



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
QUAKERTOWN, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2017

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 11
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	17
Budgetary Comparison Statement - General Fund	18
Statement of Net Position - Proprietary Fund	19
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	20
Statement of Cash Flows - Proprietary Fund	21
Statement of Net Position - Fiduciary Funds	22
Statement of Activities - Fiduciary Fund	23
NOTES TO FINANCIAL STATEMENTS	24 - 48

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the District's Proportionate Share of the Net Pension Liability	49
Schedule of District Contributions	50
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 <i>Government Auditing Standards</i>	51 - 52
Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	53 - 54
Schedule of Expenditures of Federal Awards	55 - 56
Notes to Schedule of Expenditures of Federal Awards	57
Schedule of Findings and Recommendations	58 - 60
Management's Response to Findings and Recommendations	61

INDEPENDENT AUDITOR'S REPORT

December 20, 2017

Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Quakertown Community School District ("the District"), Quakertown, Pennsylvania, as of and for the year ended June 30, 2017, 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, each major fund, and the aggregate remaining fund information of the Quakertown Community School District, Quakertown, Pennsylvania, as of June 30, 2017, 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.

As discussed in Note 15 to the financial statements, the beginning net position for governmental activities has been restated to correct errors. Our opinion is not modified with respect to this matter.

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 through 11, schedule of the District's proportionate share of the net pension liability on page 49, and schedule of District contributions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards on pages 55 - 56 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

Board of School Directors
Quakertown Community School District

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 20, 2017 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, 2017**

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, 2017. 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 2017 are as follows:

- Net deficit of the District increased by \$2,078,962 and unrestricted net position reflects a deficit balance of \$130,791,983. The implementation of GASB Statement No. 68 has had an impact on the District's financial statements. The District is required to report its proportionate share of the net pension liability, \$159,276,000, which makes up the majority of the unrestricted net deficit.
- Revenues totaled \$103,922,037. General revenues accounted for \$85,657,390, or 82 percent of total revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$18,264,647, or 18 percent of total revenues.
- The District had \$106,245,751 in total expenses. Of these expenses, \$18,264,647 was offset by program specific charges for services and operating grants and contributions.
- Among major funds, the general fund had \$104,272,838 in revenues and other financing sources and \$106,000,999 in expenditures and other financing uses. Revenues and other financing sources exceeded expenditures and other financing uses at year end by \$119,349, resulting in a fund balance of \$14,552,848. Fund balance of \$1,343,880 is non-spendable; \$3,655,467 is committed; leaving \$9,554,301 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, 2017**

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, 2017**

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 2017 compared to 2016:

**Table 1
Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 33,386,744	\$ 35,624,359	\$ 312,867	\$ 162,102	\$ 33,699,611	\$ 35,786,461
Capital assets	161,352,579	155,117,675	16,791	12,097	161,369,370	155,129,772
Total Assets	194,739,323	190,742,034	329,658	174,199	195,068,981	190,916,233
Deferred Outflows of Resources	27,494,797	10,354,301	-	-	27,494,797	10,354,301
Liabilities:						
Current liabilities	17,602,552	17,941,546	292,775	124,027	17,895,327	18,065,573
Noncurrent liabilities	300,342,707	276,463,255	-	-	300,342,707	276,463,255
Total Liabilities	317,945,259	294,404,801	292,775	124,027	318,238,034	294,528,828
Deferred Inflows of Resources	3,378,000	3,715,000	-	-	3,378,000	3,715,000
Net Position (Deficit):						
Net investment in capital assets	23,957,516	12,816,328	16,791	12,097	23,974,307	12,828,425
Restricted	7,765,420	7,831,147	-	-	7,765,420	7,831,147
Unrestricted (deficit)	(130,812,075)	(117,670,941)	20,092	38,075	(130,791,983)	(117,632,866)
Total Net Position (Deficit)	\$ (99,089,139)	\$ (97,023,466)	\$ 36,883	\$ 50,172	\$ (99,052,256)	\$ (96,973,294)

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2017**

Table 2 shows the changes in net position for fiscal year 2017 compared to 2016:

