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**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
QUAKERTOWN, PENNSYLVANIA**

**AUDIT REPORT**

**JUNE 30, 2018**

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QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

December 19, 2018

Board of School Directors  
Quakertown Community School District  
Quakertown, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Quakertown Community School District ("the District"), Quakertown, Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

Board of School Directors  
Quakertown Community School District

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Quakertown Community School District, Quakertown, Pennsylvania, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 1 and 17 to the financial statements, the District has adopted the requirements of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This statement modifies the accounting for the District's other postemployment benefits. As a result, the beginning governmental activities net position has been restated. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2017 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund in our report dated December 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 11, schedule of the District's proportionate share of the net pension liability - PSERS on page 58, schedule of District pension contributions - PSERS on page 59, schedule of the District's proportionate share of the net OPEB liability - PSERS on page 60, schedule of District OPEB contributions - PSERS on page 61, schedule of changes in the net OPEB liability and related ratios - single employer plan on page 62, and schedule of employer contributions - single employer plan on page 63 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

Board of School Directors  
Quakertown Community School District

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018**

Management's Discussion and Analysis of the financial performance of the Quakertown Community School District ("the District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers also should review the basic financial statements and the accompanying notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2018 are as follows:

- Total net deficit for the District decreased by \$661,916. Net deficit of governmental activities decreased by \$696,171, and net position of business-type activities decreased by \$34,255. Program revenues accounted for \$16.4 million, or 15.6 percent of total governmental activities revenues (\$105 million); and general revenues accounted for \$88.6 million, or 84.4 percent of the total governmental activities revenues.
- The District's proportionate share of the Public School Employees' Retirement System ("PSERS") net pension liability totaled \$157,105,000 at June 30, 2018. In addition, in 2018, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The related liability totaled \$13,352,137.
- Among major funds, the general fund had \$105,918,008 in revenues and other financing sources and \$104,568,162 in expenditures and other financing uses. Revenues and other financing sources exceeded expenditures and other financing uses at year end by \$1,349,846, resulting in a fund balance of \$15,902,694. Fund balance of \$908,286 is non-spendable; \$2,688,322 is committed; leaving \$12,306,086 as unassigned.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those financial statements. These financial statements are organized so the reader can understand the District as a financial whole.

The statement of net position and statement of activities provide information about the activities of the entire District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending.

The fund financial statements also look at the District's most significant funds. In the case of the District, the general fund and the capital projects fund are the most significant funds.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

**Reporting the District as a Whole**

Our analysis for the District as a whole begins on page 6. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the District as a whole and about its overall activities. These statements include all the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the District (except for fiduciary funds held in trust for student purposes) using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net position and changes during the fiscal year. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as the District's property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at a conclusion regarding the overall health of the District.

The entity-wide financial statements of the District are divided into two categories:

- **Governmental Activities** – All the District's basic services are included here, such as instruction, administration, and community services. Property taxes, state, and federal subsidies and grants finance most of these activities.
- **Business-type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service program is reported as a business-type activity.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The fund financial statements of the District's major funds provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by state statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary, and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

**Governmental Funds** – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

**Proprietary Funds** – Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements; therefore, the statements will essentially match the business-type activities portion of the entity-wide statements.

**Fiduciary Funds** – The District is the trustee, or fiduciary, for its scholarship program and other items listed as private-purpose trusts. In addition, the District accounts for funds held on behalf of students of the District. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The District excludes these activities from its other financial statements because the assets cannot be used by the District to finance its operations.

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position for 2018 compared to 2017:

**Table 1  
Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Assets:</b>						
Current and other assets	\$ 37,190,583	\$ 33,386,744	\$ 249,282	\$ 312,867	\$ 37,439,865	\$ 33,699,611
Capital assets	162,091,619	161,352,579	25,005	16,791	162,116,624	161,369,370
<b>Total Assets</b>	<b>199,282,202</b>	<b>194,739,323</b>	<b>274,287</b>	<b>329,658</b>	<b>199,556,489</b>	<b>195,068,981</b>
Deferred Outflows of Resources	24,331,710	28,483,919	-	-	24,331,710	28,483,919
<b>Liabilities:</b>						
Current liabilities	16,888,557	17,602,552	271,659	292,775	17,160,216	17,895,327
Noncurrent liabilities	313,691,700	313,659,200	-	-	313,691,700	313,659,200
<b>Total Liabilities</b>	<b>330,580,257</b>	<b>331,261,752</b>	<b>271,659</b>	<b>292,775</b>	<b>330,851,916</b>	<b>331,554,527</b>
Deferred Inflows of Resources	3,753,994	3,378,000	-	-	3,753,994	3,378,000
<b>Net Position (Deficit):</b>						
Net investment in capital assets	24,918,048	23,957,516	25,005	16,791	24,943,053	23,974,307
Restricted	11,809,193	7,765,420	-	-	11,809,193	7,765,420
Unrestricted (deficit)	(147,447,580)	(143,139,446)	(22,377)	20,092	(147,469,957)	(143,119,354)
<b>Total Net Position (Deficit)</b>	<b>\$(110,720,339)</b>	<b>\$(111,416,510)</b>	<b>\$ 2,628</b>	<b>\$ 36,883</b>	<b>\$(110,717,711)</b>	<b>\$(111,379,627)</b>

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

Table 2 shows the changes in net position for fiscal year 2018 compared to 2017:

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 265,896	\$ 807,277	\$ 1,029,993	\$ 1,123,585	\$ 1,295,889	\$ 1,930,862
Operating grants	16,136,938	15,361,001	947,163	972,784	17,084,101	16,333,785
General Revenues:						
Property taxes	63,917,026	61,981,519	-	-	63,917,026	61,981,519
Taxes levied for specific purposes	11,796,661	11,284,448	-	-	11,796,661	11,284,448
Unrestricted grants and subsidies	12,044,811	11,874,509	-	-	12,044,811	11,874,509
Other	821,759	516,260	1,302	654	823,061	516,914
Transfers	(12,053)	-	12,053	-	-	-
<b>Total Revenues</b>	<b>104,971,038</b>	<b>101,825,014</b>	<b>1,990,511</b>	<b>2,097,023</b>	<b>106,961,549</b>	<b>103,922,037</b>
<b>Expenses</b>						
Program Expenses:						
Instruction	65,301,397	65,630,184	-	-	65,301,397	65,630,184
Support Services:						
Instructional student support	9,122,014	9,738,347	-	-	9,122,014	9,738,347
Administrative and financial support services	9,578,566	8,989,549	-	-	9,578,566	8,989,549
Operation and maintenance of plant services	10,758,491	10,144,423	-	-	10,758,491	10,144,423
Pupil transportation	4,056,548	3,942,402	-	-	4,056,548	3,942,402
Student activities	1,154,495	1,113,483	-	-	1,154,495	1,113,483
Community services	11,252	10,505	-	-	11,252	10,505
Interest on long-term debt	4,292,104	4,321,794	-	-	4,292,104	4,321,794
Food service	-	-	2,024,766	2,110,312	2,024,766	2,110,312
<b>Total Expenses</b>	<b>104,274,867</b>	<b>103,890,687</b>	<b>2,024,766</b>	<b>2,110,312</b>	<b>106,299,633</b>	<b>106,000,999</b>
<b>Change in Net Position</b>	<b>\$ 696,171</b>	<b>\$ (2,065,673)</b>	<b>\$ (34,255)</b>	<b>\$ (13,289)</b>	<b>\$ 661,916</b>	<b>\$ (2,078,962)</b>

Property taxes increased in the current year due to an increase in the value of real estate and an increase in the millage rate.

Operating grants and contributions increased over the prior year due to additional funding received in the current year.

Expenses increased in the current year mainly due to increases in administrative and financial support services and operation and maintenance of plant services offset by smaller decreases instruction and instructional student support expenses.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

The changes in net position table shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements. Table 4 shows, for business-type activities, the total cost of services and the net cost of services.

