

**QUAKERTOWN COMMUNITY
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2014

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DRESLIN

AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

The prior-year summarized comparative information has been derived from the District's financial statements for the year ended June 30, 2013 that were audited by other auditors whose report dated January 31, 2014 expressed an unmodified opinion on those statements. However, the prior-year summarized comparative information has been restated to reflect certain prior-period adjustments that are described in Note 13 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in

the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 14 and the schedule of funding progress and budgetary comparison information on pages 45 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Quakertown Community School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

schedule of expenditures of federal awards and certain state grants is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015, on our consideration of Quakertown Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Quakertown Community School District's internal control over financial reporting and compliance.

Dreslin and Company, Inc.

West Chester, Pennsylvania
February 17, 2015

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the financial performance of Quakertown Community School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this section is to look at the District's performance as a whole; however, it also should be read in conjunction with the basic financial statements and the accompanying notes.

FINANCIAL ANALYSIS

The increase in net position of the governmental activities was \$247,001 and the decrease in the net position of the business-type activities was \$21,085, for a total net position increase of \$225,916.

The District expended \$32,559,990 on capital assets during the year.

The actual results of the District's General Fund for 2013-2014 show that revenues and other financing sources collected during the year were under budget by \$224,034, and expenditures and other financing uses were under budget by \$3,612,948. The General Fund reported a positive fund balance of \$15,488,167 as of June 30, 2014, or 16.2 percent of the 2014-2015 \$95.4 million operating budget. Fund balance of \$204,020 is non-spendable; \$4,042,958 is committed; leaving \$11,241,189 as unassigned, which is 11.78 percent of the 2014-2015 budget.

DATA ANALYSIS: THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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For the Year Ended June 30, 2014

Government-wide Reporting Process

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

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

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

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

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

DISTRICT FUND REPORTING

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

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

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

through user charges. The District's proprietary fund reports the finances of the food services operation. This fund uses the same basis of accounting as business-type activities; therefore, these statements will essentially match government-wide statement reporting of business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

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

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statement of net position and statement of activities for its governmental and business-type activities (combined) as of June 30, 2014 and 2013 are summarized below.

STATEMENT OF NET POSITION

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
ASSETS			
Current assets	\$ 29,803,703	\$ 48,894,600	\$ (19,090,897)
Capital assets:			
Land	2,187,468	2,187,468	-
Land improvements	6,620,593	6,620,593	-
Buildings and improvements	126,789,802	126,742,527	47,275
Furniture and equipment	24,664,419	23,569,981	1,094,438
Construction-in-progress	37,638,012	6,219,735	31,418,277
Total capital assets	197,900,294	165,340,304	32,559,990
Less: Accumulated depreciation	(67,888,881)	(63,442,874)	(4,446,007)
Capital assets, net	130,011,413	101,897,430	28,113,983
 TOTAL ASSETS	 <u>\$ 159,815,116</u>	 <u>\$ 150,792,030</u>	 <u>\$ 9,023,086</u>
 LIABILITIES			
Current liabilities	\$ 11,305,192	6,379,940	4,925,252
Long-term liabilities:			
Due within one year	5,864,049	5,684,215	179,834
Due after one year	110,631,974	106,939,890	3,692,084
 TOTAL LIABILITIES	 <u>127,801,215</u>	 <u>119,004,045</u>	 <u>8,797,170</u>
 NET POSITION			
Invested in capital assets, net of related debt	17,822,575	17,292,232	530,343
Unrestricted	14,191,326	14,495,753	(304,427)
 TOTAL NET POSITION	 <u>\$ 32,013,901</u>	 <u>\$ 31,787,985</u>	 <u>\$ 225,916</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$32,013,901 at the close of the 2013-2014 fiscal year.

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

The District reported an increase in its net position as a result of the current year operations.

STATEMENT OF ACTIVITIES

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
REVENUES			
Program revenues			
Charges for services	\$ 2,123,575	\$ 2,200,785	\$ (77,210)
Operating grants and contributions	8,911,037	8,153,673	757,364
Capital grants and contributions	884,251	545,433	338,818
Total program revenues	11,918,863	10,899,891	1,018,972
General revenues	81,136,193	80,103,266	1,032,927
TOTAL REVENUES	<u>93,055,056</u>	<u>91,003,157</u>	<u>2,051,899</u>
EXPENSES			
Governmental activities	90,865,105	88,360,628	2,504,477
Business-type activity	1,964,035	2,020,919	(56,884)
TOTAL EXPENSES	<u>92,829,140</u>	<u>90,381,547</u>	<u>2,447,593</u>
Change in net position	225,916	621,610	(395,694)
Net position, beginning of year	31,787,985	31,166,375	621,610
Net position, end of year	<u>\$ 32,013,901</u>	<u>\$ 31,787,985</u>	<u>\$ 225,916</u>

The cost of all District activities in 2013-2014 was \$92,829,140. The amount that taxpayers ultimately financed for those activities through tax revenues was \$67,018,476, or 72.2%. A majority of the other cost was paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions, as well as charges for services.

