interest ranging from 2.00% to 4.13%. Interest is payable semi-annually in February and August. This series of 2009 provided funds to refund the series of 2004 bonds.</p>	7,630,000
<p>General Obligation Bond Series of 2009A, maturing through October 2023, bearing interest ranging from 2.00% to 4.00%. Interest is payable semi-annually in April and October. This series A of 2009 provided funds to refund the Series 2002 bonds. This current refunding was undertaken to reduce total debt service payments over the next 14 years by \$844,895 and resulted in an economic gain of \$555,229.</p>	19,790,000
<p>General Obligation Bond Series 2010, maturing through August 2026, bearing interest ranging from 2.00% to 4.00%. Interest is payable semi-annually in February and August. This series of 2010 provided funds to finance capital improvements to school facilities and buildings.</p>	14,990,000
<p>General Obligation Bond Series 2010A, maturing through August 2025, bearing interest ranging from .6% to 3.75%. Interest is payable semi-annually in February and August. This series A of 2010 provided funds to refund the series A of 2004 Bonds. This refunding resulted in an economic gain of \$344,383.</p>	8,950,000
<p>General Obligation Bond Series 2011, maturing through August 2027, bearing interest ranging from 2% to 3.5%. Interest is payable semi-annually in February and August. This series 2011 provided funds to finance capital improvements to school facilities and buildings.</p>	9,705,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

General Obligation Bond Series 2012, maturing through August 2030, bearing interest ranging from 1.25% to 2.73%. Interest is payable semi-annually in February and August. This series 2013 provided funds to finance capital improvements to school facilities and buildings	8,955,000
General Obligation Bond Series 2013, maturing through November 2024, bearing interest ranging from .4% to 2.73%. Interest is payable semi-annually in May and November. This series 2013 provided funds to refund the series 2008 Bonds. This refunding resulted in an economic gain of \$1,101,218	<u>9,535,000</u>
	<u><u>\$ 109,599,000</u></u>

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 5,357,000	\$ 3,607,206	\$ 8,964,206
2015	5,544,000	3,431,037	8,975,037
2016	5,760,000	3,243,460	9,003,460
2017	6,045,000	3,035,206	9,080,206
2018	6,221,000	2,811,029	9,032,029
2019-2023	35,050,000	10,630,542	45,680,542
2024-2028	38,992,000	4,172,647	43,164,647
2029-2031	<u>6,630,000</u>	<u>263,543</u>	<u>6,893,543</u>
	<u><u>\$ 109,599,000</u></u>	<u><u>\$ 31,194,670</u></u>	<u><u>\$ 140,793,670</u></u>

Interest expense for the year ended June 30, 2013 was \$2,807,656.

On July 1, 2011, the District entered into a lease-purchase agreement with TD Equipment finance for the purchase of computer equipment. The present value of the lease payments is \$290,000, which was included in governmental activities capital assets. The lease provides for four annual payments of \$74,570. The implicit interest rate is 1.91%.

On July 23, 2012, the District entered into a lease-purchase agreement with TD Equipment finance for the purchase of computer equipment. The present value of the lease payments is \$1,043,000, which was included in governmental activities capital assets. The lease provides for four annual payments of \$266,135. The implicit interest rate is 1.38%.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Principal and interest payments for capital leases for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 327,215	\$ 13,490	\$ 340,705
2015	332,112	8,594	340,706
2016	262,512	3,623	266,135
	<u>\$ 921,839</u>	<u>\$ 25,707</u>	<u>\$ 947,546</u>

7. PENSION PLAN

Public School Employees' Retirement System Plan

Substantially, all full-time and part-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the System), a governmental cost-sharing, multiple-employer defined benefit plan.

The System provides retirement, disability, legislatively mandated ad hoc cost-of-living adjustments and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees.

The System issues a *Comprehensive Annual Financial Report* (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the Publications page of the PSERS website, www.psers.state.pa.us.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Member Contributions – Active members who joined the system prior to July 22, 1983, contribute a 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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION PLAN, continued

Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contribution - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.5 percent for pension benefits and .86 percent for healthcare insurance premium assistance. The District's contributions to PSERS for the fiscal year ending June 30, 2013, 2012, and 2011, were \$5,231,891, \$3,533,466, and \$2,342,510, respectively, equal to the required contributions for each year.