**Table 3  
Governmental Activities**

	2018		2017	
	Total Cost	Net Cost	Total Cost	Net Cost
Instruction	\$ 65,301,397	\$ 53,200,303	\$ 65,630,184	\$ 54,382,816
Support services:				
Instructional student support	9,122,014	8,361,091	9,738,347	8,960,310
Administrative and financial support services	9,578,566	8,779,559	8,989,549	8,271,337
Operation and maintenance of plant services	10,758,491	9,774,543	10,144,423	9,124,760
Pupil transportation	4,056,548	3,551,846	3,942,402	2,417,340
Student activities	1,154,495	1,004,229	1,113,483	966,548
Community services	11,252	11,252	10,505	10,505
Interest on long-term debt	4,292,104	3,189,210	4,321,794	3,588,793
<b>Total Expenses</b>	<b>\$104,274,867</b>	<b>\$ 87,872,033</b>	<b>\$103,890,687</b>	<b>\$ 87,722,409</b>

**Table 4  
Business-type Activities**

	2018		2017	
	Total Cost	Net Cost	Total Cost	Net Cost
Food service	<u>\$ 2,024,766</u>	<u>\$ 47,610</u>	<u>\$ 2,110,312</u>	<u>\$ 13,943</u>

The District depends on a combination of tax revenues and governmental grants for governmental activities. For all governmental activities, general revenue support is 84 percent of the total governmental revenues. The community, as a whole, is the primary financial support for the District's students, although 16 percent comes from charges for services as well as operating grants and contributions, making them integral for the financial stability of the District.

**Business-type Activities**

Business-type activities include food service operations. This program had revenues of \$1,990,511 and expenses of \$2,024,766 for fiscal year 2018. Business-type activities receive no support from tax revenues.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

**General Fund Budgeting Highlights**

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. The Board approves all budget transfers at the function and object level. The budgetary comparison statement for the general fund provides more detail on these adjustments in the financial statements. The original budget was modified to incorporate approved federal programs. This modification was the reason for the significant changes between the original and final budgets.

**Capital Assets**

At the end of fiscal 2018, the District had \$162,116,624 invested in capital assets. (See Note 4.)

**Debt Administration**

At June 30, 2018, the District had \$146,757,000 in bonds and notes outstanding, with \$6,718,000 due within one year. (See 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 2021.

The Quakertown Educational Support Personnel Association ("QESPA"), an affiliation of the National Education Association, represents the support staff of the District and is under contract through 2020.

**District Level Comprehensive Plan**

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

Mission

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

Vision

The District's vision is to prepare its students to be lifelong learners who are able to pursue academic and career excellence, exhibit personal responsibility, participate as citizens in our democracy, and contribute to society. The goal of the school board is to achieve excellence in education consistent with its mission statement, while exercising responsible stewardship of community resources.

Shared Values

- We believe we are responsible for preparing all students for life after graduation.
- We believe in providing a safe and student-centered culture and environment in all of our schools.
- We believe everyone must act with civility, responsibility, and integrity.
- We believe in the responsible stewardship of community resources.
- We believe education is a collaboration between students, parents and families, staff, the school board, and community.
- We believe in community effectively and transparently with all stakeholders.
- We believe in using reflection and evaluation to drive continuous improvement.

**Major Financial Issues and Future Changes**

Enrollment at the District has decreased by 163 students since 2008 - 2009. This downward trend is projected to continue over the next five years.

In the summer of 2013, a major four-phase renovation to the high school began. The \$80 million project was substantially completed on December 2017. The millage impact of the project is an additional 7.34 mills. This impact has already been incorporated into the District's budget.

In order to eliminate a structural deficit in the 2017 - 2018 budget and projected future year deficits, a plan was developed and implemented to:

- Close Milford Middle School
- Consolidate all 7<sup>th</sup> and 8<sup>th</sup> graders into Strayer Middle School
- Move the 9<sup>th</sup> grade class into the newly renovated high school
- Change the freshman center to a 6<sup>th</sup> grade center

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2018**

- Close Tohickon Valley Elementary
- Renovate and add additional classrooms to Neidig Elementary

The school closures and consolidation was intended to eliminate the structural deficit within a two year period. Also, the sale of the two school buildings, Tohickon Valley Elementary and Milford Middle School, was approved by the Board of School Directors in the amount of approximately \$2 million.

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

2018 - 2019	33.43%
2019 - 2020	34.29%
2020 - 2021	34.77%
2021 - 2022	35.19%
2022 - 2023	35.84%
2023 - 2024	36.30%

Tax assessment appeals have shown slow but positive growth.

2011 - 2012	399,450,798	-0.4356%
2012 - 2013	401,139,569	0.4228%
2013 - 2014	399,774,960	-0.3402%
2014 - 2015	400,614,798	0.2101%
2015 - 2016	403,422,419	0.7008%
2016 - 2017	407,052,875	0.8999%
2017 - 2018	409,902,245	0.7000%
2018 - 2019	411,145,312	0.3033%

In June 2006, Act 1 of 2006 (the Taxpayer Relief Act) was passed by the Pennsylvania State Legislature. As a result, future school district tax increases that exceed the state-mandated index plus allowable exceptions will require a referendum. There continue to be no provisions for unfunded mandates by the state or federal government.

**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 Zachary Schoch, MBA, Chief Operating Officer/Business Administrator, at Quakertown Community School District, 100 Commerce Drive, Quakertown, PA 18951, (215) 529-2031.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**  
**(With Summarized Comparative Data for June 30, 2017)**