General local revenues increased due primarily to real estate tax revenues, which increased commensurate with the increased millage rate. State revenues increased due to the state reimbursement subsidy of the district's payment towards the Public Employees' Retirement System. Overall revenues exceeded expenses by \$225,916.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

General Fund Revenues and Other Financing Sources

The District receives its General Fund revenues from three major sources, categorized as local, state, and federal. The primary source of revenue, 75.6%, is from local sources, most of which comes from real estate taxes. State revenues account for 22.9%, and federal revenues 0.7%.

The largest increase in local revenues came from real estate taxes. This increase was realized as a result of a 2.41 millage rate increase.

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
Local revenues			
Real estate taxes	\$ 55,231,886	\$ 54,394,514	\$ 837,372
Interim real estate taxes	241,722	162,130	79,592
Earned income taxes	8,947,079	9,010,225	(63,146)
IDEA	719,700	778,723	(59,023)
Other	4,088,613	3,984,537	104,076
	<u>69,229,000</u>	<u>68,330,129</u>	<u>898,871</u>
State revenues			
Basic instructional subsidy	9,073,162	8,840,579	232,583
Special education	2,357,853	2,583,566	(225,713)
Transportation	1,236,668	1,248,311	(11,643)
Social security and retirement	4,990,339	4,104,244	886,095
Other	3,348,299	2,998,992	349,307
	<u>21,006,321</u>	<u>19,775,692</u>	<u>1,230,629</u>
Federal revenues			
Title I	373,951	410,661	(36,710)
Other	367,241	352,176	15,065
	<u>741,192</u>	<u>762,837</u>	<u>(21,645)</u>
Other financing sources	<u>606,523</u>	<u>1,073,375</u>	<u>(466,852)</u>
Total revenues and other financing sources	<u>\$ 91,583,036</u>	<u>\$ 89,942,033</u>	<u>\$ 1,641,003</u>

General Fund Expenditures and Other Financing Uses

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

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
Instruction	\$ 55,440,610	\$ 54,436,607	\$ 1,004,003
Support services	26,764,503	27,193,227	(428,724)
Operation of non-support services	871,431	852,776	18,655
Debt service	<u>8,550,095</u>	<u>8,356,573</u>	<u>193,522</u>
Total expenditures	<u>\$ 91,626,639</u>	<u>\$ 90,839,183</u>	<u>\$ 787,456</u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

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

Fund Balances

The General Fund fund balance decreased by \$53,931 for the 2013-14 fiscal year. This is the difference between the revenues and other financing sources of \$91,583,036 and the expenditures and other financing uses of \$91,636,967, as shown above. In addition, the fund balance increased due to a prior-period adjustment of \$1,860,632 to recognize accrued revenue for Earned Income Tax as required under modified accrual accounting. The fund balance, as a percentage of total expenditures and other financing uses, was 16.9%.

The recommended fund balance level is between five percent and eight percent. During the budget process for the 2013-14 fiscal year, the Board of School Directors (the Board) intended to bring the fund balance within that range. However, a district-wide effort to be conservative on all expenditures, a large reduction in expenditures due to a bond refunding, and a large prior-period adjustment resulted in a higher fund balance than expected.

The Capital Projects fund balance decreased by \$23,694,597 to an ending balance of \$2,221,044. The decrease in fund balance was due to the increased spending on the Senior High School Renovation and the timing of bond issues to fund the project. The High School Renovation will be completed in September 2017.

General Fund Budget Information

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

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

Capital Assets

The District has \$130,011,413 invested in capital assets net of depreciation, with \$129,980,364 attributed to governmental activities. Acquisitions for governmental activities totaled \$32,559,990 and depreciation was \$4,433,916. The majority of the acquisitions was for construction in progress for the Senior High School Renovation (see notes to the basic financial statements – Note 5).

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

Debt

At June 30, 2014, the District had \$113,382,000 in outstanding notes and bonds payable. The District paid \$5,357,000 in principal on outstanding debt during the fiscal year. Other long-term obligations include accrued sick leave and retirement severance for employees of the District. Detailed information regarding long-term debt is included in the notes to the financial statements (note 6).

Labor Relations

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

Strategic Plan

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

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

Major Financial Issues and Future Changes

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

In the summer of 2013, a major four-phase renovation to the High School began. The \$76 million dollar project will be completed in September of 2017. The millage impact of the project will be a 7.17 Mills phased in over an 8 year period. \$51,840,000 of the funding is now in place.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
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Employer contribution rates for the Public School Employees' Retirement System (PSERS) are projected to increase significantly. The rates are projected as follows:

<u>Fiscal</u> <u>Year</u>	<u>Rate</u>
2014-15	21.40%
2015-16	25.84%
2016-17	29.27%
2017-18	30.25%
2018-19	31.28%

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

<u>Fiscal</u> <u>Year</u>	<u>Total</u> <u>Assessment</u>	<u>Percentage</u> <u>Change</u>
2008-09	\$ 400,050,702	
2009-10	401,522,240	0.37%
2010-11	401,198,336	-0.08%
2011-12	399,450,798	-0.44%
2012-13	401,139,569	0.42%
2013-14	399,774,960	-0.34%
2014-15	400,614,798	0.21%

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

Contacting the District Financial Management

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2014
(With Summarized Comparative Data for the Year Ended June 30, 2013)

