

**QUAKERTOWN COMMUNITY
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2016

TABLE OF CONTENTS

Page Number

1 – 2	Table of Contents
3 – 5	Independent Auditor's Report
	Required Supplementary Information
6 – 14	Management's Discussion and Analysis
	Government-wide Financial Statements
15	Statement of Net Position
16	Statement of Activities
	Fund Financial Statements
	<i>Governmental Funds</i>
17	Balance Sheet
18	Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities
19	Statement of Revenues, Expenditures, and Changes in Fund Balances
20	Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
	<i>Proprietary Funds</i>
21	Statement of Net Position
22	Statement of Revenues, Expenses, and Changes in Net Position
23	Statement of Cash Flows
	<i>Fiduciary Funds</i>
24	Statement of Fiduciary Net Position
25	Statement of Changes in Fiduciary Net Position
26 – 47	Notes to the Basic Financial Statements

(Continued)

TABLE OF CONTENTS (CONTINUED)

Page Number

Required Supplementary Information

48	Schedule of Funding Progress for the Post-Employment Benefits Plan
49	Budgetary Comparison Schedule – General Fund
50	Notes to Budgetary Comparison Schedule
51	Schedule of District’s Proportionate Share of the Net Pension Liability
52	Schedule of District’s Pension Contribution

Single Audit Section

53 – 54	Schedule of Expenditures of Federal Awards and Certain State Grants
55	Notes to Schedule of Expenditures of Federal Awards and Certain State Grants
56 – 57	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 <i>Government Auditing Standards</i>
58 – 59	Independent Auditor’s Report on Compliance with Requirements for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance
60 – 61	Schedule of Findings and Questioned Costs

DRESLIN AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

PAUL E. FARRELL, CPA
LOUIS J. PEDANTE, CPA
RONALD L. MINNINGER, CPA

190 W. GERMANTOWN PIKE, SUITE 150 • EAST NORRITON, PA 19401-1386
PHONE: (610) 272-3571 • FAX: (610) 272-3616

THE BAXTER BUILDING, SUITE 102 • 1234 WEST CHESTER PIKE • WEST CHESTER, PA 19382
PHONE: (610) 696-3064 • FAX: (610) 692-3108

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 activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior-year summarized comparative information for the proprietary funds has been derived from Quakertown Community School District's 2015 financial statements and, in our report dated January 8, 2016, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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 activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 14 and other required supplementary information on pages 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and 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 and certain state grants is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of 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.

Dreslin and Company, Inc.

West Chester, Pennsylvania
January 31, 2017

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

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, 2016. 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 Net Position of all governmental activities was (\$96,634,706) and the the Net Position of all business-type activities was \$50,172, for a total Net Position of (\$96,584,534). The negative Net Position is due to the application of GASB #68 *Accounting and Financial Reporting for Pensions*. This reflects the net actuarially-determined net pension liability for the Quakertown Community School District as of June 30, 2016.

The District expended \$12,761,834 on capital assets during the year.

The actual results of the District's General Fund for 2015-2016 show that revenues and other financing sources collected during the year showed a positive variance of \$36,106, and expenditures and other financing uses were under budget by \$1,540,132. The General Fund reported a positive fund balance of \$14,433,499 as of June 30, 2016, or 14.39 percent of the 2015-2016 \$100.3 million operating budget. Fund balance of \$1,199,818 is non-spendable; \$3,763,663 is committed; leaving \$9,470,018 as unassigned, which is 9.44 percent of the 2015-2016 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)
For the Year Ended June 30, 2016

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)
For the Year Ended June 30, 2016

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, 2016 as summarized below.

STATEMENT OF NET POSITION

	<u>2016</u>
ASSETS	
Current assets	\$ 35,786,461
Capital assets	
Capital assets, net	<u>154,760,864</u>
Deferred Outflows of Resources	<u>10,354,301</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 200,901,626</u></u>
LIABILITIES	
Current liabilities	\$ 11,313,518
Long-term liabilities	
Due within one year	\$ 6,752,055
Due after one year	<u>\$ 275,705,587</u>
TOTAL LIABILITIES	<u><u>\$ 293,771,160</u></u>
Deferred Inflows of Resources	<u>\$ 3,715,000</u>
NET POSITION	
Invested in capital assets, net of related liabilities	\$ 13,217,185
Restricted	\$ 7,831,147
Unrestricted	<u>\$ (117,632,866)</u>
TOTAL NET POSITION	<u><u>\$ (96,584,534)</u></u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$96,584,534 at the close of the 2015-2016 fiscal year due to the adoption of GASB Statement #68 which required the net position of the governmental activities to be restated to include the actuarially-determined net pension liability as of June 30, 2014 (reflected in prior years statements).

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 net position as a result of the current year operations.

STATEMENT OF ACTIVITIES

REVENUES

Program revenues		
Charges for services	\$	2,162,213
Operating grants and Contributions		10,056,513
Capital grants and contributions		982,883
Total program revenues		<u>13,201,609</u>
General revenues		<u>86,588,056</u>
TOTAL REVENUES		99,789,665

EXPENSES

government activities	\$	98,963,144
Business-type activity	\$	<u>2,072,497</u>
TOTAL EXPENSES	\$	101,035,641

Change in net position	\$	(1,245,976)
Net position, beginning of year	\$	<u>(95,338,558)</u>
Net position, end of year	\$	<u>(96,584,534)</u>

The cost of all District activities in 2015-2016 was \$101,035,641. The amount that taxpayers ultimately financed for those activities through tax revenues was \$73,004,889 or 72.26%. 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.

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 expenses exceeded revenues by \$1,245,976.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

General Fund Revenues and Other Financing Sources

The District receives its General Fund revenues from three major sources, categorized as local, state, and federal. The primary source of revenue, 74.7%, is from local sources, most of which comes from real estate taxes. State revenues account for 24.0%, and federal revenues and Other financing sources 1.3%.

The largest increase in local revenues came from real estate taxes. This increase was realized as a result of a 3.08(2.10%) millage rate increase.

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Local revenues			
Real estate taxes	\$ 57,731,340	\$ 56,197,312	\$ 1,534,028
Interim real estate taxes	397,472	366,878	30,594
Earned income taxes	9,550,327	9,213,065	337,262
IDEA	872,126	859,131	12,995
Other	4,405,509	4,081,396	324,113
	<u>72,956,774</u>	<u>70,717,782</u>	<u>2,238,992</u>
State revenues			
Basic instructional subsidy	9,392,298	9,072,750	319,548
Special education	2,865,926	2,651,138	214,788
Transportation	1,135,853	1,246,965	(111,112)
Social security and retirement	6,866,289	5,868,434	997,855
Other	3,231,654	2,865,482	366,172
	<u>23,492,020</u>	<u>21,704,769</u>	<u>1,787,251</u>
Federal revenues			
Title I	471,018	373,374	97,644
Other	164,513	179,825	(15,312)
	<u>635,531</u>	<u>553,199</u>	<u>82,332</u>
Other financing sources	<u>587,113</u>	<u>501,371</u>	<u>85,742</u>
Total revenues and other financing sources	<u>\$ 97,671,438</u>	<u>\$ 93,477,121</u>	<u>4,194,317</u>

General Fund Expenditures and Other Financing Uses

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

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Instruction	\$ 59,732,335	\$ 57,330,751	\$ 2,401,584
Support services	26,851,997	25,641,248	1,210,749
Operation of non-support services	1,028,463	965,273	63,190
Facilities	1,805,435	-	1,805,435
Debt service	9,632,524	8,453,817	1,178,707
	<u>99,050,754</u>	<u>92,391,089</u>	<u>6,659,665</u>
Total expenditures	<u>\$ 99,050,754</u>	<u>\$ 92,391,089</u>	<u>\$ 6,659,665</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

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 \$1,379,316 for the 2015-16 fiscal year. This is the difference between the revenues and other financing sources of \$97,671,438 and the expenditures and other financing uses of \$99,050,754, as shown above. The fund balance, as a percentage of total expenditures and other financing uses, was 14.6%.