	Governmental	Business-type	Totals	
	Activities	Activities	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 23,403,065	\$ 63,993	\$ 23,467,058	\$ 19,242,329
Investments	3,137,649	-	3,137,649	4,015,427
Taxes receivable	3,141,876	-	3,141,876	3,416,618
Internal balances	98,245	(98,245)	-	-
Due from other governments	6,368,426	242,188	6,610,614	5,468,971
Other receivables	133,036	20	133,056	183,033
Prepaid expenses	908,286	-	908,286	1,343,080
Inventories	-	41,326	41,326	30,153
Land	3,976,693	-	3,976,693	3,976,693
Land improvements	10,668,061	-	10,668,061	10,454,085
Buildings and building improvements	206,189,721	-	206,189,721	127,525,340
Furniture and equipment	27,026,928	646,317	27,673,245	27,052,154
Construction-in-progress	310,140	-	310,140	73,605,629
Accumulated depreciation	(86,079,924)	(621,312)	(86,701,236)	(81,244,531)
<b>TOTAL ASSETS</b>	<b>199,282,202</b>	<b>274,287</b>	<b>199,556,489</b>	<b>195,068,981</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred outflows relating to pension	23,280,218	-	23,280,218	27,494,797
Deferred outflows relating to OPEB	1,051,492	-	1,051,492	989,122
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>24,331,710</b>	<b>-</b>	<b>24,331,710</b>	<b>28,483,919</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 223,613,912</b>	<b>\$ 274,287</b>	<b>\$ 223,888,199</b>	<b>\$ 223,552,900</b>
<b>LIABILITIES, DEFERED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 2,622,154	\$ 204,221	\$ 2,826,375	\$ 4,278,941
Accrued salaries and benefits	5,114,521	-	5,114,521	4,760,561
Unearned revenue	27,578	67,438	95,016	70,567
Other liabilities	8,413	-	8,413	7,331
Accrued interest	1,390,739	-	1,390,739	1,336,628
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable in future years, net	6,912,291	-	6,912,291	6,660,129
Capital leases	533,783	-	533,783	511,169
Accumulated compensated absences	279,078	-	279,078	270,001
Portion due or payable after one year:				
Bonds payable in future years, net	141,066,454	-	141,066,454	138,220,453
Capital leases	470,236	-	470,236	647,271
Accumulated compensated absences	1,697,873	-	1,697,873	1,804,721
Net OPEB liability	13,352,137	-	13,352,137	13,710,755
Net pension liability	157,105,000	-	157,105,000	159,276,000
<b>TOTAL LIABILITIES</b>	<b>330,580,257</b>	<b>271,659</b>	<b>330,851,916</b>	<b>331,554,527</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred inflows relating to pension	3,389,000	-	3,389,000	3,378,000
Deferred inflows relating to OPEB	364,994	-	364,994	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,753,994</b>	<b>-</b>	<b>3,753,994</b>	<b>3,378,000</b>
<b>NET POSITION (DEFICIT):</b>				
Net investment in capital assets	24,918,048	25,005	24,943,053	23,974,307
Restricted	11,809,193	-	11,809,193	7,765,420
Unrestricted (deficit)	(147,447,580)	(22,377)	(147,469,957)	(143,119,354)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>(110,720,339)</b>	<b>2,628</b>	<b>(110,717,711)</b>	<b>(111,379,627)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	<b>\$ 223,613,912</b>	<b>\$ 274,287</b>	<b>\$ 223,888,199</b>	<b>\$ 223,552,900</b>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**(With Summarized Comparative Data for the Year Ended June 30, 2017)**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position (Deficit)			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction	\$ 65,301,397	\$ 125,418	\$ 11,975,676	\$ -	\$ (53,200,303)	\$ -	\$ (54,382,816)
Instructional student support	9,122,014	-	760,923	-	(8,361,091)	-	(8,960,310)
Administrative and financial support services	9,578,566	-	799,007	-	(8,779,559)	-	(8,271,337)
Operation and maintenance of plant services	10,758,491	86,516	897,432	-	(9,774,543)	-	(9,124,760)
Pupil transportation	4,056,548	-	504,702	-	(3,551,846)	-	(2,417,340)
Student activities	1,154,495	53,962	96,304	-	(1,004,229)	-	(966,548)
Community services	11,252	-	-	-	(11,252)	-	(10,505)
Interest on long-term debt	4,292,104	-	1,102,894	-	(3,189,210)	-	(3,588,793)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>104,274,867</b>	<b>265,896</b>	<b>16,136,938</b>	<b>-</b>	<b>(87,872,033)</b>	<b>-</b>	<b>(87,722,409)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food service	2,024,766	1,029,993	947,163	-	(47,610)	(47,610)	(13,943)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>2,024,766</b>	<b>1,029,993</b>	<b>947,163</b>	<b>-</b>	<b>(47,610)</b>	<b>(47,610)</b>	<b>(13,943)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 106,299,633</b>	<b>\$ 1,295,889</b>	<b>\$ 17,084,101</b>	<b>\$ -</b>	<b>(87,872,033)</b>	<b>(47,610)</b>	<b>(87,736,352)</b>
<b>GENERAL REVENUES</b>							
Property taxes levied for general purposes					63,917,026	-	61,981,519
Taxes levied for specific purposes					11,796,661	-	11,284,448
Grants and entitlements not restricted to specific programs					12,044,811	-	11,874,509
Investment earnings					495,504	1,302	253,069
Miscellaneous					326,255	-	263,845
Interfund transfers					(12,053)	12,053	-
<b>TOTAL GENERAL REVENUES</b>					<b>88,568,204</b>	<b>13,355</b>	<b>85,657,390</b>
<b>CHANGE IN NET POSITION (DEFICIT)</b>					<b>696,171</b>	<b>(34,255)</b>	<b>(2,078,962)</b>
<b>NET POSITION (DEFICIT), BEGINNING OF YEAR, RESTATED</b>					<b>(111,416,510)</b>	<b>36,883</b>	<b>(109,300,665)</b>
<b>NET POSITION (DEFICIT), END OF YEAR</b>					<b>\$ (110,720,339)</b>	<b>\$ 2,628</b>	<b>\$ (111,379,627)</b>

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



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2018  
(With Summarized Comparative Data for June 30, 2017)**

	General Fund	Capital Projects Fund	Totals	
			2018	2017
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,583,239	\$ 12,819,826	\$ 23,403,065	\$ 19,100,477
Investments	3,137,649	-	3,137,649	4,015,427
Taxes receivable	3,141,876	-	3,141,876	3,416,618
Due from other funds	302,922	-	302,922	189,713
Due from other governments	6,368,426	-	6,368,426	5,338,095
Other receivables	133,036	-	133,036	173,047
Prepaid items	908,286	-	908,286	1,343,080
<b>TOTAL ASSETS</b>	<b>\$ 24,575,434</b>	<b>\$ 12,819,826</b>	<b>\$ 37,395,260</b>	<b>\$ 33,576,457</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 1,816,198	\$ 805,956	\$ 2,622,154	\$ 4,230,451
Due to other funds	-	204,677	204,677	-
Accrued salaries, payroll withholdings, and benefits	5,114,521	-	5,114,521	4,760,561
Accumulated compensated absences	279,078	-	279,078	270,001
Unearned revenues	27,578	-	27,578	15,995
Other current liabilities	8,413	-	8,413	7,331
<b>TOTAL LIABILITIES</b>	<b>7,245,788</b>	<b>1,010,633</b>	<b>8,256,421</b>	<b>9,284,339</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenue - taxes	1,213,309	-	1,213,309	1,502,555
Unavailable revenue - state revenues	213,643	-	213,643	471,295
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,426,952</b>	<b>-</b>	<b>1,426,952</b>	<b>1,973,850</b>
<b>FUND BALANCES:</b>				
Nonspendable	908,286	-	908,286	1,343,080
Restricted for capital projects	-	11,809,193	11,809,193	7,765,420
Committed:				
PSERS liability	327,213	-	327,213	1,005,467
Capital projects	2,361,109	-	2,361,109	2,650,000
Unassigned	12,306,086	-	12,306,086	9,554,301
<b>TOTAL FUND BALANCES</b>	<b>15,902,694</b>	<b>11,809,193</b>	<b>27,711,887</b>	<b>22,318,268</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 24,575,434</b>	<b>\$ 12,819,826</b>	<b>\$ 37,395,260</b>	<b>\$ 33,576,457</b>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET POSITION  
JUNE 30, 2018**

TOTAL GOVERNMENTAL FUND BALANCES \$ 27,711,887

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$ 3,976,693	
Land improvements	10,668,061	
Buildings and building improvements	206,189,721	
Furniture and equipment	27,026,928	
Construction-in-progress	310,140	
Accumulated depreciation	<u>(86,079,924)</u>	162,091,619

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Bonds payable in future years, net	(147,978,745)	
Capital lease	(1,004,019)	
Accumulated compensated absences	(1,697,873)	
Net OPEB liability	(13,352,137)	
Accrued interest	(1,390,739)	
Net pension liability	<u>(157,105,000)</u>	(322,528,513)

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 considered unavailable in the funds. 1,426,952

Deferred inflows and outflows of resources related to the District's pension and OPEB plans do not represent current resources or uses of resources therefore, are not reported in the funds. Deferred inflows and outflows of resources consist of the following:

Deferred outflows of resources:		
Deferred outflows relating to pension	23,280,218	
Deferred outflows relating to OPEB	1,051,492	
Deferred inflows of resources:		
Deferred inflows relating to pension	(3,389,000)	
Deferred inflows relating to OPEB	<u>(364,994)</u>	<u>20,577,716</u>

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$(110,720,339)

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**(With Summarized Comparative Data for the Year Ended June 30, 2017)**