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

Plan Description: Effective for the 2008-2009 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for certain postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors assigns 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 contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2013, the District contributed \$603,196 to the plan for the current premiums.

Annual OPEB Cost and Net OPEB Obligation: The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. 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 following table shows the components of the District's

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

<u>Description</u>	
Normal cost (service cost for one year)	\$ 279,345
Interest on Normal Cost	12,571
Amortization of Unfunded Actuarial Accrued Liability	<u>393,639</u>
Annual Required Contribution (ARC)	685,555
Interest on net OPEB Obligation	12,127
Adjustment to Annual Required Contribution	<u>(16,545)</u>
Annual OPEB Cost (expense)	681,137
Contributions toward the OPEB Cost	<u>(603,196)</u>
Increase in Net OPEB Obligation	77,941
Net OPEB Obligation, Beginning of Year	<u>269,495</u>
Net OPEB Obligation, End of Year	<u><u>\$ 347,436</u></u>

Funded Status and Funding Progress: As of May 1, 2012, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$6,411,946, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,411,946. The covered payroll (annual payroll of active employees covered by the plan) was \$40,922,269, and the ratio of the UAAL to the covered payroll was 15.67 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the May 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 7.5 percent in 2012, decreasing by 0.5 percent per year to 5.5 percent in 2016. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2013 was 25 years.

9. FUND BALANCE COMMITMENTS

The School Board has established a Stabilization Arrangement reflected as committed fund balance for future PSERS rate increases. The current balance is \$2,792,958 and will begin funding PSERS rate increases over the next several years as the retirement contribution rate is projected to increase significantly. Additionally, \$1,250,000 is committed for capital projects.

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 except for workers' compensation, for which the District is a participant in the SDIC consortium which manages the risk for all participants. For insured programs, there were no significant reductions in insurance coverages during the 2012-2013 year. Settlement amounts have not exceeded insurance coverage for the current year or three years prior.

11. CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

11. CONTINGENCIES AND COMMITMENTS, continued

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the District's finances.

Capital Improvement Commitments

As of June 30, 2013, the District had outstanding construction projects to be completed of approximately \$59,890,964.

12. JOINT VENTURE

The District is a participating member of the Upper Bucks County Area Vocational-Technical School (the Vo-Tech). The Vo-Tech is governed by a joint board consisting of school directors from each member district and one nonmember representative. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays a private share of the operating costs and debt service of the Vo-Tech based on the student membership from each district. The financial statements of the Vo-Tech School are available from the Vo-Tech business office located at 3115 Ridge Road, Perkasie, PA 18944.

During 2005, the Vo-Tech issued \$4,305,000 of School Lease Revenue Bonds through the State Public School Building Authority for capital improvements to the facilities owned and operated by the Vo-Tech and to repay the outstanding 1996 Emmaus General Authority Bond Pool Note, Series 2002. The bonds are secured by sublease rental payments and are guaranteed by three participating school districts. The District's portion of these bonds is scheduled to be paid through the year ended June 30, 2026.

Future rental payments are schedule as follows:

<u>Year Ending June 30,</u>	
2014	\$ 96,533.00
2015	96,151.00
2016	95,723.00
2017	96,783.00
2018	97,750.00
2019-2023	480,589.00
2024-2026	288,843.00
Total	<u>1,252,372.00</u>
Less: Interest requirements	<u>(245,581.00)</u>
Outstanding rental payments	<u>\$ 1,006,791.00</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

13. PRIOR PERIOD ADJUSTMENT

During 2013 an updated appraisal of capital assets was conducted and it was determined that capital assets were overstated by \$18,964,003 and accumulated depreciation was overstated by \$13,492,509 in prior years. The net effect of the corrections was a decrease in net assets of \$5,471,494. There was no effect on current year operations.

14. SUBSEQUENT EVENTS

On July 12, 2013, the District entered into a capital lease for computer equipment of \$580,672, with interest of 1.033 percent.