The recommended fund balance level is between five percent and eight percent. During the budget process for the 2015-16 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. \$2,513,663 of the 2015-16 Fund Balance is Committed for PSERS Rate Stabilization, \$1,250,000 is Committed for Capital Improvements, \$1,199,818 non-spendable, leaving the remaining \$9,470,018 Unassigned.

The Capital Projects fund balance decreased by \$1,100,323 to an ending balance of \$7,831,147. The decrease in fund balance was due to the increased spending on the Senior High School Renovation and the timing of bond issues to fund the project. 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)
For the Year Ended June 30, 2016

Capital Assets

The District has \$154,760,864 invested in capital assets net of depreciation. The majority of the acquisitions were for construction in progress for the Senior High School Renovation (see notes to the basic financial statements – Note 5).

Debt

At June 30, 2016, the District had \$139,878,000 in outstanding notes and bonds payable. The District paid \$5,165,000 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 2021. 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 2020.

District Level Comprehensive Plan

The Comprehensive Planning process was developed to help districts ensure that they meet Pennsylvania Department of Education Chapter 4 (revised), 12, 16 and 49 requirements. A letter dated March 28, 2014 from the Pennsylvania Department of Education Bureau of Teaching and Learning confirmed that the QCSD Comprehensive Plan district level plan met the PDE requirements.

Mission

Our mission is to maximize the achievement of each student and to empower all students to become productive citizens. “Enter to Learn ...Leave to Serve”

Vision

The district's vision is to promote its 5,500 students to become lifelong learners, who are able to pursue academic excellence, exhibit personal responsibility, provide service to the community, and respect oneself, others and the environment. In preparing for a rapidly changing 21st Century society, our students enter our schools to learn and leave to serve. The goal of the school board is to achieve excellence in education consistent with its mission statement. The Board values academic achievement. This goal of excellence is supported by parents, and a seasoned, well-prepared and dedicated staff.

Shared Values

We believe we are responsible for maximizing student achievement for every child.

We believe everyone must act with civility, responsibility, and integrity.

We believe in a physically and intellectually safe environment for all.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

We believe in the responsible stewardship of community resources.

We believe learning provides choices and life enriching opportunities.

We believe education is collaboration between students, parents, staff, school board, and community.

We believe effective communication is essential.

We believe we are a community of learners focused on continuous improvement.

Initiatives

Based on the components of the plan as written, QCSD should continue moving forward with the following initiatives:

- Focused data-driven teacher collaboration time
- Transparency when selecting materials and resources
- Classroom instruction effectiveness
- Comprehensive professional development implemented with fidelity & focus
- PA Common Core standards-based instruction and common assessments
- Teacher Effectiveness (Teacher PVAAS) and School Performance Profile implementation
- Full Day Kindergarten
- Increased student achievement and graduation rate
- College and career readiness for all students
- World Language elementary through high school
- Effective homework & remediation protocols
- Use of PDE Standards Aligned System to improve instruction, assessment and achievement.

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.

In the summer of 2013, a major four-phase renovation to the High School began. The \$76 million dollar project will be completed in September of 2017. The millage impact of the project will be a 7.17 Mills phased in over an 8 year period. All but approximately \$7 million dollars of the funding is now in place.

On July 28, 2015 the District purchased a 126.7 acre parcel of land at Old Bethlehem Pike and West Pumping Station Road. In the fall of 2015 a Committee was formed to develop a District-Wide Facility Master Plan. The Committee recommended a plan that would have a combination of Capital Improvements, Renovations, Additions, and New Construction that would be accomplished over the next ten years at a cost of over \$100 million dollars.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016**

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

2015-16	25.84%
2016-17	30.03%
2017-18	32.57%
2018-19	34.18%
2019-20	35.53%
2020-21	35.95%
2021-22	36.40%

Tax assessment appeals have been slow, but there has been some significant growth in the assessment rolls in 2016-17.

2010-11	401,198,336	-0.0807%
2011-12	399,450,798	-0.4356%
2012-13	401,139,569	0.4228%
2013-14	399,774,960	-0.3402%
2014-15	400,614,798	0.2101%
2015-16	403,422,419	0.7008%
2016-17	407,052,875	0.8999%

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.

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, 2016

	Governmental <u>Activities</u>	Business-type <u>Activity</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 25,103,776	\$ 108,827	\$ 25,212,603
Taxes Receivable	3,748,057	-	3,748,057
Internal Balances	211,303	(211,303)	-
Due From Agency Fund	9,710	-	9,710
Due from Other Governments	4,914,102	214,450	5,128,552
Other Receivables	437,593	7,633	445,226
Inventories	-	42,495	42,495
Prepaid Expenses	1,199,818	-	1,199,818
	<u>35,624,359</u>	<u>162,102</u>	<u>35,786,461</u>
Total Current Assets			
Capital Assets, Net of Depreciation	<u>154,748,767</u>	<u>12,097</u>	<u>154,760,864</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	<u>10,354,301</u>	<u>-</u>	<u>10,354,301</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 200,727,427</u>	<u>\$ 174,199</u>	<u>\$ 200,901,626</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 4,967,267	\$ 62,031	\$ 5,029,298
Accrued Salaries and Benefits	332,935	-	332,935
Payroll Deductions and Withholdings	4,519,213	-	4,519,213
Accrued Interest	1,291,443	-	1,291,443
Unearned Revenue	78,633	61,996	140,629
Portion Due or Payable Within One Year:			
Bonds and Notes Payable	6,085,000	-	6,085,000
Capital Lease Obligations	667,055	-	667,055
	<u>17,941,546</u>	<u>124,027</u>	<u>18,065,573</u>
Total Current Liabilities			
Long-term Liabilities:			
Bonds and Notes Payable, Net	134,633,088	-	134,633,088
Capital Lease Obligations	158,536	-	158,536
Accumulated Compensated Absences	1,654,106	-	1,654,106
Net Pension Liability	138,869,000	-	138,869,000
Other Post-employment Benefits	390,857	-	390,857
	<u>275,705,587</u>	<u>-</u>	<u>275,705,587</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>293,647,133</u>	<u>124,027</u>	<u>293,771,160</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>3,715,000</u>	<u>-</u>	<u>3,715,000</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	13,205,088	12,097	13,217,185
Restricted	7,831,147	-	7,831,147
Unrestricted	<u>(117,670,941)</u>	<u>38,075</u>	<u>(117,632,866)</u>
Total Net Position	<u>(96,634,706)</u>	<u>50,172</u>	<u>(96,584,534)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 200,727,427</u>	<u>\$ 174,199</u>	<u>\$ 200,901,626</u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activity</u>	<u>Total</u>
Governmental Activities:							
Instruction	\$ 62,686,098	\$ 682,207	\$ 7,299,074	\$ -	\$ (54,704,817)		\$ (54,704,817)
Instructional Student Support	9,837,623	-	919,249	-	(8,918,374)		(8,918,374)
Administrative Support Services	9,404,527	-	731,921	-	(8,672,606)		(8,672,606)
Operation and Maintenance of Plant Services	9,065,439	232,843	130,769	-	(8,701,827)		(8,701,827)
Pupil Transportation	3,630,581	-	-	-	(3,630,581)		(3,630,581)
Student Activities	1,078,365	128,554	87,479	-	(862,332)		(862,332)
Community Services	11,119	-	-	-	(11,119)		(11,119)
Interest on Long-term Debt	3,249,392	-	-	982,883	(2,266,509)		(2,266,509)
Total Governmental Activities	98,963,144	1,043,604	9,168,492	982,883	(87,768,165)		(87,768,165)
Business-type Activity:							
Food Service	2,072,497	1,118,609	888,021	-	-	\$ (65,867)	(65,867)
Total	\$ 101,035,641	\$ 2,162,213	\$ 10,056,513	\$ 982,883	(87,768,165)	(65,867)	(87,834,032)
General Revenues:							
Property Taxes, Levied for General Purposes					61,228,366	-	61,228,366
Taxes Levied for Specific Purposes					11,776,523	-	11,776,523
Grants and Entitlements Not Restricted to							
Specific Programs					13,394,077	-	13,394,077
Investment Earnings					126,740	554	127,294
Miscellaneous					61,650	146	61,796
Total General Revenues					86,587,356	700	86,588,056
Change in Net Position					(1,180,809)	(65,167)	(1,245,976)
Net Position - Beginning of Year (As Restated)					(95,453,897)	115,339	(95,338,558)
Net Position - End of Year					\$ (96,634,706)	\$ 50,172	\$ (96,584,534)