	General Fund	Capital Projects Fund	Totals	
			2018	2017
<b>REVENUES</b>				
Local sources	\$77,048,310	\$ 83,383	\$77,131,693	\$74,728,632
State sources	26,779,468	-	26,779,468	26,945,414
Federal sources	1,578,633	-	1,578,633	1,638,782
<b>TOTAL REVENUES</b>	<u>105,406,411</u>	<u>83,383</u>	<u>105,489,794</u>	<u>103,312,828</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	63,952,054	-	63,952,054	63,534,337
Support services	28,591,329	251,529	28,842,858	29,420,272
Operation of noninstructional services	1,126,657	-	1,126,657	1,075,362
Capital outlays	-	5,563,793	5,563,793	9,384,251
Debt service	10,898,122	-	10,898,122	10,469,214
<b>TOTAL EXPENDITURES</b>	<u>104,568,162</u>	<u>5,815,322</u>	<u>110,383,484</u>	<u>113,883,436</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>838,249</u>	<u>(5,731,939)</u>	<u>(4,893,690)</u>	<u>(10,570,608)</u>
<b>OTHER FINANCING SOURCES</b>				
Interfund transfers	-	-	-	-
Issuance of debt	-	9,750,000	9,750,000	9,395,000
Refunds of prior year revenues	-	17,420	17,420	26,895
Insurance recovery	40,195	-	40,195	-
Proceeds from extended-term financing	483,455	-	483,455	999,904
Payment of debt - refunding	-	-	-	(9,769,635)
Refunding bonds issued	-	-	-	9,970,000
Bond issue premium	-	8,292	8,292	2,066
Transfers out	(12,053)	-	(12,053)	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>511,597</u>	<u>9,775,712</u>	<u>10,287,309</u>	<u>10,624,230</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,349,846	4,043,773	5,393,619	53,622
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>14,552,848</u>	<u>7,765,420</u>	<u>22,318,268</u>	<u>22,264,646</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$15,902,694</u>	<u>\$11,809,193</u>	<u>\$27,711,887</u>	<u>\$22,318,268</u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 5,393,619
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation	739,040
Because some taxes and state revenues will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable revenues increased by this amount this year.	(546,898)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	(2,943,742)
In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave) – are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	106,848
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the effect of this difference in the treatment of interest payable.	(54,111)
OPEB expenses in the statement of activities differ from the amount reported in the governmental funds because OPEB expenses are recognized on the statement of activities based on the District's proportionate share of the expenses of the cost-sharing pension plan and expenses of the single employer plan, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.	55,994
Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the District's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.	(2,054,579)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ 696,171</u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local revenues	\$ 77,238,331	\$ 77,255,562	\$ 77,048,310	\$ (207,252)
State sources	26,377,834	26,649,602	26,779,468	129,866
Federal sources	1,649,063	1,714,867	1,578,633	(136,234)
<b>TOTAL REVENUES</b>	<u>105,265,228</u>	<u>105,620,031</u>	<u>105,406,411</u>	<u>(213,620)</u>
<b>EXPENDITURES</b>				
Instruction:				
Regular programs	43,911,352	44,127,420	42,290,959	1,836,461
Special programs	14,508,315	14,223,577	13,357,609	865,968
Vocational programs	3,473,775	3,473,775	3,473,760	15
Other instructional programs	4,848,235	4,966,109	4,533,217	432,892
Non-public programs	-	11,711	11,456	255
Pre-Kindergarten programs	-	289,000	285,053	3,947
Total Instruction	<u>66,741,677</u>	<u>67,091,592</u>	<u>63,952,054</u>	<u>3,139,538</u>
Support services:				
Pupil personnel services	4,571,326	4,719,394	4,493,684	225,710
Instructional staff services	4,446,103	3,966,932	3,946,600	20,332
Administrative services	5,191,564	5,610,012	5,392,258	217,754
Pupil health	1,255,992	1,218,131	1,078,004	140,127
Business services	1,034,167	1,083,276	874,358	208,918
Operation and maintenance of plant services	6,799,790	6,758,623	5,911,385	847,238
Student transportation services	3,608,423	3,972,423	3,971,793	630
Central services	3,336,379	3,130,979	2,865,390	265,589
Other support services	61,000	61,000	57,857	3,143
Total Support Services	<u>30,304,744</u>	<u>30,520,770</u>	<u>28,591,329</u>	<u>1,929,441</u>
Operation of noninstructional services:				
Student activities	1,117,373	1,147,162	1,115,647	31,515
Community services	13,000	16,370	11,010	5,360
Total Operation of Noninstructional Services	<u>1,130,373</u>	<u>1,163,532</u>	<u>1,126,657</u>	<u>36,875</u>
Debt service	10,250,162	10,912,215	10,898,122	14,093
<b>TOTAL EXPENDITURES</b>	<u>108,426,956</u>	<u>109,688,109</u>	<u>104,568,162</u>	<u>5,119,947</u>
<b>(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES</b>	<u>(3,161,728)</u>	<u>(4,068,078)</u>	<u>838,249</u>	<u>4,906,327</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers out	-	-	(12,053)	(12,053)
Proceeds from the sale of capital assets	10,000	10,000	-	10,000
Proceeds from extended-term financing	-	-	483,455	483,455
Insurance recovery	-	-	40,195	40,195
Budgetary reserve	(800,000)	-	-	-
<b>TOTAL OTHER FINANCING (USES) SOURCES</b>	<u>(790,000)</u>	<u>10,000</u>	<u>511,597</u>	<u>521,597</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,951,728)	(4,058,078)	1,349,846	5,427,924
<b>FUND BALANCE, BEGINNING OF YEAR</b>	14,654,668	14,761,018	14,552,848	(208,170)
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 10,702,940</u>	<u>\$ 10,702,940</u>	<u>\$ 15,902,694</u>	<u>\$ 5,219,754</u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENTS OF NET POSITION - PROPRIETARY FUND  
JUNE 30, 2018 AND 2017**

	Food Service Fund	
	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 63,993	\$ 141,852
Other receivables	20	9,986
Due from other governments	242,188	130,876
Inventories	41,326	30,153
Total Current Assets	347,527	312,867
<b>CAPITAL ASSETS:</b>		
Furniture and equipment	646,317	629,839
Accumulated depreciation	(621,312)	(613,048)
Capital Assets, Net	25,005	16,791
<b>TOTAL ASSETS</b>	<b>\$ 372,532</b>	<b>\$ 329,658</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 204,221	\$ 48,490
Unearned revenue	67,438	54,572
Due to other funds	98,245	189,713
Total Current Liabilities	369,904	292,775
<b>NET POSITION:</b>		
Investment in capital assets	25,005	16,791
Unrestricted	(22,377)	20,092
Total Net Position	2,628	36,883
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 372,532</b>	<b>\$ 329,658</b>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUND  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	Food Service Fund	
	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Food service revenues	\$ 1,029,993	\$ 1,123,585
TOTAL OPERATING REVENUES	<u>1,029,993</u>	<u>1,123,585</u>
OPERATING EXPENSES		
Salaries	343,740	348,327
Employee benefits	147,071	140,725
Purchased professional and technical services	725,129	747,671
Purchased property services	27,446	31,610
Other operating expenses	2,400	1,770
Supplies	770,716	831,309
Depreciation	8,264	8,900
TOTAL OPERATING EXPENSES	<u>2,024,766</u>	<u>2,110,312</u>
OPERATING LOSS	<u>(994,773)</u>	<u>(986,727)</u>
NONOPERATING REVENUES		
Earnings on investments	1,302	654
State sources	114,261	112,596
Federal sources	832,902	860,188
TOTAL NONOPERATING REVENUES	<u>948,465</u>	<u>973,438</u>
LOSS BEFORE TRANSFERS	(46,308)	(13,289)
Transfers in	<u>12,053</u>	<u>-</u>
CHANGE IN NET POSITION	(34,255)	(13,289)
NET POSITION, BEGINNING OF YEAR	<u>36,883</u>	<u>50,172</u>
NET POSITION, END OF YEAR	<u>\$ 2,628</u>	<u>\$ 36,883</u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	Food Service Fund	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 1,052,825	\$ 1,113,808
Payments to suppliers	(1,356,704)	(1,497,002)
Payments to employees	(490,811)	(489,052)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(794,690)</b>	<b>(872,246)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Grants and subsidies received for nonoperating activities:		
State sources	106,800	118,887
Federal sources	613,154	799,324
Transfers in	12,053	-
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>732,007</b>	<b>918,211</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(16,478)	(13,594)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(16,478)</b>	<b>(13,594)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Earnings on investments	1,302	654
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,302</b>	<b>654</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(77,859)</b>	<b>33,025</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>141,852</b>	<b>108,827</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 63,993</b>	<b>\$ 141,852</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (994,773)	\$ (986,727)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	8,264	8,900
Commodities used	115,897	138,147
(Increase) Decrease in:		
Other receivables	9,966	(2,353)
Inventories	(11,173)	12,342
Increase (Decrease) in:		
Accounts payable	155,731	(13,541)
Due to other funds	(91,468)	(21,590)
Unearned revenue	12,866	(7,424)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (794,690)</b>	<b>\$ (872,246)</b>
<b><u>SUPPLEMENTAL DISCLOSURE</u></b>		
Noncash noncapital financing activity:		
USDA donated commodities	<b>\$ 115,897</b>	<b>\$ 138,147</b>

