

**QUAKERTOWN COMMUNITY
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2012

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of QUAKERTOWN COMMUNITY SCHOOL DISTRICT, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2011 financial statements and, in our report dated January 30, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the QUAKERTOWN COMMUNITY SCHOOL DISTRICT as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2013, 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 the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 11 and pages 41 through 43 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise QUAKERTOWN COMMUNITY SCHOOL DISTRICT's financial statements as a whole. The accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

February 11, 2013

MAJOR & MASTRO, LLC
Certified Public Accountants

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. The intent of this section is to look at the District's performance as a whole; however, it also should be read in conjunction with the basic financial statements and the accompanying notes.

FINANCIAL ANALYSIS

The increase in net assets of the governmental activities was \$2,014,213 and the decrease in the net assets of the business-type activities was \$61,254, for a total net asset increase of \$1,952,959.

The District expended \$2,301,474 on capital assets during the year.

The actual results of the District's General Fund for 2011-2012 show that revenues and other financing sources collected during the year were over budget by \$1,499,700, and expenditures were under budget by \$3,172,043. The General Fund reported a positive fund balance of \$15,018,300 as of June 30, 2012, or 16.3 percent of the 2012-2013 \$92.0 million operating budget. Fund balance of \$1,120,923 is non spendable and \$2,042,958 is committed, which leaves \$11,854,419 as unassigned, which is 12.9 percent of the 2012-2013 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 Assets and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

Government-wide Reporting Process

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

- **Statement of Net Assets** – identifies what kinds of assets the District owns, what kinds of debts it owes and the composition of the net assets 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 Assets 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

Fiduciary funds – The District is the trustee, or fiduciary, for some scholarship funds. In addition, the District accounts for funds held on behalf of its students. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. 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 assets and statement of activities for its governmental and business-type activities (combined) as of June 30, 2012 and 2011 are summarized below.

STATEMENT OF NET ASSETS

	2012	2011	Variance
ASSETS			
Current and other assets	\$ 42,860,944	\$ 33,567,780	\$ 9,293,164
Capital assets:			
Land	1,177,235	1,177,235	0
Land improvements	5,559,035	5,491,555	67,480
Buildings and improvements	123,914,687	123,526,714	387,973
Furniture and equipment	21,105,026	20,463,799	641,227
Construction-in-progress	1,942,490	737,696	1,204,794
Total Capital Assets	153,698,473	151,396,999	2,301,474
Less: Accumulated depreciation	(56,501,165)	(52,301,111)	(4,200,054)
Capital Assets, Net	97,197,308	99,095,888	(1,898,580)
 TOTAL ASSETS	 \$ 140,058,252	 \$ 132,663,668	 \$ 7,394,584
 LIABILITIES AND NET ASSETS			
Current liabilities	\$ 4,385,174	\$ 4,078,608	\$ 306,566
Long-term liabilities:			0
Due within one year	5,328,456	4,855,000	473,456
Due after one year	102,554,534	97,892,931	4,661,603
Total liabilities	\$ 112,268,164	\$ 106,826,539	\$ 5,441,625
 Net Assets:			
Invested in capital assets, net of related debt	\$ 13,820,676	\$ 12,718,957	\$ 1,101,719
Unrestricted	13,969,412	13,118,172	851,240
Total net assets	27,790,088	25,837,129	1,952,959
 TOTAL LIABILITIES AND NET ASSETS	 \$ 140,058,252	 \$ 132,663,668	 \$ 7,394,584

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$27,790,088 at the close of the 2011-2012 fiscal year.

The largest portion of the District's total net assets reflects its investment in capital assets net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District reported an increase in its unrestricted net assets as a result of the current year operations. The District's investment in capital assets net of related debt increased as a result of the debt associated with acquiring the capital assets being retired faster than the District's assets are depreciated.

STATEMENT OF ACTIVITIES

	2012	2011	Variance
EXPENDITURES			
Governmental activities	\$ 84,698,728	\$ 82,874,899	\$ 1,823,829
Business-type activities	2,069,247	2,059,281	9,966
TOTAL EXPENDITURES	86,767,975	84,934,180	1,833,795
REVENUES			
Program revenues:			
Charges for services	2,184,726	2,034,691	150,035
Operating grants and contributions	7,073,316	9,169,226	(2,095,910)
Capital grants and contributions	563,954	770,076	(206,122)
Total Program Revenues	9,821,996	11,973,993	(2,151,997)
General revenues	78,898,938	76,881,716	2,017,222
TOTAL REVENUES	88,720,934	88,855,709	(134,775)
Change in Net Assets	1,952,959	3,921,529	(1,968,570)
Net Assets, Beginning of Year	25,837,129	21,915,600	3,921,529
Net Assets, End of Year	\$ 27,790,088	\$ 25,837,129	\$ 1,952,959

The cost of all District activities in 2011-2012 was \$86,767,975. The amount that taxpayers ultimately financed for those activities through tax revenues was \$65,105,463, or 75.0 percent. A majority of the other cost was paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions (\$23,615,471 or 27.2 percent).

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Decreases in Program Revenues were primarily related to ARRA (American Recovery and Reinvestment Act of 2009) stimulus funds that were not available in 2011-2012. General local revenues increased due primarily to real estate tax revenues which increased commensurate with the increased millage rate and increases in earned income taxes. Decreases in overall revenues of \$134,775 were offset by a \$1,833,795 increase in expenses. Overall revenues exceeded expenses by \$1,952,959.

General Fund Revenues

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

The largest increase in revenues came from real estate and earned income taxes. This increase was realized as a result of an increased millage rate of 1.36 percent for real estate and a 6.49 percent increase in earned income tax revenues.