**Table 2
Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for services	\$ 807,277	\$ 1,043,604	\$ 1,123,585	\$ 1,118,609	\$ 1,930,862	\$ 2,162,213
Operating grants	15,361,001	10,151,375	972,784	888,021	16,333,785	11,039,396
General Revenues:						
Property taxes	61,981,519	61,228,366	-	-	61,981,519	61,228,366
Taxes levied for specific purposes	11,284,448	11,776,523	-	-	11,284,448	11,776,523
Unrestricted grants and subsidies	11,874,509	13,394,077	-	-	11,874,509	13,394,077
Other	516,260	188,390	654	700	516,914	189,090
Total Revenues	<u>101,825,014</u>	<u>97,782,335</u>	<u>2,097,023</u>	<u>2,007,330</u>	<u>103,922,037</u>	<u>99,789,665</u>
Expenses						
Program Expenses:						
Instruction	65,630,184	62,686,098	-	-	65,630,184	62,686,098
Support Services:						
Instructional student support	9,738,347	9,837,623	-	-	9,738,347	9,837,623
Administrative and financial support services	8,989,549	9,404,527	-	-	8,989,549	9,404,527
Operation and maintenance of plant services	10,144,423	9,065,439	-	-	10,144,423	9,065,439
Pupil transportation	3,942,402	3,630,581	-	-	3,942,402	3,630,581
Student activities	1,113,483	1,078,365	-	-	1,113,483	1,078,365
Community services	10,505	11,119	-	-	10,505	11,119
Interest on long-term debt	4,321,794	3,249,392	-	-	4,321,794	3,249,392
Food service	-	-	2,110,312	2,072,497	2,110,312	2,072,497
Total Expenses	<u>103,890,687</u>	<u>98,963,144</u>	<u>2,110,312</u>	<u>2,072,497</u>	<u>106,000,999</u>	<u>101,035,641</u>
Change in Net Position	<u>\$ (2,065,673)</u>	<u>\$ (1,180,809)</u>	<u>\$ (13,289)</u>	<u>\$ (65,167)</u>	<u>\$ (2,078,962)</u>	<u>\$ (1,245,976)</u>

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 an increase in instruction expenses offset by a smaller decrease in administrative and financial support services.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2017**

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**

	2017		2016	
	Total Cost	Net Cost	Total Cost	Net Cost
Instruction	\$ 65,630,184	\$ 54,382,816	\$ 62,686,098	\$ 54,704,817
Support services:				
Instructional student support	9,738,347	8,962,218	9,837,623	8,918,374
Administrative and financial support services	8,989,549	8,273,098	9,404,527	8,672,606
Operation and maintenance of plant services	10,144,423	9,126,748	9,065,439	8,701,827
Pupil transportation	3,942,402	2,418,113	3,630,581	3,630,581
Student activities	1,113,483	966,766	1,078,365	862,332
Community services	10,505	10,505	11,119	11,119
Interest on long-term debt	4,321,794	3,588,793	3,249,392	2,266,509
Total Expenses	\$103,890,687	\$ 87,722,409	\$ 98,963,144	\$ 87,768,165

**Table 4
Business-type Activities**

	2017		2016	
	Total Cost	Net Cost	Total Cost	Net Cost
Food service	\$ 2,110,312	\$ 13,943	\$ 2,072,497	\$ 65,867

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 \$2,097,023 and expenses of \$2,110,312 for fiscal year 2017. Business-type activities receive no support from tax revenues.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2017**

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 2017, the District had \$161,352,579 invested in capital assets. (See Note 4.)

Debt Administration

At June 30, 2017, the District had \$143,473,000 in bonds and notes outstanding, with \$6,466,000 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, 2017**

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 172 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 will be completed by 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.

On July 28, 2015, the District purchased a 126.7 acre parcel of land at Old Bethlehem Pike and West Pumping Station Road.

In order to eliminate a structural deficit in the 2017 - 2018 budget, a plan was developed to:

- Close Milford Middle School
- Consolidate all 7th and 8th graders into Strayer Middle School
- Move the 9th grade class into the newly renovated high school

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2017**

- Change the freshman center to a 6th grade center
- Close Tohickon Valley Elementary
- Renovate and add additional classrooms to Neidig Elementary

The school closures and consolidation would eliminate the structural deficit within two years.

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:

2017 - 2018	32.57%
2018 - 2019	33.43%
2019 - 2020	34.79%
2020 - 2021	36.26%
2021 - 2022	35.68%
2022 - 2023	36.32%

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%

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 Robert L. Riegel, CPA, Business Administrator, at Quakertown Community School District, 100 Commerce Drive, Quakertown, PA 18951, (215) 529-2031.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS:			
Cash and cash equivalents	\$ 23,115,904	\$ 141,852	\$ 23,257,756
Taxes receivable	3,416,618	-	3,416,618
Due from other governments	5,338,095	130,876	5,468,971
Other receivables	173,047	9,986	183,033
Prepaid expenses	1,343,080	-	1,343,080
Inventories	-	30,153	30,153
Land	3,976,693	-	3,976,693
Land improvements	10,454,085	-	10,454,085
Buildings and building improvements	127,525,340	-	127,525,340
Furniture and equipment	26,422,315	629,839	27,052,154
Construction-in-progress	73,605,629	-	73,605,629
Accumulated depreciation	(80,631,483)	(613,048)	(81,244,531)
TOTAL ASSETS	194,739,323	329,658	195,068,981
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred pension contributions	12,301,793	-	12,301,793
Deferred outflows - pension	15,193,004	-	15,193,004
TOTAL DEFERRED OUTFLOWS OF RESOURCES	27,494,797	-	27,494,797
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 222,234,120	\$ 329,658	\$ 222,563,778
LIABILITIES, DEFERED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)			
LIABILITIES:			
Accounts payable	\$ 4,230,451	\$ 48,490	\$ 4,278,941
Internal balances	(189,713)	189,713	-
Accrued salaries and benefits	4,760,561	-	4,760,561
Unearned revenue	15,995	54,572	70,567
Other liabilities	7,331	-	7,331
Accrued interest	1,336,628	-	1,336,628
Long-term liabilities			
Portion due or payable within one year:			
Bonds payable in future years, net	6,660,129	-	6,660,129
Capital leases	511,169	-	511,169
Accumulated compensated absences	270,001	-	270,001
Portion due or payable after one year:			
Bonds payable in future years, net	138,220,453	-	138,220,453
Capital leases	647,271	-	647,271
Accumulated compensated absences	1,804,721	-	1,804,721
Other post-employment benefits	394,262	-	394,262
Net pension liability	159,276,000	-	159,276,000
TOTAL LIABILITIES	317,945,259	292,775	318,238,034
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows - pension	3,378,000	-	3,378,000
NET POSITION (DEFICIT):			
Net investment in capital assets	23,957,516	16,791	23,974,307
Restricted	7,765,420	-	7,765,420
Unrestricted (deficit)	(130,812,075)	20,092	(130,791,983)
TOTAL NET POSITION (DEFICIT)	(99,089,139)	36,883	(99,052,256)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	\$ 222,234,120	\$ 329,658	\$ 222,563,778