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



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
JUNE 30, 2018 AND 2017**

	Private- Purpose Trust	Agency
<b>ASSETS:</b>		
Cash	\$ 120,237	\$ 11,960
Investments	-	281,823
Accounts receivable	200	-
<b>TOTAL ASSETS</b>	<b>\$ 120,437</b>	<b>\$ 293,783</b>
 <b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES:</b>		
Other current liabilities	\$ -	\$ 293,783
<b>NET POSITION</b>	<b>120,437</b>	<b>-</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 120,437</b>	<b>\$ 293,783</b>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUND  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	Private-Purpose Trust	
	2018	2017
ADDITIONS		
Contributions	\$ 9,900	\$ 12,228
TOTAL ADDITIONS	9,900	12,228
DEDUCTIONS		
Scholarship awards	12,675	16,767
TOTAL DEDUCTIONS	12,675	16,767
CHANGE IN NET POSITION	(2,775)	(4,539)
NET POSITION, BEGINNING OF YEAR	123,212	127,751
NET POSITION, END OF YEAR	\$ 120,437	\$ 123,212

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

## QUAKERTOWN COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Quakertown Community School District ("the District") provides educational and related services to the residents of Quakertown, Richlandtown, and Trumbauersville Boroughs, and Haycock, Milford, and Richland Townships. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The governing body of the District is a nine-member Board form of government who are each elected to a four-year term. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the Board of School Directors.

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

#### Reporting Entity

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

#### Basis of Presentation

##### ***Entity-wide Financial Statements***

The statement of net position and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses.

The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on their use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital projects funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

***Fund Financial Statements***

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are represented by fund type.

***Governmental Funds***

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The District reports the following major governmental fund:

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

The **Capital Projects Fund** is used to account for all financial resources restricted, committed, or assigned to expenditures for capital outlays, including fixed asset acquisitions, construction, and improvements.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue and similar revenue streams to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

***Proprietary Funds***

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Allocations of certain costs, such as

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

depreciation, are recorded in proprietary funds. The District does not attempt to allocate all "building-wide costs" to the enterprise funds. Thus, general fund expenditures which partially benefit the enterprise funds (utilities, janitorial services, insurance, etc.) are not recognized proportionately with the enterprise funds. Similarly, the enterprise funds do not recognize a cost for the building space it occupies.

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

***Fiduciary Funds***

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

Cash and Cash Equivalents

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

Investments

Investments consist of nonnegotiable certificates of deposit and qualified investment pools that maintain a \$1 net asset value per share which are recorded at amortized cost per the requirements of the GASB Codification.

Property Taxes

Based upon the assessment provided by the County, the tax collectors bill and collect property taxes on behalf of the District. The District's tax rate for the year ended June 30, 2018 was 157.77 mills (\$157.77 for \$1,000 of assessed valuation) as levied by the Board of School Directors. Taxes are levied on July 1 and are payable in the following periods:

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

July 1 - August 31	-	Discount period, 2% of gross levy
September 1 - October 31	-	Face period
November 1 - Collection	-	Penalty period, 10% of gross levy
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.

Inventories

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

Receivables/Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

Buildings and building improvements	20 - 40 years
Land improvements	20 - 40 years
Furniture and equipment	5 - 15 years

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the entity-wide financial statements and the proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed at the entity-wide level to the extent that they do not represent payments for bond insurance. Bond insurance costs are deferred and amortized over the life of the bonds.

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Pension and OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net pension and OPEB liabilities under full accrual basis reporting are reported as a deferred outflow of resources on the entity-wide statement of net position. Certain changes to the net pension and OPEB liabilities are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows of resources on the entity-wide statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows



QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Certain changes to the net pension and OPEB liabilities are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred inflows of resources on the entity-wide statement of net position. The governmental funds report unavailable revenues from two sources: property taxes and some state revenues. These amounts are reflected as deferred inflows of resources on the general fund balance sheet and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balances of the governmental funds are classified, if applicable, as follows:

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

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by formal action of the Board of School Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of School Directors.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Finance Committee, the Superintendent, or the Business Manager may assign amounts for specific purposes.

*Unassigned* – all other spendable amounts.

Use of Estimates in the Preparation of Financial Statements

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. 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, 2017, from which the summarized information was derived.

Implementation of GASB Statement

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other postemployment benefits liability, or, for multi-employer cost sharing plans, the entity's share of the net other postemployment benefits liability, in the entity's financial statements.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required. The Pennsylvania Department of Education ("PDE") issues a schedule of actions for school districts for the development of the annual budget under Act 1. One deadline is the action to resolve to keep any tax increase in the real estate tax millage rate below the index announced by the PDE. Prior to that deadline, management submits to the School Board for consideration a draft operating budget projection or other information to review for the fiscal year commencing the following July 1. A public hearing is conducted to obtain taxpayer comments.

Legal budgetary control is maintained by the School 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 Board. Unused appropriations lapse at the end of each fiscal year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS

***Deposits***

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk but adheres to the requirements of Act 72 of the Commonwealth of Pennsylvania. At June 30, 2018, the carrying amount of the District's deposits was \$23,599,255, and the bank balance was \$23,555,866. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$5,310,721 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. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized rating organization, and is subject to an independent annual audit.

***Investments***

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation, or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools, highly-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, or mutual funds.

At June 30, 2018, the District had the following investments:

Investments Measured at Amortized Costs

PLGIT	\$ 3,137,649
Certificates of deposit	<u>281,823</u>
Total Investments	<u>\$ 3,419,472</u>

The District is invested in the Pennsylvania Local Government Investment Trust ("PLGIT"), a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The District has no regulatory oversight for the pools, which are governed by the Board of Trustees. PLGIT is administered by PFM Asset Management, LLC, and the pool is audited annually by Ernst & Young LLP, an independent certified public accountant.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS (cont'd)

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the District's investments in certificates of deposit had maturity dates of no more than one year.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

Credit Risk

The District has no investment policy that would limit its investment choices to those with certain credit ratings. As of June 30, 2018, PLGIT was rated as AAAM by a nationally recognized statistical credit rating company.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Deletions	Ending Balance
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 3,976,693	\$ -	\$ -	\$ 3,976,693
Construction-in-progress	73,605,629	4,974,981	(78,270,470)	310,140
Total Capital Assets Not Being Depreciated	77,582,322	4,974,981	(78,270,470)	4,286,833
Capital assets being depreciated:				
Land improvements	10,454,085	213,976	-	10,668,061
Buildings and improvements	127,525,340	78,664,381	-	206,189,721
Furniture and equipment	26,422,315	604,613	-	27,026,928
Total Capital Assets Being Depreciated	164,401,740	79,482,970	-	243,884,710
Less accumulated depreciation	80,631,483	5,448,441	-	86,079,924
Total Capital Assets Being Depreciated, Net	83,770,257	74,034,529	-	157,804,786
Governmental Activities Assets, Net	<u>\$161,352,579</u>	<u>\$79,009,510</u>	<u>\$(78,270,470)</u>	<u>\$162,091,619</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Business-type Activities</i>				
Capital assets being depreciated:				
Furniture and equipment	\$ 629,839	\$ 16,478	\$ -	\$ 646,317
Less accumulated depreciation	<u>613,048</u>	<u>8,264</u>	<u>-</u>	<u>621,312</u>
Business-type Activities Assets, Net	<u>\$ 16,791</u>	<u>\$ 8,214</u>	<u>\$ -</u>	<u>\$ 25,005</u>