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2016**

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 14,879,776	\$ 10,224,000	\$ 25,103,776
Taxes Receivable	3,748,057	-	3,748,057
Interfund Receivable	221,013	-	221,013
Due from Other Governments	4,914,102	-	4,914,102
Other Receivables	437,593	-	437,593
Prepaid Expenses	1,199,818	-	1,199,818
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 25,400,359</u>	<u>\$ 10,224,000</u>	<u>\$ 35,624,359</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 2,574,414	\$ 2,392,853	\$ 4,967,267
Accrued Salaries and Benefits	332,935	-	332,935
Payroll Deductions and Withholdings	4,519,213	-	4,519,213
Unearned Revenue	78,633	-	78,633
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>7,505,195</u>	<u>2,392,853</u>	<u>9,898,048</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Real Estate Taxes	1,534,989	-	1,534,989
Deferred State Source Revenues	1,890,689	-	1,890,689
Deferred Other Taxes	35,987	-	35,987
	<hr/>	<hr/>	<hr/>
Total Deferred Inflows of Resources	<u>3,461,665</u>	<u>-</u>	<u>3,461,665</u>
FUND BALANCES			
Non-spendable	1,199,818	-	1,199,818
Reserved for Capital Projects	-	7,831,147	7,831,147
Committed:			
PSERS Liability	2,513,663	-	2,513,663
Capital Reserve	1,250,000	-	1,250,000
Unassigned	9,470,018	-	9,470,018
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>14,433,499</u>	<u>7,831,147</u>	<u>22,264,646</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 25,400,359</u>	<u>\$ 10,224,000</u>	<u>\$ 35,624,359</u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
June 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES \$ 22,264,646

Amounts reported for governmental activities in 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 \$231,204,670, and the accumulated depreciation is \$76,455,903 154,748,767

Some of the District's revenues will not be collected soon enough after year end to pay for the current year's expenditures and, therefore, are not available in the fund:

Taxes	2,291,755
Revenues - State Sources	1,169,910

The Net Pension Liability is not due and payable in the current period and therefore is not reported in the funds. In addition, the deferred outflows and inflows of resources related to pensions do not represent current financial resources and therefore are not reported in the funds. Those items consist of:

Net Pension Liability	(138,869,000)
Deferred Inflows of Resources - Pensions	(3,715,000)
Deferred Outflows of Resources - Pensions	10,354,301

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:

Bonds and Notes Payable	(140,718,088)
Accrued Interest	(1,291,443)
Capital Lease Obligation	(825,591)
Other Post-employment Benefits	(390,857)
Accumulated Compensated Absences	<u>(1,654,106)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$(96,634,706)

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Total
REVENUES			
Local Sources	\$ 72,956,774	\$ 25,184	\$ 72,981,958
State Sources	23,492,020	-	23,492,020
Federal Sources	635,531	-	635,531
	<hr/>	<hr/>	<hr/>
Total Revenues	97,084,325	25,184	97,109,509
EXPENDITURES			
Instruction	59,732,335	-	59,732,335
Support Services	26,851,997	-	26,851,997
Operation of Non-instructional Services	1,028,463	-	1,028,463
Facilities Acquisition, Construction, and Improvement	1,805,435	9,854,461	11,659,896
Debt Service	9,632,524	630,025	10,262,549
Bond Issue Costs	-	737,770	737,770
	<hr/>	<hr/>	<hr/>
Total Expenditures	99,050,754	11,222,256	110,273,010
Excess of Revenues (Under) Expenditures	<hr/> (1,966,429)	<hr/> (11,197,072)	<hr/> (13,163,501)
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Debt	-	9,550,000	9,550,000
Proceeds from Refunding Bonds	-	22,505,000	22,505,000
Bond Premium	-	329,067	329,067
Payment to Refunded Bond Escrow Agent	-	(22,287,318)	(22,287,318)
Proceeds from Extended Term Financing	584,613	-	584,613
Sale of or Compensation for Capital Assets	1,500	-	1,500
Insurance Recoveries	1,000	-	1,000
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources	587,113	10,096,749	10,683,862
Net Change in Fund Balances	(1,379,316)	(1,100,323)	(2,479,639)
Fund Balances - Beginning of Year	<hr/> 15,812,815	<hr/> 8,931,470	<hr/> 24,744,285
Fund Balances - End of Year	<hr/> <u>\$ 14,433,499</u>	<hr/> <u>\$ 7,831,147</u>	<hr/> <u>\$ 22,264,646</u>

The accompanying notes are an integral part of these 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, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,479,639)

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

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

Capital Asset Purchases Capitalized	12,761,834
Depreciation Expense	(4,642,688)

Because some property and earned income 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 uncollectible accounts.	87,160
--	--------

Issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position of governmental activities:	
Proceeds from Issuance of Debt	(9,550,000)
Proceeds from Refunding Bonds	(22,505,000)
Payment to Refunded Bond Escrow Agent	22,287,318
Proceeds from Extended Term Financing	(584,613)

Bond discounts and premiums 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.	120,013
--	---------

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.	5,780,000
---	-----------

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.	677,676
---	---------

Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(13,855)
--	----------

Because some state rental revenues will not be collected for several months after year end, they are not considered as "available" revenues by the government funds but are accrued in the statement of activities.	720,779
---	---------

Other post-employment benefits do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(44,986)
--	----------

The net change in the net pension liability, as well as the change in the related deferred inflows and outflows, is reported in the statement of activities, but is not reported in the fund financial statements.	(3,763,596)
--	-------------

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt in the statement of activities.	126,106
---	---------