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
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	Total
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 65,630,184	\$ 540,120	\$ 10,707,248	\$ -	\$ (54,382,816)	\$ -	\$ (54,382,816)
Instructional student support	9,738,347	-	778,037	-	(8,960,310)	-	(8,960,310)
Administrative and financial support services	8,989,549	-	718,212	-	(8,271,337)	-	(8,271,337)
Operation and maintenance of plant services	10,144,423	209,183	810,480	-	(9,124,760)	-	(9,124,760)
Pupil transportation	3,942,402	-	1,525,062	-	(2,417,340)	-	(2,417,340)
Student activities	1,113,483	57,974	88,961	-	(966,548)	-	(966,548)
Community services	10,505	-	-	-	(10,505)	-	(10,505)
Interest on long-term debt	4,321,794	-	733,001	-	(3,588,793)	-	(3,588,793)
TOTAL GOVERNMENTAL ACTIVITIES	103,890,687	807,277	15,361,001	-	(87,722,409)	-	(87,722,409)
BUSINESS-TYPE ACTIVITIES							
Food service	2,110,312	1,123,585	972,784	-	-	(13,943)	(13,943)
TOTAL BUSINESS-TYPE ACTIVITIES	2,110,312	1,123,585	972,784	-	-	(13,943)	(13,943)
TOTAL PRIMARY GOVERNMENT	\$ 106,000,999	\$ 1,930,862	\$ 16,333,785	\$ -	(87,722,409)	(13,943)	(87,736,352)
GENERAL REVENUES							
Property taxes levied for general purposes					61,981,519	-	61,981,519
Taxes levied for specific purposes					11,284,448	-	11,284,448
Grants and entitlements not restricted to specific programs					11,874,509	-	11,874,509
Investment earnings					252,415	654	253,069
Miscellaneous					263,845	-	263,845
TOTAL GENERAL REVENUES					85,656,736	654	85,657,390
CHANGE IN NET POSITION (DEFICIT)					(2,065,673)	(13,289)	(2,078,962)
NET POSITION (DEFICIT), BEGINNING OF YEAR, RESTATED					(97,023,466)	50,172	(96,973,294)
NET POSITION (DEFICIT), END OF YEAR					\$ (99,089,139)	\$ 36,883	\$ (99,052,256)

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Capital Projects Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 13,013,413	\$ 10,102,491	\$ 23,115,904
Taxes receivable	3,416,618	-	3,416,618
Due from other funds	189,713	-	189,713
Due from other governments	5,338,095	-	5,338,095
Other receivables	173,047	-	173,047
Prepaid items	1,343,080	-	1,343,080
TOTAL ASSETS	<u>\$ 23,473,966</u>	<u>\$ 10,102,491</u>	<u>\$ 33,576,457</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 1,893,380	\$ 2,337,071	\$ 4,230,451
Accrued salaries, payroll withholdings, and benefits	4,760,561	-	4,760,561
Accumulated compensated absences	270,001	-	270,001
Unearned revenues	15,995	-	15,995
Other current liabilities	7,331	-	7,331
TOTAL LIABILITIES	<u>6,947,268</u>	<u>2,337,071</u>	<u>9,284,339</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - taxes	1,502,555	-	1,502,555
Unavailable revenue - state revenues	471,295	-	471,295
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,973,850</u>	<u>-</u>	<u>1,973,850</u>
FUND BALANCES:			
Nonspendable	1,343,080	-	1,343,080
Restricted for capital projects	-	7,765,420	7,765,420
Committed:			
PSERS liability	1,005,467	-	1,005,467
Capital projects	2,650,000	-	2,650,000
Unassigned	9,554,301	-	9,554,301
TOTAL FUND BALANCES	<u>14,552,848</u>	<u>7,765,420</u>	<u>22,318,268</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 23,473,966</u>	<u>\$ 10,102,491</u>	<u>\$ 33,576,457</u>