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

Governmental Activities:

Instruction	\$ 163,449
Instructional student support	145,587
Administrative and financial support services	685,084
Operation and maintenance of plant services	4,439,279
Student activities	<u>15,042</u>

Total Depreciation Expense - Governmental Activities \$ 5,448,441

Business-type Activities:

Food Service	<u>\$ 8,264</u>
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NOTE 5 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

<u>Receivable By</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 98,245	Food Service Fund	\$ 98,245
General Fund	<u>204,677</u>	Capital Projects Fund	<u>204,677</u>
	<u>\$ 302,922</u>		<u>\$ 302,922</u>

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS (cont'd)

Interfund transfers for the year ended June 30, 2018 are as follows:

<u>Transfer In</u>	<u>Amount</u>	<u>Transfer Out</u>	<u>Amount</u>
Food Service Fund	<u>\$ 12,053</u>	General Fund	<u>\$ 12,053</u>

Transfers represent funds transferred from the general fund to subsidize the food service fund.

NOTE 6 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Bonds and note payable, net	\$143,473,000	\$ 9,750,000	\$ 6,466,000	\$146,757,000	\$ 6,718,000
Bond premium	1,407,582	8,292	194,129	1,221,745	194,291
Capital lease payable	1,158,440	483,455	637,876	1,004,019	533,783
Accumulated compensated absences	2,074,722	-	97,771	1,976,951	279,078
Net OPEB liability	13,710,755	-	358,618	13,352,137	-
Net pension liability	159,276,000	-	2,171,000	157,105,000	-
<b>TOTALS</b>	<u>\$321,100,499</u>	<u>\$10,241,747</u>	<u>\$ 9,925,394</u>	<u>\$321,416,852</u>	<u>\$ 7,725,152</u>

***General Obligation Bonds***

Series of 2012, maturing through August 2030, bearing interest ranging from 1.25% to 2.7%. Interest is payable semi-annually in February and August. \$ 8,930,000

Series of 2013, maturing through November 2024, bearing interest ranging from 0.4% to 2.05%. Interest is payable semi-annually in May and November. 9,060,000

Series A of 2013, maturing through August 2025, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August. 5,245,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Series B of 2013, maturing through August 2031, bearing interest ranging from 2% to 4%. Interest is payable semi-annually in February and August.	8,980,000
Series of 2014, maturing through October 2023, bearing interest ranging from .35% to 3%. Interest is payable semi-annually in March and September.	9,595,000
Series A of 2014, maturing through September 2020, bearing interest ranging from .25% to 5%. Interest is payable semi-annually in March and September.	5,025,000
Series AA of 2014, maturing through August 2032, bearing interest ranging from .75% to 3.5%. Interest is payable semi-annually in February and August.	9,100,000
Series of 2015, maturing through August 2033, bearing interest ranging from 2% to 3.75%. Interest is payable semi-annually in February and August.	18,660,000
Series of 2016, maturing through August 2025, bearing interest ranging from 0.5% to 4%. Interest is payable semi-annually in February and August.	5,940,000
Series A of 2016, maturing through August 2026, bearing interest ranging from 2% to 2.25%. Interest is payable semi-annually in February and August.	9,815,000
Series AA of 2016, maturing through August 2024, bearing interest of 2%. Interest is payable semi-annually in February and August.	5,395,000
Series AAA of 2016, maturing through August 2033, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August.	9,545,000
Series of 2017, maturing through August 2027, bearing interest ranging from 2% to 2.65%. Interest is payable semi-annually February and August.	9,895,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Series A of 2017, maturing through November 2034, bearing interest ranging from 2% to 3.5%. Interest is payable semi-annually in May and November. 9,395,000

Series A of 2018, maturing through September 2042, bearing interest ranging from 2.5% to 3.75%. Interest is payable semi-annually in May and November. 9,750,000

TOTAL BONDS 134,330,000

***General Obligation Notes***

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. The interest rate at year-end was 1.855%. 1,801,000

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. The interest rate at year-end was 1.855%. 2,927,000

Series of 2003, maturing through October 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. The interest rate at year-end was 1.855%. 2,199,000

Series of 2004, Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. The interest rate at year-end was 0.45%. 5,500,000

TOTAL NOTES 12,427,000

TOTAL BONDS AND NOTES \$ 146,757,000



QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Bonds and Notes payable is comprised of the following:

Bonds and Notes payable, at face	\$ 146,757,000
Unamortized premium	<u>1,221,745</u>
Bonds and Notes payable, net	<u>\$ 147,978,745</u>
Amounts due in one year	\$ 6,912,291
Amounts due after one year	<u>141,066,454</u>
Bonds and Notes payable, net	<u>\$ 147,978,745</u>

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

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2019	\$ 6,718,000	\$ 4,030,969	\$ 10,748,969
2020	7,003,000	3,873,709	10,876,709
2021	7,252,000	3,660,761	10,912,761
2022	7,494,000	3,505,006	10,999,006
2023	7,723,000	3,360,153	11,083,153
2024 - 2028	41,452,000	14,111,359	55,563,359
2029 - 2033	45,730,000	7,954,663	53,684,663
2034- 2038	17,595,000	1,947,662	19,542,662
2039 - 2043	<u>5,790,000</u>	<u>559,127</u>	<u>6,349,127</u>
	<u>\$ 146,757,000</u>	<u>\$ 43,003,409</u>	<u>\$ 189,760,409</u>

NOTE 7 CAPITAL LEASES

The District has entered into lease agreements as a lessee for financing the acquisition of equipment used within the District. These lease agreements qualify as a capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

Equipment	\$ 2,558,792
Less: accumulated depreciation	<u>(1,240,077)</u>
TOTAL	<u>\$ 1,318,715</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 CAPITAL LEASES (cont'd)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

<u>Year Ending June 30,</u>	
2019	\$ 533,783
2020	383,783
2021	<u>126,706</u>
Total minimum lease payments	1,044,272
Less: amount representing interest	<u>(40,253)</u>
Present value of minimum lease payments	<u>\$ 1,004,019</u>

NOTE 8 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits Provided

The PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

Benefits are generally equal to two percent or two and one-half percent, depending upon the membership class, of the member's final average salary as defined in the Code, multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested, and early retirement may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service. Benefit terms may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval.

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

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

Member Contributions

Active members who joined the system prior to July 22, 1983 contributed at 5.25 percent (Membership Class T-C), or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (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 percent (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 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30 percent (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 that in future fiscal years could

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, the rate of the employer contributions was 31.74 percent of covered payroll. The District's contribution to PSERS for the year ended June 30, 2018 was \$13,216,428.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the District reported a liability of \$157,105,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.3181 percent, which was a decrease of 0.0033 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$15,271,007. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 3,640,000	\$ -
Changes in assumptions	4,268,000	-
Difference between expected and actual experience	1,639,000	949,000
Changes in proportions	209,000	2,440,000
Difference between employer contributions and proportionate share of total contributions	307,790	-
Contributions subsequent to the date of measurement	<u>13,216,428</u>	<u>-</u>
	<u>\$23,280,218</u>	<u>\$ 3,389,000</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

An amount of \$13,216,428 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2019	\$ 1,101,007
2020	3,730,007
2021	2,623,819
2022	<u>(780,043)</u>
	<u>\$ 6,674,790</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the system's total pension liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – entry age normal, level percentage of pay.
- Investment return – 7.25 percent, including inflation of 2.75 percent.
- Salary increases – effective average of 5.00 percent, which reflects an allowance for inflation of 2.75 percent, real wage growth, and 2.25 percent for merit or seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Experience rates are based on a study from July 1, 2010 through June 30, 2015.