	Governmental <u>Activities</u>	Business-type <u>Activity</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 21,128,078	\$ 100,725	\$ 21,228,803	\$ 38,436,177
Investments	496,444	-	496,444	3,264,000
Taxes Receivable	3,961,568	-	3,961,568	4,013,151
Internal Balances	53,771	(53,771)	-	-
Due to Agency Fund	15,930	-	15,930	-
Due from Other Governments	2,620,400	58,940	2,679,340	2,432,353
Other Receivables	1,063,677	120,712	1,184,389	463,286
Inventories	-	33,209	33,209	146,188
Prepaid Expenses	204,020	-	204,020	139,445
Total Current Assets	29,543,888	259,815	29,803,703	48,894,600
Noncurrent Assets:				
Capital Assets:				
Land	2,187,468	-	2,187,468	2,187,468
Land Improvements	6,620,593	-	6,620,593	6,620,593
Construction in Progress	37,638,012	-	37,638,012	6,219,735
Buildings and Building Improvements	126,789,802	-	126,789,802	126,742,527
Property and Equipment	24,054,066	610,353	24,664,419	23,569,981
	197,289,941	610,353	197,900,294	165,340,304
Less: Accumulated Depreciation	(67,309,577)	(579,304)	(67,888,881)	(63,442,874)
Total Capital Assets, Net of Depreciation	129,980,364	31,049	130,011,413	101,897,430
Total Assets	\$ 159,524,252	\$ 290,864	\$ 159,815,116	\$ 150,792,030
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Expenses	\$ 7,179,054	\$ 79,651	\$ 7,258,705	\$ 3,213,870
Accrued Salaries and Benefits	276,631	-	276,631	309,507
Payroll Deductions and Withholdings	2,853,582	-	2,853,582	2,113,740
Accrued Interest	803,241	-	803,241	609,503
Unearned Revenue	68,979	44,054	113,033	133,320
Portion Due or Payable Within One Year:				
Bonds and Notes Payable	5,389,000	-	5,389,000	5,357,000
Capital Lease Obligations	475,049	-	475,049	327,215
Total Current Liabilities	17,045,536	123,705	17,169,241	12,064,155
Long-term Liabilities:				
Bonds and Notes Payable	107,993,000	-	107,993,000	104,242,000
Capital Lease Obligations	552,833	-	552,833	594,624
Accumulated Compensated Absences	1,772,055	-	1,772,055	1,755,830
Other Post-employment Benefits	314,086	-	314,086	347,436
Total Noncurrent Liabilities	110,631,974	-	110,631,974	106,939,890
Total Liabilities	127,677,510	123,705	127,801,215	119,004,045
NET POSITION				
Invested in Capital Assets, Net of Related Debt	17,791,526	31,049	17,822,575	17,292,232
Unrestricted	14,055,216	136,110	14,191,326	14,495,753
Total Net Position	31,846,742	167,159	32,013,901	31,787,985
Total Liabilities and Net Position	\$ 159,524,252	\$ 290,864	\$ 159,815,116	\$ 150,792,030

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2014
(With Summarized Comparative Data for the Year Ended June 30, 2013)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activity	Totals	
							2014	2013
Governmental Activities:								
Instruction	\$ 55,733,915	\$ 601,616	\$ 5,448,686	\$ -	\$ (49,683,613)		\$ (49,683,613)	\$ (49,215,683)
Instructional Student Support	8,305,854	-	682,219	-	(7,623,635)		(7,623,635)	(7,770,801)
Administrative Support Services	9,735,995	-	538,579	-	(9,197,416)		(9,197,416)	(7,495,058)
Operation and Maintenance of Plant Services	9,252,552	225,301	174,867	-	(8,852,384)		(8,852,384)	(9,050,794)
Pupil Transportation	3,920,220	-	1,236,667	-	(2,683,553)		(2,683,553)	(2,605,013)
Student Activities	873,534	127,324	56,999	-	(689,211)		(689,211)	(670,683)
Community Services	-	-	-	-	-		-	(16,992)
Interest on Long-term Debt	3,043,035	-	-	884,251	(2,158,784)		(2,158,784)	(2,604,771)
Total Governmental Activities	90,865,105	954,241	8,138,017	884,251	(80,888,596)		(80,888,596)	(79,429,795)
Business-type Activity:								
Food Service	1,964,035	1,169,334	773,020	-	-	\$ (21,681)	(21,681)	(51,861)
Total	\$ 92,829,140	\$ 2,123,575	\$ 8,911,037	\$ 884,251	(80,888,596)	(21,681)	(80,910,277)	(79,481,656)
General Revenues:								
Property Taxes, Levied for General Purposes					57,051,655	-	57,051,655	56,257,841
Taxes Levied for Specific Purposes					9,966,821	-	9,966,821	10,072,734
Grants and Entitlements Not Restricted to Specific Programs					13,459,845	-	13,459,845	13,409,142
Investment Earnings					86,500	596	87,096	186,651
Miscellaneous					570,776	-	570,776	176,898
Total General Revenues					81,135,597	596	81,136,193	80,103,266
Change in Net Position					247,001	(21,085)	225,916	621,610
Net Position - Beginning of Year (As Restated)					31,599,741	188,244	31,787,985	31,166,375
Net Position - End of Year (As Restated for 2013)					\$ 31,846,742	\$ 167,159	\$ 32,013,901	\$ 31,787,985