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, 2017**

TOTAL GOVERNMENTAL FUND BALANCES \$ 22,318,268

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 and improvements	\$ 3,976,693	
Land improvements	10,454,085	
Buildings and building improvements	127,525,340	
Furniture and equipment	26,422,315	
Accumulated depreciation	<u>(80,631,483)</u>	161,352,579

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	(144,880,582)	
Capital lease	(1,158,440)	
Accumulated compensated absences	(1,804,721)	
Other post-employment benefits	(394,262)	
Accrued interest	(1,336,628)	
Net pension liability	<u>(159,276,000)</u>	(308,850,633)

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. 1,973,850

Deferred inflows and outflows of resources related to the District's net pension liability are based on the differences between actuarially determined expected and actual investment returns, changes in the actuarially determined proportion of the District's amount of the total pension liability, differences between actual and expected experience, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred pension contributions	12,301,793	
Deferred outflows of resources - pension	15,193,004	
Deferred inflows of resources - pension	<u>(3,378,000)</u>	<u>24,116,797</u>

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (99,089,139)

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, 2017**

	General Fund	Capital Projects Fund	Totals
REVENUES			
Local sources	\$ 74,688,738	\$ 39,894	\$ 74,728,632
State sources	26,945,414	-	26,945,414
Federal sources	1,638,782	-	1,638,782
TOTAL REVENUES	<u>103,272,934</u>	<u>39,894</u>	<u>103,312,828</u>
EXPENDITURES			
Current:			
Instruction	63,534,337	-	63,534,337
Support services	29,024,506	395,766	29,420,272
Operation of noninstructional services	1,075,362	-	1,075,362
Capital outlays	50,070	9,334,181	9,384,251
Debt service	10,469,214	-	10,469,214
TOTAL EXPENDITURES	<u>104,153,489</u>	<u>9,729,947</u>	<u>113,883,436</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(880,555)</u>	<u>(9,690,053)</u>	<u>(10,570,608)</u>
OTHER FINANCING SOURCES			
Issuance of debt	-	9,395,000	9,395,000
Refunds of prior year revenues	-	26,895	26,895
Proceeds from extended-term financing	999,904	-	999,904
Payment of debt - refunding	-	(9,769,635)	(9,769,635)
Refunding bonds issued	-	9,970,000	9,970,000
Bond issue premium	-	2,066	2,066
TOTAL OTHER FINANCING SOURCES	<u>999,904</u>	<u>9,624,326</u>	<u>10,624,230</u>
NET CHANGE IN FUND BALANCES	119,349	(65,727)	53,622
FUND BALANCES, BEGINNING OF YEAR	<u>14,433,499</u>	<u>7,831,147</u>	<u>22,264,646</u>
FUND BALANCES, END OF YEAR	<u>\$ 14,552,848</u>	<u>\$ 7,765,420</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, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 53,622
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 expense.</p>	6,234,904
<p>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.</p>	(1,487,815)
<p>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.</p>	(3,737,675)
<p>In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave), and other post-employment benefits – 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</p>	(154,020)
<p>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.</p>	(45,185)
<p>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.</p>	<u>(2,929,504)</u>
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ (2,065,673)</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, 2017**