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
Local Revenues			
Real estate taxes	\$ 53,685,907	\$ 52,717,435	\$ 968,472
Interim real estate taxes	239,540	323,430	(83,890)
Earned income taxes	8,616,185	8,090,917	525,268
IDEA	774,179	715,315	58,864
Other	3,865,716	3,917,304	(51,588)
	<u>67,181,527</u>	<u>65,764,401</u>	<u>1,417,126</u>
State Revenues			
Basic instructional subsidy	8,841,198	7,614,476	1,226,722
Special education	2,504,595	2,731,772	(227,177)
Transportation	1,242,990	1,328,849	(85,859)
Social security and retirement	3,279,919	2,654,880	625,039
Other	3,056,265	3,884,661	(828,396)
	<u>18,924,967</u>	<u>18,214,638</u>	<u>710,329</u>
Federal Revenues			
ARRA funds	40,600	1,499,890	(1,459,290)
Title I	383,154	458,153	(74,999)
Ed Jobs	9,670	623,623	(613,953)
Other	164,992	186,324	(21,332)
	<u>598,416</u>	<u>2,767,990</u>	<u>(2,169,574)</u>
Other sources	<u>320,000</u>	<u>1,675</u>	<u>318,325</u>
TOTAL	<u>\$ 87,024,910</u>	<u>\$ 86,748,704</u>	<u>\$ 276,206</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

General Fund Expenses

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

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
Instruction	\$ 51,874,543	\$ 50,027,299	\$ 1,847,244
Support services	25,467,895	25,480,644	(12,749)
Operation of noninstructional services	814,839	809,387	5,452
Debt service/other	<u>7,569,173</u>	<u>7,113,766</u>	<u>455,407</u>
	<u>\$ 85,726,450</u>	<u>\$ 83,431,096</u>	<u>\$ 2,295,354</u>

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

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

Fund Balances

The General Fund Fund Balance increased by \$1,244,590. This is the difference between the revenues and other financing sources of \$87,024,910 and the expenditures and other financing uses of \$85,780,320, as shown above. In other words, the revenues exceeded the expenditures by \$1,244,590. The fund balance, as a percentage of total expenditures, was 17.5 percent.

The recommended fund balance level is between five percent and eight percent. During the budget process for the 2011-12 fiscal year, the Board of School Directors (the Board) intended to bring the fund balance within that range. However, the variable rate interest on debt was lower than anticipated and a concerted district-wide effort to be conservative on all expenditures due to the downturn in the economy resulted in a higher fund balance than expected.

The Capital Projects fund balance increased by \$7,980,858 to an ending balance of \$21,424,469. The increase in fund balance was due to the planned spending of bond funds for the Senior High School Renovation. Construction will commence June 2013 and the High School Renovation will be completed in September 2017.

General Fund Budget Information

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

approved federal programs. This modification was the reason for the significant changes between the original and final budgets.

Capital Assets

The District has \$97,197,308 invested in capital assets net of depreciation, with \$97,179,860 attributed to governmental activities. Acquisitions for governmental activities totaled \$2,297,714 and depreciation was \$4,192,352. The majority of the acquisitions were for the renovations and additions to Richland Elementary School and initial expenditures for the Senior High School Renovation (See notes to the basic financial statements-Note 5).

Debt

At June 30, 2012, the District had \$105,627,000 in outstanding notes and bonds payable. The District paid \$4,855,000 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 and is under contract through 2013. 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 2013.

Strategic Plan

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Major Financial Issues and Future Changes

Enrollment at Quakertown Community School District has increased approximately 250 students during the last 10 years. While the number of new homes being built has slowed significantly, the student population is expected to grow somewhat over the next five years.

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

In the summer of 2013, a major four-phase renovation to the High School will begin. The \$60 million dollar project will be completed in September of 2017. Currently, \$33.6 million dollars has been borrowed. The millage impact of the project will be a 5.86 Mill increase of which 2.32 Mills is already provided for in the 2012-13 General Fund Budget.

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

Year	Rate	Additional Millage Impact
2012-13	12.36%	2.1 Mills
2013-14	16.93%	2.6 Mills
2014-15	21.31%	2.6 Mills
2015-16	25.80%	2.8 Mills
2016-17	28.30%	1.7 Mills

Revenue growth has been slowed by poor investment returns. However, tax assessment appeals have slowed enabling the assessment rolls to grow for the first time in three years.

Year	Assessment	Percent Change
2008-09	400,050,702	
2009-10	401,522,240	0.37%
2010-11	401,198,336	-0.08%
2011-12	399,450,798	-0.44%
2012-13	401,139,569	0.42%

ARRA (American Recovery and Reinvestment Act of 2009) stimulus funds that were available in 2009-2010 and 2010-2011 to plug holes in the state's funding for Basic Education and other subsidies were not be available in 2011-2012. This reduced state funding by as much as 11 percent in 2011-2012.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

index plus allowable exceptions will require a referendum. There continue to be no provisions for unfunded mandates by the state or federal government. Additionally, rising health care and future construction costs could have a serious impact on a district's ability to adequately educate its students.

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 ASSETS

JUNE 30, 2012

(With Summarized Comparative Data for June 30, 2011)