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2014**

	General Fund	Capital Projects Fund	Totals	
	<u>Fund</u>	<u>Fund</u>	<u>2014</u>	<u>2013</u>
ASSETS				
Cash and Cash Equivalents	\$ 13,900,295	\$ 7,227,783	\$ 21,128,078	\$ 38,244,635
Investments	496,444	-	496,444	3,264,000
Taxes Receivable	3,961,568	-	3,961,568	4,013,151
Interfund Receivable	69,701	-	69,701	125,143
Due from Other Governments	2,620,400	-	2,620,400	2,376,166
Other Receivables	382,379	681,298	1,063,677	452,722
Inventories	-	-	-	75,949
Prepaid Expenses	204,020	-	204,020	139,445
	<u>204,020</u>	<u>-</u>	<u>204,020</u>	<u>139,445</u>
Total Assets	<u>\$ 21,634,807</u>	<u>\$ 7,909,081</u>	<u>\$ 29,543,888</u>	<u>\$ 48,691,211</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 1,491,017	\$ 5,688,037	\$ 7,179,054	3,213,870
Accrued Salaries and Benefits	276,631	-	276,631	309,507
Payroll Deductions and Withholdings	2,853,582	-	2,853,582	2,113,740
Unearned Revenue	68,979	-	68,979	75,035
	<u>68,979</u>	<u>-</u>	<u>68,979</u>	<u>75,035</u>
Total Liabilities	<u>4,690,209</u>	<u>5,688,037</u>	<u>10,378,246</u>	<u>5,712,152</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Real Estate Taxes	1,401,771	-	1,401,771	1,470,107
Deferred Other Taxes	54,660	-	54,660	51,213
	<u>54,660</u>	<u>-</u>	<u>54,660</u>	<u>51,213</u>
Total Deferred Inflows of Resources	<u>1,456,431</u>	<u>-</u>	<u>1,456,431</u>	<u>1,521,320</u>
FUND BALANCES				
Non-spendable	204,020	-	204,020	215,394
Committed:				
PSERS Liability	2,792,958	-	2,792,958	2,792,958
Capital Reserve	1,250,000	-	1,250,000	1,250,000
Assigned:				
Capital Projects	-	2,221,044	2,221,044	25,915,641
Unassigned	11,241,189	-	11,241,189	11,283,746
	<u>11,241,189</u>	<u>-</u>	<u>11,241,189</u>	<u>11,283,746</u>
Total Fund Balances	<u>15,488,167</u>	<u>2,221,044</u>	<u>17,709,211</u>	<u>41,457,739</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 21,634,807</u>	<u>\$ 7,909,081</u>	<u>\$ 29,543,888</u>	<u>\$ 48,691,211</u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
June 30, 2014

TOTAL GOVERNMENTAL FUND BALANCES	\$ 17,709,211
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Amounts reported for governmental activities in the Statement of
Net Position are different because of the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of assets is \$197,289,941, and the accumulated depreciation is \$67,309,577	129,980,364
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Some of the District's revenues will be collected after year end, but are not available soon enough to pay liabilities of the current period, and therefore are deferred in the funds.	1,456,431
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:

Bonds and Notes Payable	(113,382,000)
Accrued Interest	(803,241)
Capital Lease Obligation	(1,027,882)
Other Post-employment Benefits	(314,086)
Accumulated Compensated Absences	<u>(1,772,055)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 31,846,742</u></u>
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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, 2014
(With Summarized Comparative Data for the Year Ended June 30, 2013)

	General Fund	Capital Projects Fund	Totals	
			2014	2013
REVENUES				
Local Sources	\$69,229,000	\$ 13,527	\$ 69,242,527	68,364,197
State Sources	21,006,321	-	21,006,321	19,775,692
Federal Sources	741,192	-	741,192	762,837
Total Revenues	90,976,513	13,527	90,990,040	88,902,726
EXPENDITURES AND OTHER FINANCING USES				
Instruction	55,440,610	-	55,440,610	54,436,607
Support Services	26,764,503	362,453	27,126,956	27,442,937
Operation of Non-instructional Services	871,431	-	871,431	852,776
Facilities Acquisition, Construction, and Improvement	-	32,526,274	32,526,274	4,134,917
Debt Service	8,550,095	5,487	8,555,582	8,356,573
Total Expenditures	91,626,639	32,894,214	124,520,853	95,223,810
Excess of Revenues (Under) Expenditures	(650,126)	(32,880,687)	(33,530,813)	(6,321,084)
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	-	8,995,000	8,995,000	8,955,000
Proceeds from Refunding Bonds	-	7,295,000	7,295,000	9,535,000
Bond Premium	-	171,434	171,434	77,390
Bond Discount	-	-	-	(98,899)
Payment to Refunded Bond Escrow Agent	-	(7,275,344)	(7,275,344)	(9,444,001)
Proceeds from Extended Term Financing	580,672	-	580,672	1,043,000
Insurance Recoveries	25,851	-	25,851	-
Refund of Prior-year Expenditures	-	-	-	11,221
Refund of Prior-year Receipts	(10,328)	-	(10,328)	-
Sale of or Compensation for Capital Assets	-	-	-	30,375
Total Other Financing Sources	596,195	9,186,090	9,782,285	10,109,086
Net Change in Fund Balances	(53,931)	(23,694,597)	(23,748,528)	3,788,002
Fund Balances - Beginning of Year (As Restated)	15,542,098	25,915,641	41,457,739	37,669,737
Fund Balances - End of Year (As Restated for 2013)	\$15,488,167	\$ 2,221,044	\$ 17,709,211	\$ 41,457,739