	Budgeted Amounts		Final	Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final			
REVENUES					
Local revenues	\$ 73,842,665	73,842,665	\$ 73,842,665	\$ 74,688,738	846,073
State sources	24,628,872	24,917,872	24,917,872	26,945,414	2,027,542
Federal sources	1,475,000	1,486,456	1,486,456	1,638,782	152,326
TOTAL REVENUES	<u>99,946,537</u>	<u>100,246,993</u>	<u>100,246,993</u>	<u>103,272,934</u>	<u>3,025,941</u>
EXPENDITURES					
Instruction:					
Regular programs	43,911,570	42,684,596	42,684,596	42,449,876	234,720
Special programs	12,874,044	13,820,712	13,820,712	13,627,284	193,428
Vocational programs	3,399,241	3,399,341	3,399,341	3,399,294	47
Other instructional programs	4,031,087	3,809,575	3,809,575	3,770,966	38,609
Pre-Kindergarten programs	-	289,000	289,000	286,917	2,083
Total Instruction	<u>64,215,942</u>	<u>64,003,224</u>	<u>64,003,224</u>	<u>63,534,337</u>	<u>468,887</u>
Support services:					
Pupil personnel services	4,254,602	4,221,922	4,221,922	4,134,622	87,300
Instructional staff services	4,501,379	4,775,044	4,775,044	4,754,414	20,630
Administrative services	4,954,408	5,144,126	5,144,126	5,143,819	307
Pupil health	1,076,248	1,081,689	1,081,689	1,073,188	8,501
Business services	1,054,492	1,030,769	1,030,769	959,079	71,690
Operation and maintenance of plant services	6,321,391	6,436,998	6,436,998	6,224,855	212,143
Student transportation services	3,241,973	3,822,973	3,822,973	3,813,210	9,763
Central services	3,458,454	3,048,974	3,048,974	2,864,038	184,936
Other support services	59,000	59,000	59,000	57,281	1,719
Total Support Services	<u>28,921,947</u>	<u>29,621,495</u>	<u>29,621,495</u>	<u>29,024,506</u>	<u>596,989</u>
Operation of noninstructional services:					
Student activities	899,831	1,065,434	1,065,434	1,065,174	260
Community services	13,300	13,905	13,905	10,188	3,717
Total Operation of Noninstructional Services	<u>913,131</u>	<u>1,079,339</u>	<u>1,079,339</u>	<u>1,075,362</u>	<u>3,977</u>
Capital outlay	700,000	51,000	51,000	50,070	930
Debt service	9,137,656	10,469,653	10,469,653	10,469,214	439
TOTAL EXPENDITURES	<u>103,888,676</u>	<u>105,224,711</u>	<u>105,224,711</u>	<u>104,153,489</u>	<u>1,071,222</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(3,942,139)</u>	<u>(4,977,718)</u>	<u>(4,977,718)</u>	<u>(880,555)</u>	<u>4,097,163</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from the sale of capital assets	10,000	10,000	10,000	-	10,000
Proceeds from extended-term financing	-	-	-	999,904	999,904
Budgetary reserve	(800,000)	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>(790,000)</u>	<u>10,000</u>	<u>10,000</u>	<u>999,904</u>	<u>1,009,904</u>
NET CHANGE IN FUND BALANCE	(4,732,139)	(4,967,718)	(4,967,718)	119,349	5,107,067
FUND BALANCE, BEGINNING OF YEAR	13,938,711	14,174,290	14,174,290	14,433,499	259,209
FUND BALANCE, END OF YEAR	<u>\$ 9,206,572</u>	<u>\$ 9,206,572</u>	<u>\$ 9,206,572</u>	<u>\$ 14,552,848</u>	<u>\$ 5,366,276</u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2017**

	Food Service Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 141,852
Other receivables	9,986
Due from other governments	130,876
Inventories	30,153
Total Current Assets	312,867
CAPITAL ASSETS:	
Furniture and equipment	629,839
Accumulated depreciation	(613,048)
Capital Assets, Net	16,791
TOTAL ASSETS	\$ 329,658
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ 48,490
Unearned revenue	54,572
Due to other funds	189,713
Total Current Liabilities	292,775
NET POSITION:	
Investment in capital assets	16,791
Unrestricted	20,092
Total Net Position	36,883
TOTAL LIABILITIES AND NET POSITION	\$ 329,658

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

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

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenues	<u>\$ 1,123,585</u>
Total Operating Revenues	<u>1,123,585</u>
 OPERATING EXPENSES	
Salaries	348,327
Employee benefits	140,725
Purchased professional and technical services	747,671
Purchased property services	31,610
Other operating expenses	1,770
Supplies	831,309
Depreciation	8,900
Total Operating Expenses	<u>2,110,312</u>
 OPERATING LOSS	 <u>(986,727)</u>
 NONOPERATING REVENUES	
Earnings on investments	654
State sources	112,596
Federal sources	860,188
Total Nonoperating Revenues	<u>973,438</u>
 CHANGE IN NET POSITION	 <u>(13,289)</u>
 NET POSITION, BEGINNING OF YEAR	 <u>50,172</u>
 NET POSITION, END OF YEAR	 <u><u>\$ 36,883</u></u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,113,808
Payments to suppliers	(1,497,002)
Payments to employees	(489,052)
NET CASH USED BY OPERATING ACTIVITIES	<u>(872,246)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Grants and subsidies received for nonoperating activities:	
State sources	118,887
Federal sources	799,324
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>918,211</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(13,594)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(13,594)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Earnings on investments	654
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>654</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,025
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>108,827</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 141,852</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (986,727)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	8,900
Commodities used	138,147
(Increase) Decrease in:	
Other receivables	(2,353)
Inventories	12,342
Increase (Decrease) in:	
Accounts payable	(13,541)
Due to other funds	(21,590)
Unearned revenue	(7,424)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (872,246)</u>
<u>SUPPLEMENTAL DISCLOSURE</u>	
Noncash noncapital financing activity:	
USDA donated commodities	<u>\$ 138,147</u>

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

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

	Private- Purpose Trust	Agency
	<u> </u>	<u> </u>
ASSETS:		
Cash	\$ 123,212	\$ 3,788
Investments	<u> -</u>	<u>280,698</u>
TOTAL ASSETS	<u><u>\$ 123,212</u></u>	<u><u>\$ 284,486</u></u>
LIABILITIES AND NET POSITION		
LIABILITIES:		
Other current liabilities	\$ -	\$ 284,486
NET POSITION	<u>123,212</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 123,212</u></u>	<u><u>\$ 284,486</u></u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Contributions	<u>\$ 12,228</u>
TOTAL ADDITIONS	<u>12,228</u>
DEDUCTIONS	
Scholarship awards	<u>16,767</u>
TOTAL DEDUCTIONS	<u>16,767</u>
CHANGE IN NET POSITION	(4,539)
NET POSITION, BEGINNING OF YEAR	<u>127,751</u>
NET POSITION, END OF YEAR	<u><u>\$ 123,212</u></u>

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"), operates six elementary schools, two middle schools, one freshman center, and one senior high school to provide education 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

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 and GASB Statement No. 61, 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.