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 31,504,903	\$ 178,862	\$ 31,683,765	\$ 25,167,131
Investments	3,973,526		3,973,526	1,986,718
Taxes receivable, net	2,188,706		2,188,706	2,607,179
Internal balances	68,309	(68,309)	-	-
Due from other governments	2,411,062	101,727	2,512,789	2,275,429
Other receivables, net	267,243	7,610	274,853	274,972
Prepaid expenses	1,005,124		1,005,124	104,772
Inventories	115,799	65,053	180,852	200,121
Total Current Assets	<u>41,534,672</u>	<u>284,943</u>	<u>41,819,615</u>	<u>32,616,322</u>
Noncurrent Assets:				
Capital assets:				
Land	1,177,235		1,177,235	1,177,235
Land improvements	5,559,035		5,559,035	5,491,555
Construction in progress	1,942,490		1,942,490	737,696
Buildings and building improvements	123,914,687		123,914,687	123,526,714
Property and equipment	20,524,883	580,143	21,105,026	20,463,799
Accumulated depreciation	(55,938,470)	(562,695)	(56,501,165)	(52,301,111)
Bond issue costs, net	1,041,329		1,041,329	951,458
Total Noncurrent Assets	<u>98,221,189</u>	<u>17,448</u>	<u>98,238,637</u>	<u>100,047,346</u>
TOTAL ASSETS	<u>\$ 139,755,861</u>	<u>\$ 302,391</u>	<u>\$ 140,058,252</u>	<u>\$ 132,663,668</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 1,133,524	\$ 10,929	\$ 1,144,453	\$ 1,376,659
Accrued salaries and benefits	2,449,117		2,449,117	2,025,473
Accrued interest	651,307		651,307	547,988
Deferred revenue	88,368	51,929	140,297	128,488
Portion due or payable within one year				
Capital lease payable	70,456		70,456	-
Notes payable	3,468,000		3,468,000	3,680,000
Bonds payable	1,790,000		1,790,000	1,175,000
Total Current Liabilities	<u>9,650,772</u>	<u>62,858</u>	<u>9,713,630</u>	<u>8,933,608</u>
Long-term Liabilities:				
Portion due or payable after one year				
Capital lease payable	144,974		144,974	-
Notes payable	30,044,000		30,044,000	33,512,000
Bonds payable	70,325,000		70,325,000	62,405,000
Accumulated compensated absences	1,771,065		1,771,065	1,708,408
Other post-employment benefits	269,495		269,495	267,523
Total Long-term Liabilities	<u>102,554,534</u>		<u>102,554,534</u>	<u>97,892,931</u>
TOTAL LIABILITIES	<u>112,205,306</u>	<u>62,858</u>	<u>112,268,164</u>	<u>106,826,539</u>
NET ASSETS				
Invested in capital assets, net of related debt	13,803,228	17,448	13,820,676	12,718,957
Unrestricted	13,747,327	222,085	13,969,412	13,118,172
TOTAL NET ASSETS	<u>27,550,555</u>	<u>239,533</u>	<u>27,790,088</u>	<u>25,837,129</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 139,755,861</u>	<u>\$ 302,391</u>	<u>\$ 140,058,252</u>	<u>\$ 132,663,668</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012
(With Summarized Comparative Data for June 30, 2011)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2012	2011
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 52,141,017	\$ 595,363	\$ 4,063,028	\$	\$ (47,482,626)	\$	\$ (47,482,626)	\$ (43,319,507)
Instructional Student Support	6,928,941		465,811		(6,463,130)		(6,463,130)	(6,740,330)
Administrative Support Services	8,104,136		348,123		(7,756,013)		(7,756,013)	(7,491,280)
Operation and Maintenance of Plant Services	10,004,955	251,878	196,768		(9,556,309)		(9,556,309)	(9,819,132)
Pupil Transportation	3,802,356		1,242,990		(2,559,366)		(2,559,366)	(2,451,188)
Student Activities	830,034	50,156	36,763		(743,115)		(743,115)	(739,647)
Community Services	11,812				(11,812)		(11,812)	(15,103)
Interest on long-term debt	2,875,477			563,954	(2,311,523)		(2,311,523)	(2,292,373)
TOTAL GOVERNMENTAL ACTIVITIES	84,698,728	897,397	6,353,483	563,954	(76,883,894)		(76,883,894)	(72,868,560)
BUSINESS-TYPE ACTIVITIES								
Food service	2,069,247	1,287,329	719,833		-	(62,085)	(62,085)	(91,627)
TOTAL BUSINESS TYPE ACTIVITIES	2,069,247	1,287,329	719,833	-	-	(62,085)	(62,085)	(91,627)
TOTAL PRIMARY GOVERNMENT	\$ 86,767,975	\$ 2,184,726	\$ 7,073,316	\$ 563,954	(76,883,894)	(62,085)	(76,945,979)	(72,960,187)
GENERAL REVENUES								
Property taxes, levied for general purposes					55,469,993		55,469,993	54,947,711
Taxes levied for specific purposes					9,635,470		9,635,470	8,796,338
Grants and entitlements not restricted to specific programs					13,381,389		13,381,389	12,422,139
Investment earnings					110,673	831	111,504	118,772
Miscellaneous					300,582		300,582	596,756
TOTAL GENERAL REVENUES					78,898,107	831	78,898,938	76,881,716
CHANGE IN NET ASSETS					2,014,213	(61,254)	1,952,959	3,921,529
NET ASSETS AT BEGINNING OF YEAR					25,536,342	300,787	25,837,129	21,915,600
NET ASSETS AT END OF YEAR					\$ 27,550,555	\$ 239,533	\$ 27,790,088	\$ 25,837,129

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2012
(With Summarized Comparative Data for June 30, 2011)

	General Fund	Capital Projects Fund	Totals	
			2012	2011
ASSETS				
Cash and cash equivalents	\$ 13,871,201	\$ 17,633,702	\$ 31,504,903	\$ 24,800,416
Investments		3,973,526	3,973,526	1,986,718
Taxes receivable, net	2,188,706		2,188,706	2,607,179
Due from other governments	2,411,062		2,411,062	2,228,798
Interfund receivable	68,309		68,309	161,336
Other receivables	267,243		267,243	262,581
Prepaid expenses	1,005,124		1,005,124	104,772
Inventories	115,799		115,799	131,545
TOTAL ASSETS	<u>\$ 19,927,444</u>	<u>\$ 21,607,228</u>	<u>\$ 41,534,672</u>	<u>\$ 32,283,345</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 950,765	182,759	1,133,524	\$ 1,376,660
Accrued salaries and benefits	2,449,117		2,449,117	2,025,473
Deferred revenue	1,509,262		1,509,262	1,663,891
TOTAL LIABILITIES	<u>4,909,144</u>	<u>182,759</u>	<u>5,091,903</u>	<u>5,066,024</u>
FUND BALANCES				
Nonspendable:				
Prepaid items	1,005,124		1,005,124	104,772
Inventories	115,799		115,799	131,545
Committed:				
PSERS Liability	2,042,958		2,042,958	2,042,958
Assigned:				
Capital Projects		21,424,469	21,424,469	13,443,611
Unassigned	11,854,419		11,854,419	11,494,435
TOTAL FUND BALANCES	<u>15,018,300</u>	<u>21,424,469</u>	<u>36,442,769</u>	<u>27,217,321</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,927,444</u>	<u>\$ 21,607,228</u>	<u>\$ 41,534,672</u>	<u>\$ 32,283,345</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