In October 2013, authorized issuance of General Obligation Bond 2013A in the amount of \$7,415,000 to refund the General Obligation Bond 2009.

In November 2013, authorized issuance of General Obligation Bond 2013B in the amount of \$8,955,000 for renovations to the Quakertown Senior High School.

REQUIRED

SUPPLEMENTARY INFORMATION

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS FOR THE
POSTEMPLOYMENT BENEFITS PLAN**

JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
5/1/2012	\$ 0	\$ 6,411,946	\$ 6,411,946	0%	\$ 40,922,269	15.67%
5/1/2010	\$ 0	\$ 7,113,065	\$ 7,113,065	0%	\$ 37,038,903	19.20%
5/1/2008	\$ 0	\$ 3,971,082	\$ 3,971,082	0%	\$ 35,136,366	11.30%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 67,278,392	\$ 67,293,392	\$ 67,879,224	\$ 585,832
State sources	20,064,231	20,258,721	19,775,692	(483,029)
Federal sources	902,841	766,700	762,837	(3,863)
Other financing sources				
Proceeds from capital lease			1,043,000	1,043,000
Sale of capital assets			30,375	30,375
TOTAL REVENUES AND OTHER FINANCING SOURCES	88,245,464	88,318,813	89,491,128	1,172,315
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	37,279,805	36,466,437	36,245,654	220,783
Special programs	11,623,258	12,208,169	12,116,708	91,461
Vocational programs	2,759,245	2,767,745	2,767,739	6
Other instructional programs	2,935,911	3,624,522	3,306,506	318,016
Total Instruction	54,598,219	55,066,873	54,436,607	630,266
Support Services				
Pupil personnel services	3,012,293	3,008,661	2,925,594	83,067
Instructional staff services	3,945,563	4,471,362	5,102,018	(630,656)
Administration services	4,701,568	4,794,731	4,607,360	187,371
Pupil health	992,113	995,112	907,166	87,946
Business services	975,308	998,585	998,487	98
Operation and maintenance of plant services	7,424,184	7,023,348	6,401,505	621,843
Student transportation	4,106,224	4,055,224	3,853,324	201,900
Central services	2,488,824	2,528,290	2,338,983	189,307
Other support services	65,000	60,000	58,790	1,210
Total Support Services	27,711,077	27,935,313	27,193,227	742,086
Operation of Non-instructional Services				
Student activities	855,568	890,947	835,784	55,163
Community services	24,000	25,000	16,992	8,008
Total Operation of Non-instructional Services	879,568	915,947	852,776	63,171
Debt Service	8,364,219	8,299,764	8,356,573	(56,809)
Other Financing Uses				
Refund of prior year receipts			(11,221)	11,221
Budgetary reserve	528,040			-
Total Other Financing Uses	528,040	-	(11,221)	11,221
TOTAL EXPENDITURES AND OTHER FINANCING USES	92,081,123	92,217,897	90,827,962	1,389,935
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(3,835,659)	(3,899,084)	(1,336,834)	2,562,250
FUND BALANCE AT BEGINNING OF YEAR	12,781,861	12,845,286	15,018,300	2,173,014
FUND BALANCE AT END OF YEAR	\$ 8,946,202	\$ 8,946,202	\$ 13,681,466	\$ 4,735,264