These statements include the financial activities of the primary government.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Governmental Funds

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

The District reports the following major governmental 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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 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 are recorded at cost, which approximates fair value. A nonnegotiable certificate of deposit is an example of a nonparticipating interest earning investment contract which is exempt from the fair value measurement and disclosure requirements of GASB 72.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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, 2017 was 153.32 mills (\$153.32 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:

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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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. The District has two items that qualify for reporting in this category on the government-wide statements. Pension contributions made subsequent to the measurement date and, therefore,

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

not reflected in the net pension liability 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 liability 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 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. The District has one item that qualifies for reporting in this category on the government-wide statements. Certain changes to the net pension liability 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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

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, 2017, the

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS (cont'd)

carrying amount of the District's deposits was \$23,384,756, and the bank balance was \$27,141,375. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$9,198,555 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

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows: Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America; (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth; (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision; (d) shares of an investment company registered under the Investment Company Act of 1940; or (e) deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC"), the Federal Savings and Loan Insurance Corporation ("FSLIC"), or the National Credit Union Share Insurance Fund ("NCUSIF") to the extent that such accounts are so insured and for any amounts above the insured maximum, provide that approved collateral as provided by law is pledged by the depository.

At June 30, 2017, the District had \$280,698 invested in a certificate of deposit.

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 securities that are in the possession of an outside party. As of June 30, 2017, all of the District's investments were exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, they were uninsured, and the collateral held by the depository's agent was not in the District's name.

Credit Risk

The District has no investment policy that would limit its investment choices to those with certain credit ratings. As of June 30, 2017, the District does not have any investments subject to credit risk.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 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	64,244,199	9,361,430	-	73,605,629
Total Capital Assets Not Being Depreciated	<u>68,220,892</u>	<u>9,361,430</u>	<u>-</u>	<u>77,582,322</u>
Capital assets being depreciated:				
Land improvements	10,438,290	15,795	-	10,454,085
Buildings and improvements	127,525,340	-	-	127,525,340
Furniture and equipment	25,161,119	1,261,196	-	26,422,315
Total Capital Assets Being Depreciated	<u>163,124,749</u>	<u>1,276,991</u>	<u>-</u>	<u>164,401,740</u>
Less accumulated depreciation	<u>76,227,966</u>	<u>4,403,517</u>	<u>-</u>	<u>80,631,483</u>
Total Capital Assets Being Depreciated, Net	<u>86,896,783</u>	<u>(3,126,526)</u>	<u>-</u>	<u>83,770,257</u>
Governmental Activities Assets, Net	<u>\$155,117,675</u>	<u>\$6,234,904</u>	<u>\$ -</u>	<u>\$161,352,579</u>
<i>Business-type Activities</i>				
Capital assets being depreciated:				
Furniture and equipment	\$ 616,245	\$ 13,594	\$ -	\$ 629,839
Less accumulated depreciation	<u>604,148</u>	<u>8,900</u>	<u>-</u>	<u>613,048</u>
Business-type Activities Assets, Net	<u>\$ 12,097</u>	<u>\$ 4,694</u>	<u>\$ -</u>	<u>\$ 16,791</u>

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

<i>Governmental Activities:</i>	
Instruction	\$ 180,325
Instructional student support	496,647
Administrative and financial support services	1,594
Operation and maintenance of plant services	3,712,829
Student activities	<u>12,122</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,403,517</u>
<i>Business-type Activities:</i>	
Food Service	<u>\$ 8,900</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

<u>Receivable By</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	<u>\$ 189,713</u>	Food Service Fund	<u>\$ 189,713</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.

During the year ended June 30, 2017, there were no transfers made between funds.

NOTE 6 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities for the year for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>
<i>Governmental Activities:</i>				
Bonds and note payable, net	\$139,878,000	\$19,365,000	\$15,770,000	\$143,473,000
Bond premium	1,597,756	2,066	192,240	1,407,582
Capital lease payable	825,591	999,904	667,055	1,158,440
Accumulated compensated absences	1,916,468	158,254	-	2,074,722
Other post-employment benefits	390,857	3,405	-	394,262
Net pension liability	<u>138,869,000</u>	<u>20,407,000</u>	<u>-</u>	<u>159,276,000</u>
TOTALS	<u>\$283,477,672</u>	<u>\$40,935,629</u>	<u>\$16,629,295</u>	<u>\$307,784,006</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.

\$ 8,935,000

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.