TOTAL GOVERNMENTAL FUND BALANCES	\$ 36,442,769
Amounts reported for governmental activities on the statement of net assets 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 \$153,118,330, and the accumulated depreciation is \$55,938,470.	97,179,860
Some of the District's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	1,420,894
Bond issuance costs are recorded as expenditures in the Governmental Funds. The statement of net assets includes these amounts as other assets.	1,041,329
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued interest	(651,307)
Bonds and notes payable, net of premiums and discounts and deferred amounts	(105,627,000)
Capital lease obligation	(215,430)
Other post-employment benefits	(269,495)
Accumulated compensated absences	<u>(1,771,065)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 27,550,555</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012
(With Summarized Comparative Data for the Year Ended June 30, 2011)

	General Fund	Capital Projects Fund	Totals	
			2012	2011
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 67,181,527	\$ 146,121	\$ 67,327,648	\$ 65,771,902
State sources	18,924,967		18,924,967	18,214,638
Federal sources	598,416		598,416	2,767,990
TOTAL REVENUES	<u>86,704,910</u>	<u>146,121</u>	<u>86,851,031</u>	<u>86,754,530</u>
Other Financing Sources:				
Issuance of debt		9,710,000	9,710,000	15,000,000
Issuance of debt - refunding			-	9,865,000
Bond premium		19,428	19,428	65,576
Proceeds from capital lease	290,000		290,000	-
Sale of/Compensation for capital assets	30,000		30,000	1,675
TOTAL OTHER FINANCING SOURCES	<u>320,000</u>	<u>9,729,428</u>	<u>10,049,428</u>	<u>24,932,251</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>87,024,910</u>	<u>9,875,549</u>	<u>96,900,459</u>	<u>111,686,781</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction	51,874,543		51,874,543	50,027,299
Support services	25,467,895	244,444	25,712,339	25,878,511
Operation of non-instructional services	814,839		814,839	809,387
Capital outlay	-	1,650,247	1,650,247	2,056,295
Debt service	7,569,173		7,569,173	7,110,292
TOTAL EXPENDITURES	<u>85,726,450</u>	<u>1,894,691</u>	<u>87,621,141</u>	<u>85,881,784</u>
Other Financing Uses:				
Payment of debt - refunding			-	9,734,583
Refund of prior year receipts	53,870		53,870	1,653
TOTAL OTHER FINANCING USES	<u>53,870</u>	<u>-</u>	<u>53,870</u>	<u>9,736,236</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>85,780,320</u>	<u>1,894,691</u>	<u>87,675,011</u>	<u>95,618,020</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,244,590	7,980,858	9,225,448	16,068,761
FUND BALANCE AT BEGINNING OF YEAR	<u>13,773,710</u>	<u>13,443,611</u>	<u>27,217,321</u>	<u>11,148,560</u>
FUND BALANCE AT END OF YEAR	<u>\$ 15,018,300</u>	<u>\$ 21,424,469</u>	<u>\$ 36,442,769</u>	<u>\$ 27,217,321</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 9,225,448
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:</p>	
Capital outlay	2,297,714
Depreciation expense	(4,192,352)
<p>Because some property taxes will not be collected for several months after year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. This amount is net of current year uncollectable accounts.</p>	
	(168,090)
<p>Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
	4,855,000
<p>Repayment of capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
	74,570
<p>Bond discounts, premiums and issuance costs are amortized over the lives of the bonds in the Statement of Activities, but are recorded as expenditures and other financing uses in the Governmental Funds.</p>	
	89,871
<p>Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.</p>	
	(62,657)
<p>Other Post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.</p>	
	(1,972)
<p>Issuance of long-term debt provides current financial resources to Governmental Funds, but has no effect on net assets.</p>	
	(10,000,000)
<p>Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt in the statement of activities.</p>	
	<u>(103,319)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,014,213</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
 PROPRIETARY FUND

JUNE 30, 2012

(With Comparative Data for the Year Ended June 30, 2011)

	Enterprise Fund	
	Food	
	Service Fund	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash & cash equivalents	\$ 178,862	\$ 366,715
Due from other governments	101,727	46,631
Other receivables	7,610	12,392
Inventories	65,053	68,576
TOTAL CURRENT ASSETS	353,252	494,314
PROPERTY AND EQUIPMENT	580,143	576,383
Accumulated depreciation	(562,695)	(554,993)
PROPERTY AND EQUIPMENT, Net	17,448	21,390
TOTAL ASSETS	\$ 370,700	\$ 515,704
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 10,929	\$ -
Interfund payable	68,309	161,336
Deferred revenue	51,929	53,581
TOTAL CURRENT LIABILITIES	131,167	214,917
NET ASSETS		
Invested in capital assets, net of related debt	17,448	21,390
Unrestricted	222,085	279,397
TOTAL NET ASSETS	239,533	300,787
TOTAL LIABILITIES AND NET ASSETS	\$ 370,700	\$ 515,704

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012
 (With Comparative Data for the Year Ended June 30, 2011)

	Enterprise Fund	
	Food	
	Service Fund	
	2012	2011
OPERATING REVENUES		
Food service revenues	\$ 1,287,329	\$ 1,302,929
Other operating revenues	-	1,226
OPERATING REVENUES	1,287,329	1,304,155
OPERATING EXPENSES		
Payroll	846,113	852,384
Employee benefits	252,180	228,083
Other purchased services	123,753	116,930
Supplies	835,538	846,555
Depreciation	7,701	9,224
Dues and fees	2,082	3,323
Other operating expenses	1,880	2,782
TOTAL OPERATING EXPENSES	2,069,247	2,059,281
OPERATING LOSS	(781,918)	(755,126)
NONOPERATING REVENUES		
Earnings on investments	831	934
State sources	116,739	104,128
Federal sources	603,094	559,371
TOTAL NONOPERATING REVENUES	720,664	664,433
CHANGE IN NET ASSETS	(61,254)	(90,693)
NET ASSETS AT BEGINNING OF YEAR	300,787	391,480
NET ASSETS AT END OF YEAR	\$ 239,533	\$ 300,787

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Data for the Year Ended June 30, 2011)