Amortization of the deferred amount on refunding bonds is recorded as interest expense in the Statement of Activities, but is not reflected in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	(157,318)
---	-----------

Change in Net Position of Governmental Activities	<u>\$ (1,180,809)</u>
---	-----------------------

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2016
(With Comparative Data as of June 30 2015)

	Enterprise Fund - Food Service Fund	
	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 108,827	\$ 185,737
Due from Other Governments	214,450	199,192
Other Receivables	7,633	1,741
Inventories	42,495	36,128
Total Current Assets	373,405	422,798
Capital Assets:		
Equipment	616,245	616,245
Less: Accumulated Depreciation	(604,148)	(594,812)
Capital Assets - Net	12,097	21,433
Total Assets	\$ 385,502	\$ 444,231
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 62,031	\$ 57,909
Interfund Payable	211,303	222,975
Unearned Revenues	61,996	48,008
Total (Current) Liabilities	335,330	328,892
NET POSITION		
Invested in Capital Assets	12,097	21,433
Unrestricted	38,075	93,906
Total Net Position	50,172	115,339
Total Liabilities and Net Position	\$ 385,502	\$ 444,231

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Change in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2016
(With Comparative Data for the Year Ended June 30, 2015)

	Enterprise Fund - Food Service Fund	
	2016	2015
OPERATING REVENUES		
Food Service Revenues	\$ 1,118,755	\$ 1,151,961
Total Operating Revenues	1,118,755	1,151,961
OPERATING EXPENSES		
Payroll	333,718	367,586
Employee Benefits	128,802	125,823
Purchased Property Services	71,151	68,594
Other Purchased Services	722,653	680,735
Supplies	805,631	764,187
Depreciation	9,336	10,708
Other Operating Expenses	1,206	1,592
Total Operating Expenses	2,072,497	2,019,225
Operating (Loss)	(953,742)	(867,264)
NONOPERATING REVENUES		
Interest Income	554	543
State Sources	101,504	99,012
Federal Sources	786,517	715,889
Total Nonoperating Revenue	888,575	815,444
Change in Net Position	(65,167)	(51,820)
Total Net Position - Beginning of Year	115,339	167,159
Total Net Position - End of Year	\$ 50,172	\$ 115,339

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016
(With Comparative Data for the Year Ended June 30, 2015)

	Enterprise Fund - Food Service Fund	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,126,850	\$ 1,274,741
Cash Received from Other Operating Revenue	-	146
Cash Payments to Employees	(462,519)	(493,409)
Cash Payments to Suppliers	(1,613,352)	(1,368,974)
Cash Payments for Other Operating Expenses	(1,206)	(1,592)
Net Cash (Used) by Operating Activities	(950,227)	(589,088)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Sources	100,196	87,598
Federal Sources	772,568	587,050
Net Cash Provided by Noncapital Financing Activities	872,764	674,648
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	-	(1,091)
Net Cash (Used) by Capital and Related Financing Activities	-	(1,091)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	554	543
Net Cash Provided by Investing Activities	554	543
Net Increase (Decrease) in Cash and Cash Equivalents	(76,909)	85,012
Cash and Cash Equivalents - Beginning of Year	185,737	100,725
Cash and Cash Equivalents - End of Year	\$ 108,828	\$ 185,737
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:		
Operating (Loss)	\$ (953,742)	\$ (867,264)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities		
Depreciation	9,336	10,708
(Increase) Decrease in Current Assets:		
Receivables	(5,892)	118,971
Inventories	(6,367)	(2,919)
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Interfund Payable	(7,550)	147,462
Unearned Revenues	13,988	3,954
Net Cash (Used) by Operating Activities	\$ (950,227)	\$ (589,088)
Schedule of Noncash Noncapital Financing Activities:		
USDA Donated Commodities	\$ 141,822	\$ 113,981

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2016

	<u>Private-purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 127,751	\$ 48,916
Investments	-	279,577
	<hr/>	<hr/>
Total Assets	127,751	\$ 328,493
	<hr/>	<hr/>
LIABILITIES		
Interfund Payables	-	\$ 9,710
Due to Student Organizations	-	318,783
	<hr/>	<hr/>
Total Liabilities	-	\$ 328,493
	<hr/>	<hr/>
NET POSITION		
Reserved for Trust	\$ 127,751	
	<hr/>	

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016
(With Comparative Data For the Year Ended June 30, 2016)

	Private-purpose Trust Fund	
	2016	2015
ADDITIONS		
Local Contributions	\$ 12,427	\$ 11,607
Total Additions	12,427	11,607
DEDUCTIONS		
Scholarships Awarded	16,538	15,725
Total Deductions	16,538	15,725
Change in Net Position	(4,111)	(4,118)
Net Position - Beginning of Year	131,862	135,980
Net Position - End of Year	\$ 127,751	\$ 131,862

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to the Basic Financial Statements

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 how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by following the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. A component unit is defined as a unit for which the primary government is financially accountable, and/or units that must be included to keep the financial statements from being misleading or incomplete because of the nature or significance of their relationships to the primary government. The primary government is financially accountable if it appoints a voting majority of a component unit's governing body, and if it either has the ability to impose its will on the component unit or there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government. Based upon the application of these criteria, management has determined there are no component units of the primary government.

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 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. Non-major funds are aggregated and presented in a single column. Quakertown Community School District does not have any non-major 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 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 non-operating 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 non-operating 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.

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.

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 include land, land improvements, buildings, building improvements, and 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.

Deferred Outflows of Resources or Deferred Inflows of Resources

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District reports certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively.

Entity-wide Financial Statements

Deferred outflows and inflows of resources include certain items related to the pension plan, which are listed in Note 7.

Fund Financial Statements

Deferred inflows of resources include amounts included in Taxes Receivable that were not considered to be available to liquidate liabilities of the current period.

Pension:

Beginning with the year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The effects of implementing this statement are reflected in the district-wide financial statements, the Notes to the financial statements, and in the presentation of certain required supplementary information.

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

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. When material, bond premiums and discounts are reported along with the debt as valuation accounts and are amortized as a component of interest expense. Bond issue costs are charged to expense as incurred.

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

In the 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.

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 may have been reclassified in order to be consistent with the current year's presentation. However, the presentation of prior-year totals by fund and activity type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the comparative data was derived.

Fund Balance

The District adheres to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which 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 non-spendable 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. As of June 30, 2016, non-spendable fund balance represents prepaid expenses.

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 Board of School Directors has granted the Business Administrator 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 non-spendable and are neither restricted nor committed.

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, are used as needed. If the School 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 and Investment Policy

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 (FDIC) 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.

In addition to banks, the District maintains cash accounts 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.

Credit Risk

As of June 30, 2016, PLGIT was rated as AAAM by Standard & Poor's.

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, 2016, the carrying amount of the District's deposits was \$25,389,270 and the bank balance was \$27,767,455. As of June 30, 2016, \$750,000 of the District's bank balance was insured by the FDIC and \$27,017,455 of the District's bank balance 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

Investments of the agency fund represents a certificate of deposit.

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 149.73 mills (\$149.73 per \$1,000 of assessed valuation) for the year ended June 30, 2016. 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, 2015 levy was assessed at \$417,241,310. 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.

4. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables as of June 30, 2016:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 221,013	
Food Service Fund		\$ 211,303
Private Purpose Trust Fund (Scholarship Fund)	1,150	
Agency Fund (Activities Fund)		<u>10,860</u>
Totals	<u>\$ 222,163</u>	<u>\$ 222,163</u>

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.