9,285,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Series A of 2013, maturing through August 2025, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August.	5,830,000
Series B of 2013, maturing through August 2031, bearing interest ranging from 2% to 4%. Interest is payable semi-annually in February and August.	8,985,000
Series of 2014, maturing through October 2023, bearing interest ranging from .35% to 3%. Interest is payable semi-annually in March and September.	9,735,000
Series A of 2014, maturing through September 2020, bearing interest ranging from .25% to 5%. Interest is payable semi-annually in March and September.	6,905,000
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.	9,170,000
Series of 2015, maturing through August 2033, bearing interest ranging from 2% to 3.75%. Interest is payable semi-annually in February and August.	18,665,000
Series of 2016, maturing through August 2025, bearing interest ranging from 0.5% to 4%. Interest is payable semi-annually in February and August.	6,585,000
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.	9,855,000
Series AA of 2016, maturing through August 2024, bearing interest of 2%. Interest is payable semi-annually in February and August.	5,415,000
Series AAA of 2016, maturing through August 2033, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August.	9,550,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Series of 2017, maturing through August 2027, bearing interest ranging from 2% to 2.65%. Interest is payable semi-annually February and August. Proceeds were used to currently refund the Series of 2011 bonds. The refunding resulted in a cash flow savings of \$487,759 and present value savings of \$425,912.

9,970,000

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

TOTAL BONDS

128,280,000

General Obligation Notes

Series B of 1997, maturing through October 2017, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. Interest rate at year-end was 1.39%.

330,000

Series B of 2000, maturing though 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. Interest rate at year-end was 1.39%.

2,225,000

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. Interest rate at year-end was 1.39%.

3,820,000

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. Interest rate at year-end was 1.39%.

2,518,000

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. Interest rate at year end was 0.45%.

6,300,000

TOTAL NOTES

15,193,000

TOTAL BONDS AND NOTES

\$ 143,473,000

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	\$ 143,473,000
Unamortized premium	<u>1,407,582</u>
 Bonds and Notes payable, net	 <u>\$ 144,880,582</u>
 Amounts due in one year	 \$ 6,660,129
Amounts due after one year	<u>138,220,453</u>
 Bonds and Notes payable, net	 <u>\$ 144,880,582</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>
2018	\$ 6,466,000	\$ 3,944,530	\$ 10,410,530
2019	6,718,000	3,756,239	10,474,239
2020	6,998,000	3,516,721	10,514,721
2021	7,247,000	3,303,898	10,550,898
2022	7,489,000	3,148,268	10,637,268
2023 - 2027	40,430,000	13,252,403	53,682,403
2028 - 2032	46,265,000	7,651,604	53,916,604
2033 - 2035	<u>21,860,000</u>	<u>1,063,183</u>	<u>22,923,183</u>
	<u>\$ 143,473,000</u>	<u>\$ 38,573,663</u>	<u>\$ 182,046,663</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	\$ 2,656,009
Less: accumulated depreciation	<u>(728,318)</u>
 TOTAL	 <u>\$ 1,927,691</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, 2017 were as follows:

Year Ending June 30,

2018	\$ 532,077
2019	407,077
2020	<u>257,077</u>
Total minimum lease payments	1,196,231
Less: amount representing interest	<u>(37,791)</u>
Present value of minimum lease payments	<u>\$ 1,158,440</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. 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.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who 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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

age and service that is equal to or greater than 92, with a minimum of 35 years of service. 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.

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, 2017, the rate of the employer contribution was 30.03 percent of covered payroll, which was comprised of 29.2 percent for pension contributions and 0.83 percent for healthcare contributions. The District's contribution to PSERS for the year ended June 30, 2017 was \$12,651,467, of which \$12,301,793 related to pension contributions and \$349,674 related to post-employment health insurance assistance.

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

At June 30, 2017, the District reported a liability of \$159,276,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. 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, 2016, the District's proportion was 0.3214 percent, which was an increase of 0.0008 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$15,231,297. At June 30, 2017, 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	\$ 8,877,000	\$ -
Changes in assumptions	5,750,000	-
Difference between expected and actual experience	-	1,327,000
Changes in proportions	279,000	2,051,000
Difference between employer contributions and proportionate share of total contributions	287,004	-
Contributions subsequent to the date of measurement	12,301,793	-
	<u>\$27,494,797</u>	<u>\$ 3,378,000</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

An amount of \$12,301,793 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, 2017. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2018	\$ 1,908,048
2019	1,908,048
2020	4,560,048
2021	<u>3,438,860</u>
	<u>\$11,815,004</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, 2015 to June 30, 2016 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 5.50 percent, which reflects an allowance for inflation of 3.00 percent, real wage growth, and for merit or seniority increases of 2.50 percent.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females to 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. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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

The long-term expected rate of return on pension plan investments was determined using 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.

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 (hedged)	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute Return (HF)	10.0%	3.3%
Risk Parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real Estate	12.0%	4.0%
Alternative Investments (PE)	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	<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, 2016.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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.