	Enterprise Fund	
	Food	
	Service Fund	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,290,458	\$ 1,331,066
Cash received from other operating revenue	64,347	1,226
Payments to suppliers	(1,106,174)	(866,180)
Payments to employees	(1,098,293)	(1,080,467)
Payments for other operating expenses	-	(6,105)
	<u>(849,662)</u>	<u>(620,460)</u>
NET CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	109,154	107,659
Federal sources	555,584	614,557
	<u>664,738</u>	<u>722,216</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(3,760)	(12,583)
	<u>(3,760)</u>	<u>(12,583)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	831	934
	<u>831</u>	<u>934</u>
NET INCREASE (DECREASE) IN CASH	(187,853)	90,107
CASH AT BEGINNING OF YEAR	<u>366,715</u>	<u>276,608</u>
CASH AT END OF YEAR	<u>\$ 178,862</u>	<u>\$ 366,715</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (781,918)	\$ (755,126)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	7,701	9,224
(Increase) decrease in assets:		
Receivables	4,781	4,069
Inventory	3,524	(2,018)
Increase (decrease) in liabilities:		
Accounts payable	10,927	(7,283)
Interfund payable	(93,027)	106,606
Deferred revenues	(1,650)	24,068
	<u>(849,662)</u>	<u>(620,460)</u>
NET CASH USED BY OPERATING ACTIVITIES		
Schedule of noncash noncapital financing activities		
USDA donated commodities	93,875	96,474

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2012

	<u>Private-Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 135,788	\$ 247,982
TOTAL ASSETS	<u>\$ 135,788</u>	<u>\$ 247,982</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student organizations	\$	\$ 247,982
TOTAL LIABILITIES	<u>-</u>	<u>247,982</u>
NET ASSETS		
Reserved for trust	<u>135,788</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 135,788</u>	<u>\$ 247,982</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Data for the Year Ended June 30, 2011)

	Private-Purpose Trust Fund	
	2012	2011
ADDITIONS		
Local contributions	\$ 5,925	\$ 7,068
TOTAL ADDITIONS	<u>5,925</u>	<u>7,068</u>
DEDUCTIONS		
Fees paid and scholarships awarded	<u>12,150</u>	<u>11,623</u>
TOTAL DEDUCTIONS	<u>12,150</u>	<u>11,623</u>
CHANGE IN NET ASSETS	(6,225)	(4,555)
NET ASSETS AT BEGINNING OF YEAR	<u>142,013</u>	<u>146,568</u>
NET ASSETS AT END OF YEAR	<u>\$ 135,788</u>	<u>\$ 142,013</u>

See accompanying notes to the basic financial statements

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Basis of Presentation and Accounting

Government-Wide Financial Statements

The statement of net assets 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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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

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

Fund Financial Statements

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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 assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Fund Types

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

General Fund

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Governmental Fund Types, continued

Capital Projects Fund

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

Proprietary Fund Type

Enterprise (Food Service) Fund

The Enterprise Fund accounts for the District's Food Service operations, which is maintained to account for operations that are financed and operated in a manner similar to a private business enterprise. The fund accounts for all revenues, food purchases, costs, and expenses for the food service program on the accrual method of accounting. This method recognizes expenses when incurred and revenues when earned. All proprietary activities are accounted for using GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB.

Fiduciary Fund Types

Private-Purpose Trust Fund

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

Agency Fund

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

Estimates

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

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

Intergovernmental Receivables/Payables

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

Inventories

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

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

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

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

Compensated Absences

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Revenues

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

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

Long-Term Obligations

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

Interfund Assets/Liabilities

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2011, from which the comparative data was derived.

Fund Balance

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

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

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

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

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance , continued

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

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

2. CASH AND INVESTMENTS

Cash

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2012, \$21,184,841 of the District's bank balance of \$21,934,841 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2012, PLGIT was rated as AAAM by Standard & Poor's.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 140.25 mills (\$140.25 per \$1,000 of assessed valuation) for fiscal 2012. 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, 2011 levy was assessed at \$399,450,798. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

Delinquent occupational and per capita taxes receivable are presented net of allowances for estimated uncollectables of \$3,620,381. The allowance for doubtful accounts is calculated on a percentage of outstanding amounts based on historical collection trends. Management believes that the District has adequately provided for probable future losses.

4. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund activity for the year ending June 30, 2012:

	Interfund Receivables	Interfund Payables
General Fund	\$ 68,309	\$
Proprietary Fund, Food Service Fund		68,309
	\$ 68,309	\$ 68,309

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital Asset Activity for the year ended June 30, 2012, was as follows:

Governmental Activities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 1,177,235	\$	\$	\$ 1,177,235
Construction in progress	737,696	1,204,794		1,942,490
Total Capital assets not being depreciated	<u>1,914,931</u>	<u>1,204,794</u>	<u>-</u>	<u>3,119,725</u>
Capital assets being depreciated				
Land improvements	5,491,555	67,480		5,559,035
Buildings and improvements	123,526,714	387,973		123,914,687
Property and equipment	19,887,416	637,467		20,524,883
Total capital assets being depreciated at historical cost	<u>148,905,685</u>	<u>1,092,920</u>	<u>-</u>	<u>149,998,605</u>
Less accumulated depreciation for				
Land improvements	(2,715,005)	(254,783)		(2,969,788)
Buildings and improvements	(33,735,194)	(3,061,794)		(36,796,988)
Property and Equipment	(15,295,919)	(875,775)		(16,171,694)
Total accumulated depreciation	<u>(51,746,118)</u>	<u>(4,192,352)</u>	<u>-</u>	<u>(55,938,470)</u>
Total capital assets being depreciated, net	<u>97,159,567</u>	<u>(3,099,432)</u>	<u>-</u>	<u>94,060,135</u>
Governmental Activities capital assets, net	<u>\$ 99,074,498</u>	<u>\$ (1,894,638)</u>	<u>\$ -</u>	<u>\$ 97,179,860</u>

Business-type Activities:

Capital assets being depreciated				
Property and equipment	\$ 576,383	\$ 3,760	\$	\$ 580,143
Less accumulated depreciation	(554,993)	(7,702)		(562,695)
Business-type activities capital assets, net	<u>\$ 21,390</u>	<u>\$ (3,942)</u>	<u>\$ -</u>	<u>\$ 17,448</u>

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

Instruction	\$ 232,734
Instructional Student Support	53,219
Administrative Support Services	2,813
Pupil Health	3,112
Operation and Maintenance of Plant Services	3,444,446
Central Services	427,032
Student Activities	28,996
Total Governmental Activities depreciation expense	<u>\$ 4,192,352</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the district for the year ending June 30, 2012:

Type	Principal Outstanding July 1, 2011	Additions	Repayments	Principal Outstanding June 30, 2012	Due within One Year
General Obligation Note - 1997B	\$ 1,950,000	\$	\$ 232,000	\$ 1,718,000	\$ 246,000
General Obligation Note - 2000	5,610,000		864,000	4,746,000	896,000
General Obligation Note - 2000B	3,272,000		156,000	3,116,000	162,000
General Obligation Note - 2000C	8,426,000		686,000	7,740,000	716,000
General Obligation Note - 2002	425,000		425,000	-	
General Obligation Note - 2003	4,075,000		195,000	3,880,000	205,000
General Obligation Note -2004 Emmaus	10,600,000		600,000	10,000,000	700,000
General Obligation Note - 2006	2,834,000		522,000	2,312,000	543,000
General Obligation Bond - 2008	9,675,000		245,000	9,430,000	170,000
General Obligation Bond - 2009	8,560,000		460,000	8,100,000	470,000
General Obligation Bond -2009A	20,480,000		125,000	20,355,000	565,000
General Obligation Bond - 2010	15,000,000		5,000	14,995,000	5,000
General Obligation Bond - 2010A	9,865,000		340,000	9,525,000	575,000
General Obligation Bond - 2011		9,710,000		9,710,000	5,000
	100,772,000	9,710,000	4,855,000	105,627,000	5,258,000
Capital Lease Obligation		290,000	74,570	215,430	70,456
Compensated Absences	1,708,408	237,632	174,975	1,771,065	-
Other Post-employment Benefits	267,523	1,972		269,495	-
Total	\$ 102,747,931	\$ 10,239,604	\$ 5,104,545	\$ 107,882,990	\$ 5,328,456

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

Notes and Bonds payable at June 30, 2012 consisted of:

General Obligation Note Series B of 1997, maturing through October 2017, bearing interest at 4.20%,. Interest is payable monthly.	\$ 1,718,000
General Obligation Note Series 2000, maturing through March 2017, bearing interest at 4.38%. Interest is payable monthly.	4,746,000
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.	3,116,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

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.	7,740,000
General Obligation Note Series 2003, maturing through October 2025, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	3,880,000
General Obligation Note Series 2004 Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	10,000,000
General Obligation Note Series of 2006, maturing through April 2016, bearing interest at 4.02%. Interest is payable monthly.	2,312,000
General Obligation Bond Series 2008, maturing through November 2024, bearing interest at 3.90%. Interest is payable semi-annually.	9,430,000
General Obligation Bond Series 2009, maturing through August 2025, bearing interest ranging from 2.00% to 4.13%. Interest is payable semi-annually in February and August. This series of 2009 provided funds to refund the series of 2004 bonds.	8,100,000
General Obligation Bond Series of 2009A, maturing through October 2023, bearing interest ranging from 2.00% to 4.00%. Interest is payable semi-annually in April and October. This series A of 2009 provided funds to refund the Series 2002 bonds. This current refunding was undertaken to reduce total debt service payments over the next 14 years by \$844,895 and resulted in an economic gain of \$555,229.	20,355,000
General Obligation Bond Series 2010, maturing through August 2026, bearing interest ranging from 2.00% to 4.00%. Interest is payable semi-annually in February and August. This series of 2010 provided funds to finance capital improvements to school facilities and buildings.	14,995,000
General Obligation Bond Series 2010A, maturing through August 2025, bearing interest ranging from .6% to 3.75%. Interest is payable semi-annually in February and August. This series A of 2010 provided funds to refund the series A of 2004 Bonds. This refunding resulted in an economic gain of \$344,383.	9,525,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

General Obligation Bond Series 2011, maturing through August 2027, bearing interest ranging from 2% to 3.5%. Interest is payable semi-annually in February and August. This series 2011 provided funds to finance capital improvements to school facilities and buildings.

9,710,000
\$ 105,627,000

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 5,258,000	\$ 3,708,975	\$ 8,966,975
2014	5,432,000	3,536,169	8,968,169
2015	5,624,000	3,355,750	8,979,750
2016	5,820,000	3,164,450	8,984,450
2017	5,960,000	2,955,634	8,915,634
2018-2022	33,223,000	11,346,561	44,569,561
2023-2027	40,210,000	4,546,108	44,756,108
2028	4,100,000	71,750	4,171,750
	<u>\$ 105,627,000</u>	<u>\$ 32,685,397</u>	<u>\$ 138,312,397</u>

Interest expense for the year ended June 30, 2012 was \$2,639,603.

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

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 70,456	\$ 4,114	\$ 74,570
2014	71,801	2,769	74,570
2015	73,173	1,397	74,570
	<u>\$ 215,430</u>	<u>\$ 8,280</u>	<u>\$ 223,710</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION PLAN

Public School Employees' Retirement System Plan

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

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

The System issues a *Comprehensive Annual Financial Report* (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement system, PO Box 125, Harrisburg, PA 17108-0125. The CAFR is also available on the Publications page of the PSERS website.

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

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

Employer Contribution - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012, the rate of employer's contribution was 8.65 percent of covered payroll. The 8.65 percent rate is composed of a pension contribution rate of 8.00 percent for pension benefits and .65 percent for healthcare insurance premium assistance. The District's contributions to PSERS for the fiscal year ending June 30, 2012, 2011, and 2010, were \$3,533,466, \$2,342,510, and \$1,947,697 respectively, equal to the required contributions for each year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

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

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors assigns the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy: The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2012, the District contributed \$746,221 to the plan for the current premiums.

Annual OPEB Cost and Net OPEB Obligation: The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

<u>Description</u>	
Normal cost (service cost for one year)	\$ 280,492
Interest on Normal Cost	12,622
Amortization of Unfunded Actuarial Accrued Liability	<u>460,354</u>
Annual Required Contribution (ARC)	753,468
Interest on net OPEB Obligation	12,039
Adjustment to Annual Required Contribution	<u>(17,314)</u>
Annual OPEB Cost (expense)	748,193
Contributions toward the OPEB Cost	<u>(746,221)</u>
Increase in Net OPEB Obligation	1,972
Net OPEB Obligation, Beginning of Year	<u>267,523</u>
Net OPEB Obligation, End of Year	<u><u>\$ 269,495</u></u>

Funded Status and Funding Progress: As of May 1, 2010, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$7,113,065, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,113,065. The covered payroll (annual payroll of active employees covered by the plan) was \$37,038,903, and the ratio of the UAAL to the covered payroll was 19.20 percent.