5. CAPITAL ASSETS

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

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	\$ 2,197,864	\$ 1,778,829	\$ -	\$ 3,976,693
Construction in Progress	<u>55,599,366</u>	<u>8,644,833</u>	<u>-</u>	<u>64,244,199</u>
Total Capital Assets Not Being Depreciated	<u>57,797,230</u>	<u>10,423,662</u>	<u>-</u>	<u>68,220,892</u>
Capital Assets Being Depreciated				
Land Improvements	9,371,088	1,179,929	-	10,551,017
Buildings and Improvements	127,356,308	62,926	-	127,419,234
Property and Equipment	<u>23,918,210</u>	<u>1,095,317</u>	<u>-</u>	<u>25,013,527</u>
Total Capital Assets Being Depreciated	<u>160,645,606</u>	<u>2,338,172</u>	<u>-</u>	<u>162,983,778</u>
Less: Accumulated Depreciation:				
Land Improvements	(4,619,514)	(507,715)		(5,127,229)
Buildings and Improvements	(46,463,506)	(3,088,389)		(49,551,895)
Property and Equipment	<u>(20,730,195)</u>	<u>(1,046,584)</u>		<u>(21,776,779)</u>
Total Accumulated Depreciation	<u>(71,813,215)</u>	<u>(4,642,688)</u>	<u>-</u>	<u>(76,455,903)</u>
Total Capital Assets Being Depreciated, Net	<u>88,832,391</u>	<u>(2,304,516)</u>	<u>-</u>	<u>86,527,875</u>
Governmental Activities Capital Assets, Net	<u>\$ 146,629,621</u>	<u>\$ 8,119,146</u>	<u>\$ -</u>	<u>\$ 154,748,767</u>
<u>Business-type Activities</u>				
Capital Assets Being Depreciated				
Property and Equipment	\$ 616,245	\$ -	\$ -	\$ 616,245
Less: Accumulated Depreciation	<u>(594,812)</u>	<u>(9,336)</u>	<u>-</u>	<u>(604,148)</u>
Business-type Activities Capital Assets, Net	<u>\$ 21,433</u>	<u>\$ (9,336)</u>	<u>\$ -</u>	<u>\$ 12,097</u>

The balances of capital assets and accumulated depreciation for governmental activities as of July 1, 2015 has been restated to reflect the correction of errors in the District's subsidiary capital assets detail discovered after the financial statements for the year ended June 30, 2015 were issued. Adjustments to the cost of capital assets totaled \$321,028 and adjustments to accumulated depreciation totaled \$120,358.

Depreciation expense for Governmental Activities was charged as direct expense to programs as follows:

Instruction	\$ 239,296
Instructional Student Support	259,027
Administrative Support Services	404,979
Operation and Maintenance of Plant Services	3,726,314
Student Activities	<u>13,072</u>
 Total	 <u><u>\$4,642,688</u></u>

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the District for the year ending June 30, 2016:

Type	Principal Outstanding July 1, 2015	Additions	Repayments	Principal Outstanding June 30, 2016	Due Within One Year
General Obligation Note - 1997 B	\$ 934,000	\$ -	\$ 293,000	\$ 641,000	\$ 311,000
General Obligation Note - 2000	1,959,000	-	997,000	962,000	962,000
General Obligation Note - 2000 B	2,608,000	-	183,000	2,425,000	200,000
General Obligation Note - 2000 C	5,493,000	-	818,000	4,675,000	855,000
General Obligation Note - 2003	3,120,000	-	295,000	2,825,000	307,000
General Obligation Note - 2004 Emmaus	7,900,000	-	800,000	7,100,000	800,000
General Obligation Note - 2006	614,000	-	614,000	-	-
General Obligation Bond - 2010	14,980,000	-	14,980,000	-	-
General Obligation Bond - 2010 A	7,765,000	-	7,765,000	-	-
General Obligation Bond - 2011	9,695,000	-	5,000	9,690,000	5,000
General Obligation Bond - 2012	8,945,000	-	5,000	8,940,000	5,000
General Obligation Bond - 2013	9,400,000	-	30,000	9,370,000	85,000
General Obligation Bond - 2013 A	6,955,000	-	555,000	6,400,000	570,000
General Obligation Bond - 2013 B	8,995,000	-	5,000	8,990,000	5,000
General Obligation Bond - 2014	9,995,000	-	130,000	9,865,000	130,000
General Obligation Bond - 2014 A	8,525,000	-	430,000	8,095,000	1,190,000
General Obligation Bond - 2014 AA	9,180,000	-	5,000	9,175,000	5,000
General Obligation Bond - 2015	18,670,000	-	-	18,670,000	5,000
General Obligation Bond - 2016	-	7,205,000	-	7,205,000	620,000
General Obligation Bond - 2016 A	-	9,860,000	-	9,860,000	5,000
General Obligation Bond - 2016 AA	-	5,440,000	-	5,440,000	25,000
General Obligation Bond - 2016 AAA	-	9,550,000	-	9,550,000	-
Total General Obligation Bonds and Notes	<u>135,733,000</u>	<u>32,055,000</u>	<u>27,910,000</u>	<u>139,878,000</u>	<u>6,085,000</u>
Capital Lease Obligations	918,654	584,613	677,676	825,591	409,979
Compensated Absences	1,640,251	13,855	-	1,654,106	-
Net Pension Liability	128,598,000	10,271,000	-	138,869,000	-
Other Post-employment Benefits	345,871	44,986	-	390,857	-
Total	<u><u>\$ 267,235,776</u></u>	<u><u>\$ 42,969,454</u></u>	<u><u>\$ 28,587,676</u></u>	<u><u>\$ 281,617,554</u></u>	<u><u>\$ 6,494,979</u></u>

General Obligation Bonds and Notes Payable

Bonds and notes payable at June 30, 2016 consisted of:	
General Obligation Note – Series B of 1997, maturing through October 2017, bearing interest at 4.2%. Interest is payable monthly.	\$641,000
General Obligation Note – Series 2000, maturing through March 2017, bearing interest at 4.38%. Interest is payable monthly.	962,000
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.	2,425,000
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.	\$4,675,000
General Obligation Note – Series of 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.	2,825,000
General Obligation Note – Series of 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.	7,100,000
General Obligation Bond – Series of 2011, maturing through August 2027, bearing interest from 2% to 3.5%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	9,690,000
General Obligation Bond – Series of 2012, maturing through August 2030, bearing interest from 1.25% to 2.73%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	8,940,000
General Obligation Bond – Series of 2013, maturing through November 2024, bearing interest ranging from 0.4% to 2.73%. Interest is payable semi-annually in May and November. This series provided funds to refund the Series of 2008 bonds.	9,370,000
General Obligation Bond – Series A of 2013, maturing through August 2025, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August. This series provided funds to refund the Series of 2009 bonds.	6,400,000