(Continued)

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Reconciliation of Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
To the Statement of Activities
For the Year Ended June 30, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$(23,748,528)

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

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

Capital Asset Purchases Capitalized	32,559,990
Depreciation Expense	(4,433,916)

Because some property and earned income taxes will not be collected for several months after year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. This amount is net of current year uncollectible accounts. (64,889)

Issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position of governmental activities:

Proceeds from Issuance of Debt	(8,995,000)
Proceeds from Refunding Bonds	(7,295,000)
Payment to Refunded Bond Escrow Agent	7,275,344
Deferred Amount on Refunding	(125,344)
Proceeds from Extended Term Financing	(580,672)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 5,357,000

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 474,629

Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (16,225)

Other post-employment benefits do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 33,350

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt in the statement of activities. (193,738)

Change in Net Position of Governmental Activities	\$ 247,001
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The accompanying notes are an integral part of these financial statements.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2014
(With Comparative Data as of June 30 2013)

	Enterprise Fund - Food Service Fund	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 100,725	\$ 191,542
Due from Other Governments	58,940	56,187
Other Receivables	120,712	10,564
Inventories	<u>33,209</u>	<u>70,239</u>
Total Current Assets	<u>313,586</u>	<u>328,532</u>
Capital Assets:		
Equipment	610,353	610,353
Less: Accumulated Depreciation	<u>(579,304)</u>	<u>(567,213)</u>
Capital Assets - Net	<u>31,049</u>	<u>43,140</u>
Total Assets	<u><u>\$ 344,635</u></u>	<u><u>\$ 371,672</u></u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 79,651	\$ -
Interfund Payable	53,771	125,143
Unearned Revenues	<u>44,054</u>	<u>58,285</u>
Total (Current) Liabilities	<u>177,476</u>	<u>183,428</u>
NET POSITION		
Invested in Capital Assets	31,049	43,140
Unrestricted	<u>136,110</u>	<u>145,104</u>
Total Net Position	<u>167,159</u>	<u>188,244</u>
Total Liabilities and Net Position	<u><u>\$ 344,635</u></u>	<u><u>\$ 371,672</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Change in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2014
(With Comparative Data for the Year Ended June 30, 2013)

	Enterprise Fund - Food Service Fund	
	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Food Service Revenues	\$ 1,169,334	\$ 1,183,742
Total Operating Revenues	<u>1,169,334</u>	<u>1,183,742</u>
OPERATING EXPENSES		
Payroll	366,679	801,496
Employee Benefits	99,654	274,502
Purchased Property Services	62,185	-
Other Purchased Services	575,341	116,458
Supplies	846,074	815,651
Depreciation	12,091	9,319
Dues and Fees	50	2,431
Other Operating Expenses	<u>1,961</u>	<u>1,062</u>
Total Operating Expenses	<u>1,964,035</u>	<u>2,020,919</u>
Operating (Loss)	<u>(794,701)</u>	<u>(837,177)</u>
NONOPERATING REVENUES		
Interest Income	596	572
State Sources	91,630	126,002
Federal Sources	<u>681,390</u>	<u>659,314</u>
Total Nonoperating Revenue	<u>773,616</u>	<u>785,888</u>
Change in Net Position	(21,085)	(51,289)
Total Net Position - Beginning of Year	<u>188,244</u>	<u>239,533</u>
Total Net Position - End of Year	<u>\$ 167,159</u>	<u>\$ 188,244</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, 2014
(With Comparative Data for the Year Ended June 30, 2013)

	Enterprise Fund - Food Service Fund	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,044,630	\$ 1,187,144
Cash Received from Other Operating Revenue	325	-
Cash Payments to Employees	(466,333)	(891,390)
Cash Payments to Suppliers	(1,438,291)	(1,075,998)
Cash Payments for Other Operating Expenses	<u>(2,011)</u>	<u>(3,493)</u>
Net Cash (Used) by Operating Activities	<u>(861,680)</u>	<u>(783,737)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Sources	100,821	125,286
Federal Sources	<u>669,446</u>	<u>705,569</u>
Net Cash Provided by Noncapital Financing Activities	<u>770,267</u>	<u>830,855</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	<u>-</u>	<u>(35,010)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(35,010)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	<u>596</u>	<u>572</u>
Net Cash Provided by Investing Activities	<u>596</u>	<u>572</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(90,817)	12,680
Cash and Cash Equivalents - Beginning of Year	<u>191,542</u>	<u>178,862</u>
Cash and Cash Equivalents - End of Year	<u>\$ 100,725</u>	<u>\$ 191,542</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:		
Operating (Loss)	\$ (794,701)	\$ (837,177)
Adjustments to Reconcile Operating (Loss) to		
Net Cash (Used) by Operating Activities		
Depreciation	12,091	9,319
(Increase) Decrease in Current Assets:		
Receivables	(110,148)	(2,953)
Inventories	37,030	(5,187)
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Interfund Payable	8,279	(4,573)
Unearned Revenues	<u>(14,231)</u>	<u>56,834</u>
Net Cash (Used) by Operating Activities	<u>\$ (861,680)</u>	<u>\$ (783,737)</u>
Schedule of Noncash Noncapital Financing Activities:		
USDA Donated Commodities	\$ 91,718	\$ 105,943