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

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, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 7.5 percent in 2010, decreasing by 0.5 percent per year to 5.5 percent in 2014. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2012 was 26 years.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

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 \$2,042,958 and will begin funding PSERS rate increases over the next several years as the retirement contribution rate is projected to increase significantly.

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 2011-2012 year. Settlement amounts have not exceeded insurance coverage for the current year or three years prior.

11. CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

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, 2012, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed to date are as follows:

	<u>Project Amount</u>	<u>Completed to June 30, 2012</u>	<u>Commitments</u>
Richland Elementary School addition and renovation	\$ 12,323,257	\$ 12,239,628	\$ 83,629

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

12. JOINT VENTURE

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

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

Future rental payments are schedule as follows:

<u>Year Ending June 30,</u>	
2013	\$ 96,869.00
2014	96,533.00
2015	96,152.00
2016	95,723.00
2017	96,783.00
2017-2021	482,354.00
2022-2026	384,827.00
Total	<u>1,349,241.00</u>
Less: Interest requirements	<u>(280,110.00)</u>
Outstanding rental payments	<u><u>\$ 1,069,131.00</u></u>

13. SUBSEQUENT EVENTS

On July 23, 2012, the District entered into a capital lease for computer equipment of \$1,043,000, with interest of 1.38 percent.

In September 2012, authorized issuance of General Obligation Bond 2012 in the amount of \$8,955,000 for renovations to the Quakertown Senior High School.

In January 2013, authorized issuance of General Obligation Bond 2013 in the amount of \$9,535,000 to refund the General Obligation Bond 2008.

REQUIRED

SUPPLEMENTARY INFORMATION

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 66,177,643	\$ 66,138,612	\$ 67,181,527	\$ 1,042,915
State sources	18,484,441	18,524,735	18,924,967	400,232
Federal sources	818,060	861,863	598,416	(263,447)
Other financing sources				
Proceeds from capital lease			30,000	30,000
Sale of capital assets			290,000	290,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	85,480,144	85,525,210	87,024,910	1,499,700
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	35,704,451	35,657,337	34,239,748	1,417,589
Special programs	11,636,804	11,886,135	11,792,113	94,022
Vocational programs	2,751,094	2,752,594	2,752,412	182
Other instructional programs	3,090,782	3,396,988	3,090,270	306,718
Total Instruction	53,183,131	53,693,054	51,874,543	1,818,511
Support Services				
Pupil personnel services	2,794,940	2,793,698	2,724,556	69,142
Instructional staff services	3,768,129	3,806,879	3,656,233	150,646
Administration services	4,521,450	4,477,187	4,397,572	79,615
Pupil health	981,239	980,275	868,421	111,854
Business services	947,925	965,017	960,076	4,941
Operation and maintenance of plant services	7,181,881	7,232,272	6,570,129	662,143
Student transportation	3,568,836	3,803,836	3,802,356	1,480
Central services	2,664,773	2,494,328	2,430,100	64,228
Other support services	59,050	59,050	58,452	598
Total Support Services	26,488,223	26,612,542	25,467,895	1,144,647
Operation of Non-instructional Services				
Student activities	913,205	928,945	803,027	125,918
Community services	24,800	24,800	11,812	12,988
Total Operation of Non-instructional Services	938,005	953,745	814,839	138,906
Debt Service	7,766,522	7,693,022	7,569,173	123,849
Other Financing Uses				
Refund of prior year receipts			53,870	(53,870)
Budgetary reserve	500,000			-
Total Other Financing Uses	500,000	-	53,870	(53,870)
TOTAL EXPENDITURES AND OTHER FINANCING USES	88,875,881	88,952,363	85,780,320	3,172,043
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(3,395,737)	(3,427,153)	1,244,590	4,671,743
FUND BALANCE AT BEGINNING OF YEAR	9,233,419	9,264,835	13,773,710	4,508,875
FUND BALANCE AT END OF YEAR	\$ 5,837,682	\$ 5,837,682	\$ 15,018,300	\$ 9,180,618