General Obligation Bond – Series B of 2013, maturing through August 2031, bearing interest ranging from 2% to 4%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	\$8,990,000
General Obligation Bond – Series of 2014, maturing through October 2023, bearing interest ranging from .35% to 4%. Interest is payable semi-annually in March and September. This series provided funds to refund the Series A of 2009 bonds.	9,865,000
General Obligation Bond – Series A of 2014, maturing through September 2020, bearing interest ranging from .25% to 5%. Interest is payable semi-annually in March and September. This series provided funds to refund the Series A of 2009 bonds.	8,095,000
General Obligation Bond – Series AA of 2014, maturing through August 2032, bearing interest ranging from .75% to 3.5%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	9,175,000
General Obligation Bond – Series of 2015, maturing through August 2033, bearing interest ranging from 2% to 3.75%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	18,670,000
General Obligation Bond – Series of 2016, maturing through August 2025, bearing interest ranging from 0.5% to 2.25%. Interest is payable semi-annually in February and August. This series provided funds to refund the Series A of 2010 bonds. The savings to the District will total \$366,452 over the term of the Series of 2016 bonds.	7,205,000
General Obligation Bond – Series A of 2016, maturing through August 2026, bearing interest ranging from 0.9% to 2.25%. Interest is payable semi-annually in February and August. This series provided funds to refund a portion of the Series of 2010 bonds. The savings to the District will total \$1,408,211 over the term of the Series A of 2016 bonds.	9,860,000
General Obligation Bond – Series AA of 2016, maturing through August 2024, bearing interest ranging from 0.6% to 1.8%. Interest is payable semi-annually in February and August. This series provided funds to refund the remaining Series of 2010 bonds. The savings to the District will total \$588,242 over the term of the Series AA of 2016 bonds.	5,440,000
General Obligation Bond – Series AAA of 2016, maturing through August 2033, bearing interest ranging from 0.8% to 3%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	9,550,000

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

Year Ended June 30	Principal	Interest	Total
2017	\$ 6,085,000	\$ 3,773,721	\$ 9,858,721
2018	6,396,000	3,618,899	10,014,899
2019	6,703,000	3,405,367	10,108,367
2020	6,983,000	3,182,250	10,165,250
2021	7,212,000	2,987,439	10,199,439
2022-2026	39,199,000	12,850,547	52,049,547
2027-2031	43,730,000	7,591,978	51,321,978
2032-2034	23,570,000	1,123,038	24,693,038
Totals	<u>\$ 139,878,000</u>	<u>\$38,533,239</u>	<u>\$ 178,411,239</u>

Bonds payable, net of unamortized bond premiums, is as follows:

Bonds and Notes Payable, at Face	\$ 139,878,000
Unamortized Premium	<u>840,088</u>
Bonds and Notes Payable, Net	<u>\$ 140,718,088</u>
Portion Due or Payable Within One Year	\$ 6,085,000
Long-term Portion	<u>134,633,088</u>
Bonds and Notes Payable, Net	<u>\$ 140,718,088</u>

Capital Lease Obligations

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 was \$1,043,000. The lease provided for four annual payments of \$266,135. The implicit interest rate was 1.38%. This lease was satisfied during the year ended June 30, 2016.

On July 9, 2013, 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 \$580,672. The lease provides for four annual payments of \$147,413. The implicit interest rate is 1.033%. As of June 30, 2016, the principal balance of this obligation was \$145,906.

On July 18, 2014, the District entered into a lease-purchase agreement with American Capital Financial Services, Inc. for the purchase of computer equipment. The present value of the lease payments is \$490,821. The lease provides for four annual payments of \$125,000. The implicit interest rate is 1.338%. As of June 30, 2016, the principal balance of this obligation was \$245,071.

On July 15, 2015, the District entered into a lease-purchase agreement with Univest Capital, Inc. for the purchase of computer equipment. The present value of the lease payments is \$584,613. The lease provides for four annual payments of \$150,000. The implicit interest rate is 1.76%. As of June 30, 2016, the principal balance of this obligation was \$434,613.

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

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 409,979	\$ 11,269	\$ 421,248
2018	268,206	6,794	275,000
2019	<u>147,406</u>	<u>2,594</u>	<u>150,000</u>
Totals	<u>\$ 825,591</u>	<u>\$ 20,657</u>	<u>\$ 846,248</u>

Other Long-term Liabilities

The net pension liability is described in Note 7. The liability for other post-employment benefits is described in Note 8.

7. PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

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

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The District's contractually-required contribution rate for the fiscal year ended June 30, 2016 was 25% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$10,354,301 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$138,869,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total

pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School District's proportion was 0.3206 percent, which was a decrease of 0.0043 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$14,117,897 in the government-wide financial statements. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Changes in Proportions	\$ -	\$ 2,861,000
Difference between Expected and Actual Experience	-	573,000
Net Difference between Projected and Actual Investment Earnings	-	281,000
Contributions Subsequent to the Measurement Date	<u>10,354,301</u>	<u>-</u>
Totals	<u>\$ 10,354,301</u>	<u>\$ 3,715,000</u>

An amount of \$10,354,301 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ (1,590,000)
2018	(1,590,000)
2019	(1,590,000)
2020	<u>1,055,000</u>
	<u>\$ (3,715,000)</u>

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50% (includes inflation at 3.00%)
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Markets Global Equity	22.5%	4.8%
Private Markets (Equity)	15.0%	6.6%
Private Real Estate	12.0%	4.5%
Global Fixed Income	7.5%	2.4%
U.S. Long Treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High-yield Bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute Return	10.0%	4.9%
Risk Parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>-14.0%</u>	1.1%
Total	<u>100.0%</u>	

Discount rate

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

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's Proportionate Share of the Net Pension Liability	\$ 171,169,000	\$ 138,869,000	\$ 111,720,000

Pension Plan Fiduciary Net Position

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

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

Plan Description: Effective for the year ended June 30, 2009, 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 was 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 the year ended June 30, 2016, the District contributed \$519,863 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), an 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 District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Normal Cost (Service Cost for One Year)	\$ 239,197
Interest on Normal Cost	10,764
Amortization of Unfunded Actuarial Accrued Liability	<u>320,558</u>
Annual Required Contribution (ARC)	570,519
Interest on Net OPEB Obligation	15,564
Adjustment to Annual Required Contributions	<u>(21,234)</u>
Annual OPEB Cost (Expense)	564,849
Contributions Toward the OPEB Cost	<u>(519,863)</u>
Increase in Net OPEB Obligation	44,986
Net OPEB Obligation - Beginning of Year	<u>345,871</u>
Net OPEB Obligation - End of Year	<u><u>\$ 390,857</u></u>

Funded Status and Funding Progress: As of May 1, 2014, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$5,221,532, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,221,532. The covered payroll (annual payroll of active employees covered by the plan) was \$40,462,060, and the ratio of the UAAL to the covered payroll was 12.90%.

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.

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, 2014 actuarial valuation, the entry age actuarial

cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 6.5% in 2014, decreasing by 0.5% per year to 5.5% in 2016. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2016 was 22 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 \$2,513,663 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 year ended June 30, 2016. 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.

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, 2016, the District had outstanding construction projects to be completed of approximately \$9,636,394.

12. JOINT VENTURE

The District is a participating member of the Upper Bucks County Technical School (the Technical School). The Technical School is governed by a joint board consisting of school directors from each member district and one nonmember representative. The Board of School Directors from each member district must approve the Technical School's annual budget. Each member pays a private share of the operating costs and debt service of the Technical School based on the student

membership from each district. The financial statements of the Technical School are available from the Technical School's business office located at 3115 Ridge Road, Perkasio, PA 18944.

During 2005, the Technical School 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 Technical School 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.