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2014

	Private-purpose <u>Trust Fund</u>	Agency <u>Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 135,980	\$ 270,657
Total Assets	<u>135,980</u>	<u><u>\$ 270,657</u></u>
LIABILITIES		
Due to General Fund		\$ 15,930
Due to Student Organizations	<u>-</u>	<u>254,727</u>
Total Liabilities	<u>-</u>	<u><u>\$ 270,657</u></u>
NET POSITION		
Reserved for Trust	<u><u>\$ 135,980</u></u>	

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014
(With Comparative Data For the Year Ended June 30, 2014)

	Private-purpose Trust Fund	
	<u>2014</u>	<u>2013</u>
ADDITIONS		
Local Contributions	<u>\$ 14,142</u>	<u>\$ 8,150</u>
Total Additions	<u>14,142</u>	<u>8,150</u>
DEDUCTIONS		
Scholarships Awarded	<u>12,825</u>	<u>9,275</u>
Total Deductions	<u>12,825</u>	<u>9,275</u>
Change in Net Position	1,317	(1,125)
Net Position - Beginning of Year	<u>134,663</u>	<u>135,788</u>
Net Position - End of Year	<u><u>\$ 135,980</u></u>	<u><u>\$ 134,663</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Fund Financial Statements

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's proprietary fund are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Fund Types

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

General Fund

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

Capital Projects Fund

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

Proprietary Fund Type

Enterprise (Food Service) Fund

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

Fiduciary Fund Types

Private-purpose Trust Fund

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

Agency Fund

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

Estimates

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

Cash and Cash Equivalents

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

Intergovernmental Receivables/Payables

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

Inventories

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

Capital Assets

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

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

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

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

Compensated Absences

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

Unavailable and Unearned Revenues

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

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities columns of the statement of net position. Bond issue costs are charged to expense as incurred.

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement

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

Interfund Assets/Liabilities

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District’s financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year’s presentation. However, the presentation of prior-year totals by fund and activity type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District’s financial statements for the year ended June 30, 2013, from which the comparative data was derived.

Fund Balance

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

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact. As of June 30, 2014, non-spendable fund balance represents prepaid expenses.

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

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

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

Assigned fund balance. This classification reflects amounts constrained by the school’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of School Directors has granted the Business Administrator the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

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

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

2. CASH AND INVESTMENTS

Cash

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2014, the carrying amount of the District’s deposits in these financial statements is \$21,635,440 and the bank balance is \$26,386,549. As of June 30, 2014, \$25,636,549 of the District’s bank balance of \$26,386,549 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository’s agent was not in the District’s name.

Investments

The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized

statistical rating organization, and is subject to an independent annual audit. As of June 30, 2014, PLGIT was rated as AAAM by Standard & Poor's.

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 143.92 mills (\$143.92 per \$1,000 of assessed valuation) for the year ended June 30, 2014. Assessed valuation of property is established by the Bucks County Board of Assessments, and the District is responsible for collection. Real property in the district for the July 1, 2013 levy was assessed at \$399,774,979. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

Delinquent occupational and per capita taxes receivable are presented net of allowances for estimated uncollectable accounts of \$3,575,103. The allowance for doubtful accounts is calculated on a percentage of outstanding amounts based on historical collection trends. Management believes that the District has adequately provided for probable future losses.

4. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables as of June 30, 2014:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 69,701	
Food Service Fund		\$ 53,771
Activities Fund		<u>15,930</u>
Totals	<u>\$ 69,701</u>	<u>\$ 69,701</u>

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

5. CAPITAL ASSETS

Capital Asset Activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	\$ 2,187,468	\$ -	\$ -	\$ 2,187,468
Contruction in Progress	6,219,735	31,418,277	-	37,638,012
Total Capital Assets Not Being Depreciated	8,407,203	31,418,277	-	39,825,480
Capital Assets Being Depreciated				
Land Improvements	6,620,593	-	-	6,620,593
Buildings and Improvements	126,742,525	47,277	-	126,789,802
Property and Equipment	22,959,630	1,094,436	-	24,054,066
Total Capital Assets Not Being Depreciated	156,322,748	1,141,713	-	157,464,461
Less: Accumulated Depreciation:				
Land Improvements	(3,934,660)	(299,331)		(4,233,991)
Buildings and Improvements	(40,278,309)	(3,100,768)		(43,379,077)
Property and Equipment	(18,662,692)	(1,033,817)		(19,696,509)
Total Accumulated Depreciation	(62,875,661)	(4,433,916)	-	(67,309,577)
Total Capital Assets Being Depreciated, Net	93,447,087	(3,292,203)	-	90,154,884
Governmental Activities Capital Assets, Net	<u>\$ 101,854,290</u>	<u>\$ 28,126,074</u>	<u>\$ -</u>	<u>\$ 129,980,364</u>
<u>Business-type Activities</u>				
Capital Assets Being Depreciated				
Property and Equipment	\$ 610,353	\$ -	\$ -	\$ 610,353
Less: Accumulated Depreciation	(567,213)	(12,091)	-	(579,304)
Business-type Activities Capital Assets, Net	<u>\$ 43,140</u>	<u>\$ (12,091)</u>	<u>\$ -</u>	<u>\$ 31,049</u>