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2013

Budgetary Data

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

- a. Prior to May 31, the School District Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
- b. Public hearings are conducted at the Quakertown Community School District building to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. Legal budgetary control is maintained by the District Board at the sub-function/major object level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the School District Board as provided by school code.
- e. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
- f. A budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Program or Award Amount	Accrued or (Deferred) at July 1, 2012	Total Received For the Year	Expenditures	Accrued or (Deferred) at June 30, 2013	Revenue Recognized
U.S. DEPT. OF EDUCATION									
Passed Through the PA Dept. of Education									
Title I	84.010	013-120353	7/1/11 - 9/30/12	\$ 383,154	\$ 51,094	\$ 51,094	\$ -	\$ -	\$ -
Title I	84.010	013-130353	7/1/12 - 9/30/13	410,661	-	357,767	410,661	52,894	410,661
Title II	84.367	020-120353	7/1/11 - 9/30/12	119,211	15,667	-	-	-	-
Title II	84.367	020-130353	7/1/12 - 9/30/13	121,036	-	105,128	121,036	15,908	121,036
Title III	84.365	010-120353	7/1/11 - 9/30/12	36,965	(3,517)	-	3,517	-	3,517
Title III	84.365	010-130353	7/1/12 - 9/30/13	28,097	-	18,731	16,236	(2,495)	16,236
Education Jobs Fund	84.410	140-120353	7/1/11 - 6/30/12	9,670	9,670	9,670	-	-	-
Passed Through the Bucks County Intermediate Unit #22									
IDEA	84.027	062-120022	7/1/11 - 6/30/12	763,045	435,893	435,893	-	-	-
IDEA	84.027	062-130022	7/1/12 - 6/30/13	747,210	-	438,519	747,210	308,691	747,210
IDEA - Section 619	84.392	131-110022	7/1/11 - 6/30/12	7,151	7,151	-	-	-	-
IDEA - Section 620	84.392	131-120022	7/1/12 - 6/30/13	3,389	-	-	3,389	3,389	3,389
Race to the Top	84.413A	B413A120004	7/1/12 - 9/30/15	26,735	-	-	18,926	18,926	18,926
Passed Through Commonwealth of Pennsylvania									
Medical Assistance Administrative	93.778				-	7,807	15,386	7,579	15,386
Passed Through the Tuscarola Intermediate Unit #11									
PA Leads	84.377		7/1/12 - 6/30/13	15,000	-	-	9,198	9,198	9,198
TOTAL U.S. DEPT. OF EDUCATION				2,671,324	515,958	1,447,427	1,345,559	414,090	1,345,559
<i>CHILD NUTRITION CLUSTER</i>									
U.S. DEPT. OF AGRICULTURE									
Passed Through the PA Dept. of Education									
National School Lunch Program	10.555	N/A	7/1/11 - 6/30/12	N/A	72,107	72,107	-	-	-
National School Lunch Program	10.555	N/A	7/1/12 - 6/30/13	N/A	-	519,099	545,061	25,962	545,061
National School Breakfast Program	10.553	N/A	7/1/11 - 6/30/12	N/A	829	829	-	-	-
National School Breakfast Program	10.553	N/A	7/1/12 - 6/30/13	N/A	-	11,474	12,193	719	12,193
Passed Through the PA Dept. of Agriculture									
Value of USDA Commodities	10.555	N/A		N/A	(15,534)	105,943	102,060	(19,417)	102,060
TOTAL U.S. DEPT. OF AGRICULTURE				-	57,402	709,452	659,314	7,264	659,314
TOTAL FEDERAL AWARDS				2,671,324	573,360	2,156,879	2,004,873	421,354	2,004,873
STATE GRANTOR/PROGRAM TITLE									
National School Lunch Program	N/A	N/A	7/1/11 - 6/30/12	N/A	6,933	6,933	-	-	-
National School Lunch Program	N/A	N/A	7/1/12 - 6/30/13	N/A	-	45,248	47,540	2,292	47,540
TOTAL STATE GRANTS					6,933	52,181	47,540	2,292	47,540
TOTAL FEDERAL AND STATE AWARDS				\$ 2,671,324	\$ 580,293	\$ 2,209,060	\$ 2,052,413	\$ 423,646	\$ 2,052,413

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

1. SCOPE OF THIS SCHEDULE

The accompanying 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. NON-MONETARY FEDERAL AWARDS – DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Federal Awards under CFDA # 10.555 National School Lunch – Commodities represent surplus food consumed by the District during the 2012-2013 fiscal year.



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

To the Board of School Directors
QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Quakertown, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of QUAKERTOWN COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise QUAKERTOWN COMMUNITY SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of the QUAKERTOWN COMMUNITY 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies – item #2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether QUAKERTOWN COMMUNITY 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2013-2.