During the year ended June 30, 2014, the Technical School issued \$17,765,000 of School Lease Revenue Bonds through the State Public School Building Authority for capital improvements to the facilities owned and operated by the Technical School. The bonds are secured by sublease rental payments and are guaranteed by two of the three participating school districts, including Quakertown Community School District. The District's portion of these bonds is scheduled to be paid through the year ended June 30, 2044.

Future rental payments are schedule as follows:

Year Ending <u>June 30</u>	2005 <u>Lease</u>	2014 <u>Lease</u>	<u>Total</u>
2017	\$ 96,149	\$ 321,087	\$ 417,236
2018	96,595	322,905	419,500
2019	95,313	321,580	416,893
2020	95,430	323,244	418,674
2021	95,370	322,057	417,427
2022-2026	479,828	1,611,983	2,091,811
2027-2031	-	1,613,061	1,613,061
2032-2036	-	1,614,796	1,614,796
2037-2041	-	1,612,612	1,612,612
2042-2044	-	966,505	966,505
Total	<u>\$ 958,685</u>	<u>\$ 9,029,830</u>	<u>\$ 9,988,515</u>

13. RESTATEMENT OF FINANCIAL POSITION

The net position of the governmental activities has been restated as of July 1, 2015, as follows:

As Previously Stated	\$ (94,694,466)
Unamortized Bond Premiums	(960,101)
Capital Assets (See Note 5)	<u>200,670</u>
As Restated	<u>\$ (95,453,897)</u>

14. SUBSEQUENT EVENTS

On July 15, 2016, the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of computer equipment. The initial principal balance of the lease totaled \$999,904; future payments under the lease totals \$1,028,308.

Management has evaluated subsequent events through January 31, 2017, which is the date the financial statements were available to be issued.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Post-employment Benefits Plan
For the Year Ended June 30, 2016

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
5/1/2014	\$ -	\$ 5,221,532	\$ 5,221,532	0.00%	\$ 40,462,060	12.90%
5/1/2012	-	6,411,946	6,411,946	0.00%	40,922,269	15.67%
5/1/2010	-	7,113,065	7,113,065	0.00%	37,038,903	19.20%

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Employer Contributions	Percentage Contributed
2016	\$ 570,519	\$ 519,863	91%
2015	570,519	533,586	94%
2014	685,555	713,210	104%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Budgetary Fund Balance - Beginning of Year	\$ 15,640,964	\$ 15,750,916	\$ 15,812,815	\$ 61,899
Resources (Inflows):				
Revenues:				
Local Sources	72,816,497	72,816,539	72,956,774	140,235
State Sources	23,960,926	24,105,692	23,492,020	(613,672)
Federal Sources	765,000	765,000	635,531	(129,469)
Other Financing Sources:				
Proceeds from Extended-term Financing	-	-	584,613	584,613
Sale of Capital Assets	10,000	10,000	1,500	(8,500)
Insurance Recoveries	-	-	1,000	1,000
Amounts Available for Appropriation	<u>113,193,387</u>	<u>113,448,147</u>	<u>113,484,253</u>	<u>36,106</u>
Charges to Appropriations (Outflows):				
Expenditures:				
Instruction:				
Regular Programs	42,941,489	40,916,896	40,774,864	142,032
Special Programs	11,898,753	12,006,077	11,946,279	59,798
Vocational Programs	3,215,329	3,314,329	3,313,937	392
Other Instructional Programs	4,222,097	3,591,655	3,588,026	3,629
Pre-Kindergarten	-	119,850	109,229	10,621
Total Instruction	<u>62,277,668</u>	<u>59,948,807</u>	<u>59,732,335</u>	<u>216,472</u>
Support Services:				
Pupil Personnel Services	3,930,226	3,929,675	3,867,668	62,007
Instructional Staff Services	4,654,652	5,060,526	4,162,641	897,885
Administration Services	4,732,794	4,708,735	4,706,933	1,802
Pupil Health	1,040,664	1,055,419	1,036,858	18,561
Business Services	982,339	958,394	938,131	20,263
Operation and Maintenance of Plant Services	5,593,761	5,757,361	5,537,879	219,482
Student Transportation Services	3,400,236	3,630,736	3,630,581	155
Central Services	3,040,775	3,006,300	2,910,668	95,632
Other Support Services	56,100	60,700	60,638	62
Total Support Services	<u>27,431,547</u>	<u>28,167,846</u>	<u>26,851,997</u>	<u>1,315,849</u>
Operation of Non-instructional Services				
Student Activities	871,447	1,017,669	1,017,344	325
Community Services	15,200	17,400	11,119	6,281
Total Operation of Non-instructional Services	<u>886,647</u>	<u>1,035,069</u>	<u>1,028,463</u>	<u>6,606</u>
Facilities Acquisition, Construction, and Improvement	-	1,805,900	1,805,435	465
Debt Service	<u>8,940,264</u>	<u>9,633,264</u>	<u>9,632,524</u>	<u>740</u>
Other Financing Uses:				
Budgetary Reserve	800,000	-	-	-
Total Other Financing Uses	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Charges to Appropriations	<u>100,336,126</u>	<u>100,590,886</u>	<u>99,050,754</u>	<u>1,540,132</u>
Fund Balance at End of Year	<u>\$ 12,857,261</u>	<u>\$ 12,857,261</u>	<u>\$ 14,433,499</u>	<u>\$ 1,576,238</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to Budgetary Comparison Schedule

1. 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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years

	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's Proportion of the Net Pension Liability	0.3206%	0.3249%	0.3305%
District's Proportionate Share of the Net Pension Liability	\$ 138,869,000	\$ 128,598,000	\$ 135,295,000
District's Covered-Employee Payroll	\$ 41,244,767	\$ 41,457,011	\$ 42,415,836
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	336.69%	310.20%	318.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.36%	57.24%	54.49%

The amounts presented for each fiscal year were determined as of the end of the previous fiscal year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of District's Pension Contributions
Last Three Fiscal Years

	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Contractually-Required Contribution	\$ 10,354,301	\$ 8,428,897	\$ 6,633,122
Contributions in Relation to the Contractually-Required Contribution	<u>(10,354,301)</u>	<u>(8,428,897)</u>	<u>(6,633,122)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 School's Covered-Employee Payroll	 \$ 41,417,204	 \$ 41,244,767	 \$ 41,457,011
 Contributions as a Percentage of Covered-Employee Payroll	 25.0%	 20.5%	 16.0%

The amounts presented for each fiscal year were determined as of the end of the previous fiscal year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2016