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

Instruction	\$ 294,150
Instructional Student Support	55,689
Administrative Support Services	534,249
Operation and Maintenance of Plant Services	3,528,339
Student Activities	21,489
Total	<u>\$ 4,433,916</u>

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the District for the year ending June 30, 2014:

Type	Principal Outstanding July 1, 2013	Additions	Repayments	Principal Outstanding June 30, 2014	Due Within One Year
General Obligation Note - 1997 B	\$ 1,472,000		\$ 261,000	\$ 1,211,000	\$ 277,000
General Obligation Note - 2000	3,850,000		930,000	2,920,000	961,000
General Obligation Note - 2000 B	2,954,000		169,000	2,785,000	177,000
General Obligation Note - 2000 C	7,024,000		749,000	6,275,000	782,000
General Obligation Note - 2003	3,675,000		272,000	3,403,000	283,000
General Obligation Note - 2004 Emmaus	9,300,000		700,000	8,600,000	700,000
General Obligation Note - 2006	1,769,000		566,000	1,203,000	589,000
General Obligation Bond - 2009	7,630,000		7,630,000	-	-
General Obligation Bond - 2009 A	19,790,000		575,000	19,215,000	585,000
General Obligation Bond - 2010	14,990,000		5,000	14,985,000	5,000
General Obligation Bond - 2010 A	8,950,000		585,000	8,365,000	600,000
General Obligation Bond - 2011	9,705,000		5,000	9,700,000	5,000
General Obligation Bond - 2012	8,955,000		5,000	8,950,000	5,000
General Obligation Bond - 2013	9,535,000		55,000	9,480,000	80,000
General Obligation Bond - 2013 A	-	\$ 7,295,000	-	7,295,000	340,000
General Obligation Bond - 2013 B	-	8,995,000	-	8,995,000	-
Total General Obligation Bonds and Notes	109,599,000	16,290,000	12,507,000	113,382,000	5,389,000
Capital Lease Obligations	921,839	580,672	474,629	1,027,882	475,049
Compensated Absences	1,755,830	92,920	76,695	1,772,055	-
Other Post-employment Benefits	347,436	-	33,350	314,086	-
Total	<u>\$112,624,105</u>	<u>\$16,963,592</u>	<u>\$13,091,674</u>	<u>\$116,496,023</u>	<u>\$5,864,049</u>

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

Bonds and notes payable at June 30, 2014 consisted of:

General Obligation Note – Series B of 1997, maturing through October 2017, bearing interest at 4.2%. Interest is payable monthly.	\$1,211,000
General Obligation Note – Series 2000, maturing through March 2017, bearing interest at 4.38%. Interest is payable monthly.	2,920,000
General Obligation Note – 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.	2,785,000

General Obligation Note – Series C of 2000, maturing through August 2020, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	\$6,275,000
General Obligation Note – Series of 2003, maturing through October 2025, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	3,403,000
General Obligation Note – Series of 2004, Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	8,600,000
General Obligation Note – Series of 2006, maturing through April 2016, bearing interest at 4.02%. Interest is payable monthly.	1,203,000
General Obligation Bond – Series A of 2009, maturing through October 2023, bearing interest ranging from 2% to 4%. Interest is payable semi-annually in April and October. This series provided funds to refund the Series of 2002 bonds. This current refunding was undertaken to reduce total debt service payments by \$844,895 and resulted in an economic gain of \$555,229.	19,215,000
General Obligation Bond – Series of 2010, maturing through August 2026, bearing interest from 2% to 4%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	14,985,000
General Obligation Bond – Series A of 2010, maturing through August 2025, bearing interest ranging from 0.6% to 3.75%. Interest is payable semi-annually in February and August. This series provided funds to refund the Series A of 2004 bonds. This refunding resulted in an economic gain of \$344,383.	8,365,000
General Obligation Bond – Series of 2011, maturing through August 2027, bearing interest from 2% to 3.5%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	9,700,000
General Obligation Bond – Series of 2012, maturing through August 2030, bearing interest from 1.25% to 2.73%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	8,950,000

General Obligation Bond – Series of 2013, maturing through November 2024, bearing interest ranging from 0.4% to 2.73%. Interest is payable semi-annually in May and November. This series provided funds to refund the Series of 2008 bonds. This refunding resulted in an economic gain of \$1,101,218

\$9,480,000

General Obligation Bond – Series A of 2013, maturing through August 2025, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August. This series provided funds to refund the Series of 2009 bonds. This refunding resulted in an economic gain of \$407,230.