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20.0%)	1.1%
	<u>100.0%</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates which are actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

	1% Decrease <u>6.25%</u>	Current Rate Discount Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
Proportionate share of the net pension liability	\$ 196,382,000	\$ 157,105,000	\$ 126,476,000

Pension Plan Fiduciary Net Position

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

NOTE 9 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN

Health Insurance Premium Assistance Program

The PSERS provides Premium Assistance, which is a governmental cost sharing, multiple-employer other postemployment benefits plan ("OPEB") for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium.

To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the system can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

OPEB Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit OPEB plan that provides postemployment benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the PSERS plan include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at [www.pfers.state.pa.us](http://www.pfers.state.pa.us).

Benefits Provided

Participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees. Benefit terms may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval.

Employer Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$345,609 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2018, the District reported a liability of \$6,481,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the system's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.3181 percent, which was a decrease of 0.0033 percent from its proportion measured as of June 30, 2016.



QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

For the year ended June 30, 2018, the District recognized OPEB expense of \$425,550. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources relating to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 7,000	\$ -
Change in proportionate share of the net OPEB liability	-	61,000
Change in assumptions	-	302,000
Difference between employer contributions and proportionate share of total contributions	-	1,994
Contributions subsequent to the date of measurement	<u>345,609</u>	<u>-</u>
	<u>\$ 352,609</u>	<u>\$ 364,994</u>

Change in Assumptions: For current active employees who terminate employment and become eligible for coverage under the plan, it is assumed that 50 percent of members will receive coverage prior to age 65, and 70 percent will receive coverage after age 65. Previously, coverage was assumed at 63 percent for all such employees, regardless of age.

An amount of \$345,609 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources relating to OPEB and will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ (59,332)
2020	(59,332)
2021	(59,332)
2022	(59,332)
2023	(60,332)
Thereafter	<u>(60,334)</u>
	<u>\$ (357,994)</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward the system's total OPEB liability as of June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 3.13 percent - S&P 20-year Municipal Bond Rate
- Salary growth - Effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Experience rates are based on a study from July 1, 2010 through June 30, 2015
- Participation rate:
  - Eligible retirees will elect to participate pre-age 65 at 50 percent
  - Eligible retirees will elect to participate post-age 65 at 70 percent

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method: Market value
- Participation rate: 63 percent of eligible retirees are assumed to elect Premium Assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25 percent males and 75 percent females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real of Return</u>
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13 percent. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13 percent, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System's Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

The following presents the system's net OPEB liability for June 30, 2017, calculated using current healthcare cost trends, as well as what the system's net OPEB liability would be if its healthcare cost trends were one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 6,479,000	\$ 6,481,000	\$ 6,482,000

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13 percent) or one percentage-point higher (4.13 percent) than the current rate:

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
District's proportionate share of the net OPEB liability	\$ 7,367,000	\$ 6,481,000	\$ 5,745,000

OPEB Plan Fiduciary Net Position

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

NOTE 10 SINGLE EMPLOYER OTHER POST EMPLOYMENT BENEFIT PLAN

Plan Description

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan) for employees who meet the eligibility requirements upon retirement. The District's retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SINGLE EMPLOYER OTHER POST EMPLOYMENT BENEFIT PLAN (cont'd)

for the purpose of COBRA. Under GASB Codification, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan. A plan report is available in the District office.

Funding Policy

The contribution requirements of plan members are established and may be amended by the board. The District has no assets accumulated in a trust or equivalent arrangement for the purpose of administering the OPEB plan. 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. For fiscal year 2018, the District paid \$543,704 to plan members eligible for receiving benefits.

Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of July 1, 2017. The total OPEB liability as of July 1, 2018 was determined by rolling forward the system's total OPEB liability as of the July 1, 2016 actuarial valuation to the July 1, 2017 measurement date using the actuarial assumptions noted below.

Discount Rate

The discount used to measure the total OPEB liability was 3.13 percent.

Healthcare Cost Trend

The healthcare cost trend was 6.0 percent in 2017 and 5.5 percent in 2018 through 2023. Rates gradually decrease from 5.4 percent in 2024 to 3.9 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Salary Increases

An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5 percent cost of living adjustment, one percent real wage growth, and for teachers and administrators, a merit increase which varies by age from 2.75 percent to zero percent.

Withdrawal

Rates of withdrawal vary by age, gender, and years of service. Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 22.9 percent for both men and women and decrease with age and service.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SINGLE EMPLOYER OTHER POST EMPLOYMENT BENEFIT PLAN (cont'd)

<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>
25	2.57%	5.02%
30	2.57%	4.02%
35	1.50%	2.85%
40	1.34%	1.60%
45	1.37%	1.65%
50	1.92%	2.06%
55	3.38%	3.11%
60	5.57%	6.40%

Mortality Rates

Separate rates are assumed preretirement and postretirement using the RP-2014 Mortality Tables for Males and Females.

Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

Disability

No disability was assumed.

Retirement

Assumed retirement rates are based on PSERS plan experience and vary by age, service, and gender.

<u>Age</u>	<u>Age 55 and 25 Years of Service</u>		<u>Superannuation</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	19%	19%	27%	10%
56	17%	17%	32%	30%
57	17%	17%	32%	30%
58	17%	17%	32%	35%
59	22%	21%	31%	36%
60	14%	17%	31%	36%
61	29%	30%	29%	31%
62	51%	61%	51%	61%
63	26%	26%	26%	26%
64	21%	22%	21%	22%
65	100%	100%	100%	100%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SINGLE EMPLOYER OTHER POST EMPLOYMENT BENEFIT PLAN (cont'd)

Percent of Eligible Retirees Electing Coverage in Plan

One hundred percent of teachers are eligible, and seventy percent of all employees are assumed to elect coverage.

Percent Married at Retirement

Thirty-five percent of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

Spouse Age

Wives are assumed to be two years younger than their husbands.

Per Capita Claims Cost

The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

<u>Age</u>	<u>Medical and Prescription Drug Combined</u>	
	<u>Male</u>	<u>Female</u>
45 - 49	\$ 6,271	\$ 9,057
50 - 54	\$ 8,305	\$ 10,235
55 - 59	\$ 10,115	\$ 10,709
60 - 64	\$ 13,199	\$ 12,303

Retiree Contributions

Retiree contributions are assumed to increase at the same rate as the healthcare cost trend rate.

Healthcare Cost Trend

The healthcare cost trend was 6.0 percent in 2017 and 5.5 percent in 2018 through 2023. Rates gradually decrease from 5.4 percent in 2024 to 3.9 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SINGLE EMPLOYER OTHER POST EMPLOYMENT BENEFIT PLAN (cont'd)

Actuarial Value of Assets

The actuarial value of assets was equal to the market value of assets.

Actuarial Cost Method – Entry Age Normal

Under the entry age normal cost method, the normal cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The accrued liability as of the valuation date is the excess of the present value of future benefits over the present value of future normal cost. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets. Actuarial gains and losses serve to reduce or increase the unfunded accrued liability.

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease 2.13%	Current Rate Discount Rate 3.13%	1% Increase 4.13%
Total OPEB liability	\$ 7,358,182	\$ 6,871,137	\$ 6,412,688
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 7,358,182</u>	<u>\$ 6,871,137</u>	<u>\$ 6,412,688</u>

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower each year or one percentage point higher each year than the current rate.