Grantor/Pass-through Grantor/ Program Title	Federal CDFA Number	Pass-through Grantor's Identifying Number	Grant Period	Program or Award Amount	Total Received	Accrued (Deferred) Revenue 6/30/15	Accrued (Deferred) Revenue 6/30/16	Revenue Recognized	Expenditures
FEDERAL AWARDS									
<u>U.S. DEPARTMENT OF EDUCATION</u>									
Passed through Pennsylvania Department of Education									
Title I (Grants to Local Educational Agencies)	84.010	013-150353	8/27/14 - 9/30/15	373,374	105,910	105,910	-	-	-
Title I (Grants to Local Educational Agencies)	84.010	013-160353	7/1/15 - 9/30/16	471,018	376,950	-	94,068	471,018	471,018
Totals - CFDA # 84.010					482,860	105,910	94,068	471,018	471,018
Title II (Improving Teacher Quality State Grants)	84.367	020-150353	8/27/14 - 9/30/15	114,111	32,555	32,555	-	-	-
Title II (Improving Teacher Quality State Grants)	84.367	020-160353	7/1/15 - 9/30/16	114,613	84,273	-	30,340	114,613	114,613
Totals - CFDA # 84.367					116,828	32,555	30,340	114,613	114,613
Title III (English Language Acquisition State Grants)	84.365	010-150353	8/27/14 - 9/30/15	27,374	-	(4,874)	-	4,874	4,874
Title III (English Language Acquisition State Grants)	84.365	010-160353	7/1/15 - 9/30/16	31,986	-	-	19,580	19,580	19,580
Totals - CFDA # 84.365					-	(4,874)	19,580	24,454	24,454
Passed through Bucks County Intermediate Unit #22									
Special Education Cluster:									
IDEA (Special Education Grants to States)	84.027	062-15-0-022	7/1/14 - 6/30/15	832,803	360,370	360,370	-	-	-
IDEA (Special Education Grants to States)	84.027	062-16-0-022	7/1/15 - 6/30/16	868,382	603,219	-	265,163	868,382	868,382
Totals - CFDA # 84.027					963,589	360,370	265,163	868,382	868,382
IDEA Section 619 (Special Education Preschool Grants)	84.173	131-15-0-022	7/1/14 - 6/30/15	3,549	3,549	3,549	-	-	-
IDEA Section 619 (Special Education Preschool Grants)	84.173	131-16-0-022	7/1/15 - 6/30/16	3,744	3,744	-	-	3,744	3,744
Totals - CFDA # 84.173					7,293	3,549	-	3,744	3,744
Totals - Special Education Cluster					970,882	363,919	265,163	872,126	872,126
TOTAL U.S. DEPARTMENT OF EDUCATION					\$ 1,570,570	\$ 497,510	\$ 409,151	\$ 1,482,211	\$ 1,482,211
<u>CENTERS FOR MEDICARE AND MEDICAID SERVICES</u>									
Passed Through Commonwealth of Pennsylvania									
Medical Assistance Reimbursement	93.778	N/A		N/A	18,713	5,089	11,822	25,446	25,446
TOTAL CENTERS FOR MEDICARE AND MEDICAID SERVICES / CFDA # 93.778					18,713	5,089	11,822	25,446	25,446

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards and Certain State Grants (Continued)
For the Year Ended June 30, 2016

Grantor/Pass-through Grantor/ Program Title	Federal CDFFA Number	Pass-through Grantor's Identifying Number	Grant Period	Program or Award Amount	Total Received	Accrued (Deferred) Revenue 6/30/15	Accrued (Deferred) Revenue 6/30/16	Revenue Recognized	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>									
Child Nutrition Cluster									
Passed Through Pennsylvania Department of Education									
National School Breakfast Program	10.553	N/A	7/1/14 - 6/30/15	N/A	5,075	5,075	-	-	-
National School Breakfast Program	10.553	N/A	7/1/15 - 6/30/16	N/A	14,822	-	10,306	25,128	25,128
Totals - CFDA # 10.553					19,897	5,075	10,306	25,128	25,128
Passed Through Pennsylvania Department of Education									
National School Lunch Program	10.555	N/A	7/1/14 - 6/30/15	N/A	162,387	162,387	-	-	-
National School Lunch Program	10.555	N/A	7/1/15 - 6/30/16	N/A	448,461	-	171,106	619,567	619,567
Passed Through Pennsylvania Department of Agriculture									
Value of USDA Donated Commodities	10.555	N/A		N/A	155,784	(6,689)	(20,651)	141,822	141,822
Totals - CFDA # 10.555					766,632	155,698	150,455	761,389	761,389
TOTAL U.S. DEPARTMENT OF AGRICULTURE / Child Nutrition Cluster					786,529	160,773	160,761	786,517	786,517
TOTAL FEDERAL AWARDS					2,375,812	663,372	581,734	2,294,174	2,294,174
CERTAIN STATE GRANTS									
National School Lunch Program	N/A	N/A	7/1/14 - 6/30/15		12,421	12,421	-	-	-
National School Lunch Program	N/A	N/A	7/1/15 - 6/30/16		32,920	-	12,703	45,623	45,623
TOTAL OF CERTAIN STATE GRANTS					45,341	12,421	12,703	45,623	45,623
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS					\$ 2,421,153	\$ 675,793	\$ 594,437	\$ 2,339,797	\$ 2,339,797

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2016

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and Certain State Grants (the Schedule) includes the federal award activity of Quakertown Community School District under programs of the federal government, as well as certain state grants, for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Quakertown Community School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Quakertown Community School District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

Quakertown Community School District did not elect to use the 10% *de minimis* indirect cost rate.

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 Expenditures of Federal Awards and Certain State Grants under CFDA #10.555, National School Lunch – Commodities, represent surplus food consumed by the District during the year ended June 30, 2016.

DRESLIN AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

PAUL E. FARRELL, CPA
LOUIS J. PEDANTE, CPA
RONALD L. MINNINGER, CPA

190 W. GERMANTOWN PIKE, SUITE 150 • EAST NORRITON, PA 19401-1386
PHONE: (610) 272-3571 • FAX: (610) 272-3616

THE BAXTER BUILDING, SUITE 102 • 1234 WEST CHESTER PIKE • WEST CHESTER, PA 19382
PHONE: (610) 696-3064 • FAX: (610) 692-3108

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District, as of and for the year ended June 30, 2016, 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, 2017.

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 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Dreslin and Company, Inc.

West Chester, Pennsylvania
January 31, 2017

DRESLIN AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

PAUL E. FARRELL, CPA
LOUIS J. PEDANTE, CPA
RONALD L. MINNINGER, CPA

190 W. GERMANTOWN PIKE, SUITE 150 • EAST NORRITON, PA 19401-1386
PHONE: (610) 272-3571 • FAX: (610) 272-3616

THE BAXTER BUILDING, SUITE 102 • 1234 WEST CHESTER PIKE • WEST CHESTER, PA 19382
PHONE: (610) 696-3064 • FAX: (610) 692-3108

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

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 Compliance Supplement* that could have a direct and material effect on Quakertown Community School District's major federal program for the year ended June 30, 2016. Quakertown Community School District's major federal program is 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 Quakertown Community School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 Quakertown Community School District's federal program. However, our audit does not provide a legal determination of the Quakertown Community School District's compliance.

Opinion on 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 its major federal program for the year ended June 30, 2016.

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 its federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dreslin and Company, Inc.

West Chester, Pennsylvania
January 31, 2017

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Quakertown Community School District.
2. No significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Quakertown Community School District required to be reported in accordance with *Government Auditing Standards* were noted.
4. No significant deficiencies related to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal control over compliance Required by the Uniform Guidance were noted.
5. The Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over compliance Required by the Uniform Guidance expresses an unmodified opinion on the major federal program.
6. No audit findings were disclosed relating to major programs that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance.
7. The program tested as major includes:

IDEA (Special Grants to States) – CFDA # 84.027
8. The threshold for distinguishing between Type A and Type B programs was \$750,000.
9. Quakertown Community School District was determined to be a low-risk auditee.

(Continued)

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2016

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Status of prior-year findings

2015-001 Compliance with Laws and Regulations

Condition: Several I-9 Employment Eligibility Verification 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.

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

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

Current Status: No exceptions noted for the year ended June 30, 2016.

Current-year findings and questioned costs

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

Status of prior-year findings

None.

Current-year findings and questioned costs

None.