Quakertown Community School District's Response to Findings

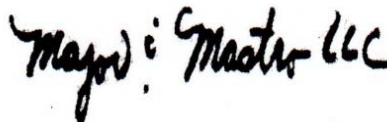
QUAKERTOWN COMMUNITY SCHOOL DISTRICT's response to the findings identified in our audit is described in the accompanying corrective action plan. QUAKERTOWN COMMUNITY SCHOOL DISTRICT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

January 31, 2014

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania

Handwritten signature in black ink that reads "Major & Mastro LLC".



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

To the Board of School Directors
QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Quakertown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's major federal programs for the year ended June 30, 2013. QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance.

Opinion on Each Major Federal Program

In our opinion, QUAKERTOWN COMMUNITY 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, 2013.

Report on Internal Control Over Compliance

Management of QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY 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 OMB Circular A-133, 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 QUAKERTOWN COMMUNITY 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

January 31, 2014

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountant



QUAKERTOWN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of QUAKERTOWN COMMUNITY SCHOOL DISTRICT.
2. One significant deficiency relating to the audit of the financial statements is 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. One instance of noncompliance material to the financial statements of QUAKERTOWN COMMUNITY SCHOOL DISTRICT which is required to be reported in accordance with *Government Auditing Standards* was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133.
5. Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133 expresses an unqualified opinion on all major federal programs.
6. No audit findings were disclosed relating to major programs that are required to be reported under section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

IDEA Cluster	
IDEA	84.027
IDEA Section 619	84.392

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2013

8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. QUAKERTOWN COMMUNITY SCHOOL DISTRICT was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2013-1 Capital Lease Recording

Condition: The issuance of a new capital lease was not recorded.

Criteria: Governmental Accounting requires capital lease issuances to be recorded as an other financing source on the fund level financial statements and as long term debt on the government-wide financial statements.

Cause: A system for communicating new lease agreements between business office staff does not exist.

Effect: The financial statements would have been misstated without the proper recording of the capital lease.

Recommendation: Management should review all lease agreements to ensure all capital leases are properly recorded.

2013-2 Compliance with laws and regulations

Condition: Several child I-9 Employment Eligibility forms, child abuse clearances, and FBI fingerprint checks were missing from within some employees' personnel records.

Criteria: Laws require that these clearances and forms be obtained for each employee and retained by the District.

Cause: Personnel files and required documentation are not reviewed for completeness.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

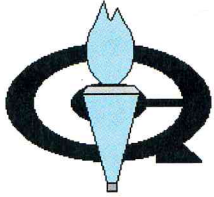
FOR THE YEAR ENDED JUNE 30, 2013

Effect: Some required documentation was unable to be located for some employees.

Recommendation: Management should review employee personnel files and obtain missing documentation as required by law.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT.

None



Quakertown Community School District

Business Services
100 Commerce Drive
Quakertown, PA 18951
(215) 529-2032
FAX (215) 529-2036

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2013

January 31, 2014

The Quakertown Community School District respectfully submits the following corrective action plan for the year ended June 30, 2013.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENTS AUDIT

2013-1 Capital Lease Recording

Recommendation: Management should review all lease agreements to ensure all capital leases are properly recorded.

Action Taken:

- 1.) *The Business Services Department will establish a file for all capital lease contracts much like the contract file we established to segregate all district contracts.*
- 2.) *We have four 4-Year rolling capital leases for refreshing one-quarter of our technology inventory each year. We will work with our independent auditor to make sure we provide the proper accounting treatment for these leases at the end of each year.*
- 3.) *The Business Services Department will review all our other leases to make sure they are not capital leases such as our copier lease.*

2013-2 Compliance with laws and regulations

Recommendation: Management should review employee personnel files and obtain missing documentation as required by law.

Action Taken:

- 1.) *The Personnel Department created a checklist to make sure that all documentation is accounted for.*
- 2.) *Documents will be dated on the screen so that the Personnel Department will know historically when files and documents were received.*
- 3.) *Missing documentation was from older files. Since then new Personnel Employees were hired with better education and training in the human resource field, as well as, technology skills.*

Sincerely yours,

Robert Riegel, CPA
Business Administrator