	1% Decrease	Current Rate Discount Rate	1% Increase
Total OPEB liability	\$ 6,105,176	\$ 6,871,137	\$ 7,787,232
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 6,105,176</u>	<u>\$ 6,871,137</u>	<u>\$ 7,787,232</u>



QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SINGLE EMPLOYER OTHER POST EMPLOYMENT BENEFIT PLAN (cont'd)

Changes in Total OPEB Liability

Total OPEB liability as of July 1, 2016	\$ 6,787,755
Service cost	384,749
Interest on OPEB obligation	169,970
Effect of assumption changes or inputs	168,111
Benefit payments	<u>(639,448)</u>
Total OPEB liability as of July 1, 2017	<u>\$ 6,871,137</u>

The amount of OPEB expense for the single employer plan recognized by the District was \$567,651 for the year ended June 30, 2018. An amount of \$543,704 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. At June 30, 2018, the District reported deferred outflows of resources relating to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Change in assumptions	\$ 155,179
Benefit payment subsequent to the July 1, 2017 measurement date	<u>543,704</u>
Total	<u>\$ 698,883</u>

Change in Assumptions: The discount rate changed from 2.49 percent to 3.13 percent.

Deferred inflows of resources due to the change in assumptions will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>			
2019	\$	12,932	
2020		12,932	
2021		12,932	
2022		12,932	
2023		12,932	
Thereafter		<u>90,519</u>	
	\$	<u>155,179</u>	

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 NET OPEB LIABILITY AND DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

The District's aggregate net OPEB liability and deferred inflows and outflows of resources are as follows:

	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
District Plan (See Note 10)	\$ 6,871,137	\$ 698,883	\$ -
PSERS Plan (See Note 9)	6,481,000	352,609	364,994
Total	\$ 13,352,137	\$ 1,051,492	\$ 367,994

NOTE 12 JOINT VENTURES

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

Future rental payments are as follows:

Year Ending June 30,

2019	\$ 509,266
2020	512,232
2021	509,885
2022	513,215
2023	511,043
2024 - 2028	2,362,827
2029 - 2033	2,081,440
2034 - 2038	2,081,527
2039 - 2043	2,076,930
2044	415,886
Total	11,574,251
Less: Interest requirements	(4,250,822)
Outstanding rental payments	\$ 7,323,429

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 FUND BALANCES

As of June 30, 2018, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 908,286	\$ -	\$ 908,286
Restricted:			
Capital projects	-	11,809,193	11,809,193
Committed:			
PSERS liability	327,213	-	327,213
Capital projects	2,361,109	-	2,361,109
Unassigned	<u>12,306,086</u>	<u>-</u>	<u>12,306,086</u>
Total Fund Balances	<u>\$ 15,902,694</u>	<u>\$ 11,809,193</u>	<u>\$ 27,711,887</u>

NOTE 14 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 expenditure 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.

Capital Improvement Commitments

The District has \$310,140 in construction-in-progress which is not subject to formal commitments.

NOTE 15 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 retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2017 - 2018 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 16 DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of \$147,447,580 includes the effect of the deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension liability and net OPEB liability, and the deferred outflows related to the pension and OPEB plans. This is offset by the District's actuarially determined pension liability and OPEB liability, and the deferred inflows related to the pension and OPEB plans.

NOTE 17 PRIOR PERIOD RESTATEMENT

In accordance with the adoption of GASB Statement No. 75, as discussed in Note 1, the District has restated its July 1, 2016 net position in its governmental activities to record the net OPEB liability and deferred outflows at June 30, 2017. The net result of this change is a decrease of \$12,327,371 in net position of its governmental activities.

NOTE 18 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through December 19, 2018, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Pennsylvania Public School Employees' Retirement System (PSERS)**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>		
	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
District's proportion of the net pension liability	0.3181%	0.3214%	0.3206%
District's proportion of the net pension liability - dollar value	\$ 157,105,000	\$ 159,276,000	\$ 138,869,000
District's covered employee payroll	\$ 42,129,428	\$ 41,417,204	\$ 41,116,571
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	372.91%	384.56%	337.74%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%
			57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 13,216,428	\$ 12,301,793	\$ 10,354,301	\$ 8,428,897
Contributions in relation to the contractually required contribution	<u>13,216,428</u>	<u>12,301,793</u>	<u>10,354,301</u>	<u>8,428,897</u>
Contribution (deficiency) excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 41,639,660	\$ 42,129,428	\$ 41,417,204	\$ 41,116,571
Contributions as a percentage of covered-employee payroll	31.74%	29.20%	25.00%	20.50%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 Pennsylvania Public School Employees' Retirement System (PSERS)**

<u>PROPORTIONATE SHARE OF NET OPEB LIABILITY</u>	<u>MEASUREMENT DATE</u> <u>JUNE 30, 2017</u>
District's proportion of the net OPEB liability	0.3181%
District's proportion of the net OPEB liability - dollar value	\$ 6,481,000
District's covered employee payroll	\$ 42,129,428
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	15.38%
Plan fiduciary net position as a percentage of the total OPEB liability	5.73%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS  
Pennsylvania Public Employees' Retirement System (PSERS)**

	JUNE 30, 2018
Contractually required contribution	\$ 345,609
Contributions in relation to the contractually required contribution	345,609
Contribution (deficiency) excess	\$ -
District's covered employee payroll	\$ 41,639,639
Contributions as a percentage of covered-employee payroll	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS  
Single Employer Plan**

	MEASUREMENT DATE <u>JULY 1, 2017</u>
TOTAL OPEB LIABILITY	
Service cost	\$ 384,749
Interest cost	169,970
Changes in assumptions	168,111
Benefit payments	<u>(639,448)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	83,382
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	<u>6,787,755</u>
TOTAL OPEB LIABILITY, END OF YEAR	<u><u>\$ 6,871,137</u></u>
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	<u>\$ -</u>
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u><u>\$ -</u></u>
DISTRICT'S NET OPEB LIABILITY	<u><u>6,871,137</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00%
Covered employee payroll	\$ 39,232,410
District's net OPEB liability as a percentage of covered payroll	17.51%
Expected average remaining service years of all participants	12

The requirement is to show information for 10 years; however, until a full 10-year trend is compiled, the Plan shall present information for the years for which information is available.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
Single Employer Plan**

<u>Year</u>	<u>Actuarial Determined Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Payroll</u>
2018	\$ 543,704	\$ 543,704	\$ -	\$39,232,410	1.39%

***Notes to Schedule:***

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

*Valuation Date:* July 1, 2016

*Methods and Assumptions Used to Determine Contribution Rates:*

Actuarial cost method	Entry age
Asset valuation method	Market value
Discount rate	3.13%
Healthcare trend rates	6.0% in 2017; 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075.

**SINGLE AUDIT SUPPLEMENT**

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

December 19, 2018

Board of School Directors  
Quakertown Community School District  
Quakertown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Quakertown Community School District ("the District"), Quakertown, Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2018.

Internal Control Over Financial Reporting

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

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

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

Board of School Directors  
Quakertown Community School District

Compliance and Other Matters

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

Purpose of This Report

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

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP

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

December 19, 2018

Board of School Directors  
Quakertown Community School District  
Quakertown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Quakertown Community School District's ("the District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Board of School Directors  
Quakertown Community School District

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

  
BARBACANE, THORNTON & COMPANY LLP







QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE B BASIS OF ACCOUNTING

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

NOTE C ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2018 was \$104,763.

NOTE D NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555, National School Lunch Program, represent surplus food consumed by the District during the 2017- 2018 fiscal year.

NOTE E INDIRECT COST RATE

The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

Yes  No

Identification of major programs:

CFDA Numbers  
10.553, 10.555  
84.027, 84.173

Name of Federal Program or Cluster  
Child Nutrition Cluster  
IDEA Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

**2017-001**

MATERIAL RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

Condition

During our prior year audit, a material prior period adjusting journal entry was required as part of the audit process to correct the District's opening net position in the financial statements.

Criteria

The internal controls over financial reporting of an entity should allow for the identification of material misstatements. This is especially important due to the importance of internal and external financial reporting, which is a key component of an entity's control environment.

Cause

Client oversight.

Effect

Financial statements were materially misstated.

Recommendation

We recommended that the District strengthen its policies and procedures surrounding internal controls over financial reporting so as to avoid any prior period restatements in future audits.

Status

During our current year audit, we did not require any material adjusting journal entries as part of our audit. This finding is no longer applicable.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.