	1% Decrease 6.25%	Current Rate Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net pension liability	\$ 194,837,000	\$ 159,276,000	\$ 129,394,000

Pension Plan Fiduciary Net Position

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

NOTE 9 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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 JOINT VENTURES (cont'd)

Future rental payments are as follows:

Year Ending June 30,

2018	\$	513,865
2019		510,221
2020		513,591
2021		510,841
2022		514,177
2023 - 2027		2,463,106
2028 - 2032		2,084,308
2033 - 2037		2,085,986
2038 - 2042		2,081,585
2043 - 2044		832,379
Total		12,110,059
Less: Interest requirements		(4,782,051)
 Outstanding rental payments	 \$	 <u><u>7,328,008</u></u>

NOTE 10 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 649,259
Interest on net OPEB obligation	17,589
Adjustment to annual required contribution	<u>(23,995)</u>
Annual OPEB cost (expense)	642,853
Contributions made	<u>(639,448)</u>
Increase in net OPEB obligation	3,405
Net OPEB obligation - beginning of year	<u>390,857</u>
Net OPEB obligation - end of year	<u>\$ 394,262</u>

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2016	\$ -	\$ 5,944,776	\$ 5,944,776	0.00%	\$39,232,410	15.15%
7/1/2014	\$ -	\$ 5,221,532	\$ 5,221,523	0.00%	\$40,462,060	12.90%
7/1/2012	\$ -	\$ 6,411,946	\$ 6,411,946	0.00%	\$40,922,269	15.67%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 6.5 percent in 2016, reduced by decrements to an ultimate rate of 3.8 percent in 2075 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2017 was 21 years.

NOTE 11 FUND BALANCES

As of June 30, 2017, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 1,343,080	\$ -	\$ 1,343,080
Restricted:			
Capital projects	-	7,765,420	7,765,420
Committed:			
PSERS liability	1,005,467	-	1,005,467
Capital projects	2,650,000	-	2,650,000
Unassigned	<u>9,554,301</u>	<u>-</u>	<u>9,554,301</u>
Total Fund Balances	<u>\$ 14,552,848</u>	<u>\$ 7,765,420</u>	<u>\$ 22,318,268</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 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

As of June 30, 2017, anticipated construction commitments are as follows:

	<u>Contract Amount</u>	<u>Completed at 06/30/2017</u>	<u>Commitment</u>
Capital projects	<u>\$ 66,545,914</u>	<u>\$ 62,637,092</u>	<u>\$ 3,908,822</u>

Additionally, the District has \$10,968,537 in construction-in-progress which is not subject to formal commitments.

NOTE 13 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 2016 - 2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 14 DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of \$130,812,715 includes the effect of the deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the District's share of the net pension liability. This is offset by the District's actuarially determined pension liability and the deferred inflows resulting from the change in the District's share of the net pension liability and the difference between expected and actual experience.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 PRIOR PERIOD RESTATEMENT

The District restated its July 1, 2016 net position in its governmental activities based on errors detected in recording bond premiums and depreciation expense. The net result of this change was a decrease of \$388,760 in governmental activities net position.

NOTE 16 SUBSEQUENT EVENTS

Subsequent to year end, the District entered into a capital lease agreement with TD Equipment Finance for the purchase of computer equipment. The initial principal balance under the lease is \$483,455.

The District has evaluated all subsequent events through December 20, 2017, 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**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
District's proportion of the net pension liability	0.3214%	0.3206%
District's proportion of the net pension liability - dollar value	\$ 159,276,000	\$ 138,869,000
District's covered employee payroll	\$ 41,417,204	\$ 41,116,571
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	384.56%	337.74%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%
		0.3249%
		\$ 128,598,000
		\$ 41,457,011
		310.20%
		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 CONTRIBUTIONS**

	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 12,301,793	\$ 10,354,301	\$ 8,428,897
Contributions in relation to the contractually required contribution	<u>12,301,793</u>	<u>10,354,301</u>	<u>8,428,897</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 42,129,428	\$ 41,417,204	\$ 41,116,571
Contributions as a percentage of covered-employee payroll	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.

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 20, 2017

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, each major fund, and the aggregate remaining fund information of the Quakertown Community School District ("the District"), Quakertown, Pennsylvania, as of and for the year ended June 30, 2017, 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 20, 2017.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2017-001 that we consider to be a material weakness.

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*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying management's response to findings and recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 District'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 CONTRC
OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

December 20, 2017

Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

Report on Compliance for the 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 program for the year ended June 30, 2017. The District's major federal program is 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 the requirements of federal statutes, regulations, 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 program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit 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 the 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 the 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 its major federal program for the year ended June 30, 2017.

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program, and to test and report on internal control over compliance 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 C. 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, 2017 was \$154,337.

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, Value of USDA Donated Commodities, represent surplus food consumed by the District during the 2016 - 2017 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? X Yes No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X 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 X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X 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 current 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 recommend 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.

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.



MANAGEMENT'S RESPONSES TO FINDINGS AND RECOMMENDATIONS

FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2017-001

MATERIAL RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

Name of Contact Person

Robert Riegel, Business Administrator

Corrective Action

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

Proposed Completion Date

June 30, 2018