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2012

Budgetary Data

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

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

SUPPLEMENTARY INFORMATION

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Program or Award Amount	Accrued or (Deferred) at July 1, 2011	Total Received For the Year	Expenditures	Accrued or (Deferred) at June 30, 2012	Revenue Recognized
U.S. DEPT. OF EDUCATION									
Passed Through the PA Dept. of Education									
Title I	84.010	013-110353	7/21/10 - 9/30/11	\$ 449,776	\$ 29,920	\$ 29,920	\$ -	\$ -	\$ -
Title I	84.010	013-120353	7/1/11 - 9/30/12	383,154	-	332,060	383,154	51,094	383,154
Drug Free Schools	84.186	100-100578	4/11/11 - 9/30/11	7,300	(3,650)	1,217	4,867	-	4,867
Title II	84.367	020-110353	7/21/10 - 9/30/11	144,570	19,115	19,115	-	-	-
Title II	84.367	020-120353	7/1/11 - 9/30/12	119,211	-	103,544	119,211	15,667	119,211
Title III	84.365	010-110353	9/4/10 - 9/30/11	21,602	(1,853)	4,985	6,838	-	6,838
Title III	84.365	010-120353	7/1/11 - 9/30/12	36,965	-	36,965	33,448	(3,517)	33,448
ARRA - State Fiscal Stabilization Fund	84.394	126-110353	7/1/10 - 6/30/11	1,047,899	174,650	174,650	-	-	-
ARRA - Title I	84.389	127-100353	5/20/09 - 9/30/11	234,117	2,208	27,208	25,000	-	25,000
Education Jobs Fund	84.410	140-120353	7/1/11 - 6/30/12	9,670	-	-	9,670	9,670	9,670
Passed Through the Bucks County Intermediate Unit #22									
IDEA	84.027	062-110022	7/1/10 - 6/30/11	715,315	208,641	208,641	-	-	-
IDEA	84.027	062-120022	7/1/11 - 6/30/12	763,045	-	327,152	763,045	435,893	763,045
IDEA - Section 619	84.392	131-110022	7/1/11 - 6/30/12	7,151	-	-	7,151	7,151	7,151
ARRA - IDEA	84.391	128-100022	2/17/09 - 9/30/11	858,465	141,488	157,088	15,600	-	15,600
TOTAL U.S. DEPT. OF EDUCATION				4,798,240	570,519	1,422,545	1,367,984	515,958	1,367,984
<i>CHILD NUTRITION CLUSTER</i>									
U.S. DEPT. OF AGRICULTURE									
Passed Through the PA Dept. of Education									
National School Lunch Program	10.555	N/A	7/1/10 - 6/30/11	N/A	25,196	25,196	-	-	-
National School Lunch Program	10.555	N/A	7/1/11 - 6/30/12	N/A	-	426,152	498,259	72,107	498,259
National School Breakfast Program	10.553	N/A	7/1/10 - 6/30/11	N/A	230	230	-	-	-
National School Breakfast Program	10.553	N/A	7/1/11 - 6/30/12	N/A	-	4,287	5,116	829	5,116
Passed Through the PA Dept. of Agriculture									
Value of USDA Commodities	10.555	N/A		N/A	(21,377)	93,875	99,718	(15,534)	99,718
TOTAL U.S. DEPT. OF AGRICULTURE				-	4,049	549,740	603,093	57,402	603,093
TOTAL FEDERAL AWARDS				4,798,240	574,568	1,972,285	1,971,077	573,360	1,971,077
STATE GRANTOR/PROGRAM TITLE									
National School Lunch Program	N/A	N/A	7/1/10 - 6/30/11	N/A	2,730	2,730	-	-	-
National School Lunch Program	N/A	N/A	7/1/11 - 6/30/12	N/A	-	41,826	48,759	6,933	48,759
TOTAL STATE GRANTS					2,730	44,556	48,759	6,933	48,759
TOTAL FEDERAL AND STATE AWARDS				\$ 4,798,240	\$ 577,298	\$ 2,016,841	\$ 2,019,836	\$ 580,293	\$ 2,019,836

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

1. SCOPE OF THIS SCHEDULE

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

2. BASIS OF ACCOUNTING

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

3. NON-MONETARY FEDERAL AWARDS – DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Federal Awards under CFDA # 10.555 National School Lunch – Commodities represent surplus food consumed by the District during the 2011-2012 fiscal year.



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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of QUAKERTOWN COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2012, which collectively comprise QUAKERTOWN COMMUNITY SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated February 11, 2013. 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.

Internal Control Over Financial Reporting

Management of QUAKERTOWN COMMUNITY SCHOOL DISTRICT is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether QUAKERTOWN COMMUNITY SCHOOL DISTRICT's financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-2.

We noted certain other matters that we reported to management of QUAKERTOWN COMMUNITY SCHOOL DISTRICT in a separate letter dated February 11, 2013.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit QUAKERTOWN COMMUNITY SCHOOL DISTRICT's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of School Directors, others within the entity, the U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 11, 2013

MAJOR & MASTRO, LLC
Certified Public Accountants

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



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's major federal programs for the year ended June 30, 2012. QUAKERTOWN COMMUNITY SCHOOL DISTRICT's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's management. Our responsibility is to express an opinion on QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance with those requirements.

In our opinion, QUAKERTOWN COMMUNITY SCHOOL DISTRICT complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of QUAKERTOWN COMMUNITY SCHOOL DISTRICT is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-1. *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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit QUAKERTOWN COMMUNITY SCHOOL DISTRICT's responses and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance but not to provide an opinion on the effectiveness of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

February 11, 2013

MAJOR & MASTRO, LLC
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

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

IDEA Cluster	
IDEA	84.027
ARRA – IDEA	84.391
IDEA Section 619	84.392

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2012

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

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2012-2 Compliance with laws and regulations

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

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

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

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

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

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

2012-1 IDEA expenditure documentation:

Program: IDEA

CFDA No.: 84.027

Condition: Detailed receipts were not obtained for meal reimbursements.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2012

Criteria: Internal controls should be in place to require detailed receipts for meal reimbursements to ensure that only allowable expenditures are reimbursed.

Cause: Controls are not in place to require detailed receipts.

Effect: Without the proper documentation, unallowable expenditures may be charged to the program. This could result in the potential disallowance of reimbursement for the expenses to the District.

Recommendation: Procedures should be implemented to require detailed receipts for meal reimbursements to ensure that only allowable expenditures are reimbursed.



Quakertown Community School District

BUSINESS OFFICE

**District Services Center
100 Commerce Drive
Quakertown, PA 18951
(215) 529-2000
FAX (215) 529-2042**

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2012

February 11, 2013

The Quakertown Community School District respectfully submits the following corrective action plan for the year ended June 30, 2012.

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

FINDINGS - FINANCIAL STATEMENTS AUDIT

2012-2 Compliance with laws and regulations

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

Action Taken:

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

FINDINGS - MAJOR FEDERAL AWARD PROGRAMS

2012-13 IDEA expenditure documentation:

Recommendation: Procedures should be implemented to require detailed receipts for meal reimbursements to ensure that only allowable expenditures are reimbursed.

Action Taken:

The Business Office has implemented a reimbursement policy to ensure that only authorized reimbursements are made. All employees must complete and submit a reimbursement expense report accompanied by an itemized receipt in order to receive reimbursement. This serves as a twofold purpose, first only authorized personnel who have approved for reimbursement will receive reimbursement. Second, it will ensure that the district is not reimbursing purchases such as meal reimbursement in excess of the allowed amounts, tips in excess of 15%, alcoholic beverages, etc... This was a district wide directive sent by Julie Heffentrager on my behalf.

Sincerely yours,

Robert Riegel, CPA
Business Administrator

The Quakertown Community School District does not discriminate on the basis of race, color, religion, sex, national origin, age, marital status, or the presence of non-job-related medical conditions or handicaps.