7,295,000

General Obligation Bond – Series B of 2013, maturing through August 2031, bearing interest ranging from 2% to 4%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.

8,995,000

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

Year Ended June 30	Principal	Interest	Total
2015	\$ 5,389,000	\$ 3,546,733	\$ 8,935,733
2016	5,810,000	3,337,382	9,147,382
2017	6,095,000	3,142,880	9,237,880
2018	6,271,000	2,943,290	9,214,290
2019	6,538,000	2,754,630	9,292,630
2020-2024	36,594,000	10,857,905	47,451,905
2025-2029	34,840,000	3,290,946	38,130,946
2030-2032	11,845,000	661,735	12,506,735
Totals	<u>\$113,382,000</u>	<u>\$30,535,501</u>	<u>\$143,917,501</u>

Interest expense for the year ended June 30, 2014 totaled \$3,043,035.

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

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

On July 9, 2013, the District entered into a lease-purchase agreement with TD Equipment finance for the purchase of computer equipment. The present value of the lease payments is \$580,672, which was included in governmental activities capital assets. The lease provides for four annual payments of \$147,413. The implicit interest rate is 1.033%.

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

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 475,049	\$13,069	\$ 488,118
2016	406,927	6,622	413,549
2017	145,906	1,507	147,413
Totals	<u>\$1,027,882</u>	<u>\$21,198</u>	<u>\$1,049,080</u>

7. PENSION PLAN

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

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

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

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

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

Employer Contribution: Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16% for pension benefits and 0.93% for healthcare insurance premium assistance. The District's contributions to PSERS for the fiscal year ending June 30, 2014, 2013, and 2012, were \$7,026,975, \$5,231,891, and \$3,533,466, respectively, equal to the required contributions for each year.

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

Plan Description: Effective for the year ended June 30, 2009, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively. Accordingly, for financial reporting purposes, no liability was reported for the postemployment health care benefits liability at the date of transition.

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

Funding Policy: The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For the year ended June 30, 2014, the District contributed \$713,210 to the plan for the current premiums.

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

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

Normal Cost (Service Cost for One Year)	\$ 279,345
Interest on Normal Cost	12,571
Amortization of Unfunded Actuarial Accrued Liability	<u>393,639</u>
Annual Required Contribution (ARC)	685,555
Interest on Net OPEB Obligation	15,635
Adjustment to Annual Required Contributions	<u>(21,330)</u>
Annual OPEB Cost (Expense)	679,860
Contributions Toward the OPEB Cost	<u>(713,210)</u>
(Decrease) in Net OPEB Obligation	(33,350)
Net OPEB Obligation - Beginning of Year	<u>347,436</u>
Net OPEB Obligation - End of Year	<u><u>\$ 314,086</u></u>

Funded Status and Funding Progress: As of May 1, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$6,411,946, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,411,946. The covered payroll (annual payroll of active employees covered by the plan) was \$40,922,269, and the ratio of the UAAL to the covered payroll was 15.67%.

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

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the May 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 7.5% in 2012, decreasing by 0.5% per year to 5.5% in 2016. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2014 was 24 years.

9. FUND BALANCE COMMITMENTS

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

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District is a participant in the SDIC consortium which manages the risk for all participants. For insured programs, there were no significant reductions in insurance coverages during the year ended June 30, 2014. Settlement amounts have not exceeded insurance coverage for the current year or three years prior.

11. CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

Capital Improvement Commitments

As of June 30, 2014, the District had outstanding construction projects to be completed of approximately \$31,205,410.

12. JOINT VENTURE

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

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

During the year ended June 30, 2014, the Technical School issued \$17,765,000 of School Lease Revenue Bonds through the State Public School Building Authority for capital improvements

to the facilities owned and operated by the Technical School. The bonds are secured by sublease rental payments and are guaranteed by two of the three participating school districts, including Quakertown Community School District. The District's portion of these bonds is scheduled to be paid through the year ended June 30, 2044.

Future rental payments are schedule as follows:

Year Ending <u>June 30</u>	2005 <u>Lease</u>	2014 <u>Lease</u>	<u>Total</u>
2015	\$ 96,152	\$ 227,479	\$ 323,631
2016	95,723	321,718	417,441
2017	96,783	321,087	417,870
2018	97,749	322,905	420,654
2019	95,552	321,580	417,132
2020-2024	481,083	1,612,675	2,093,758
2025-2029	192,796	1,612,413	1,805,209
2030-2034	-	1,613,521	1,613,521
2035-2039	-	1,614,816	1,614,816
2040-2044	-	1,610,829	1,610,829
Total	<u>\$ 1,155,838</u>	<u>\$ 9,579,023</u>	<u>\$ 10,734,861</u>

13. PRIOR-PERIOD ADJUSTMENTS

Reflected in these financial statements are the following prior-period adjustments.

Recognition of Earned Income Tax Revenues

As disclosed in Note 1, under the modified accrual basis of accounting, revenues of the governmental funds are recognized when those revenues are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues earned through June 30, 2013 that were collected during the subsequent 60 days included earned income taxes totaling \$1,860,632; however, this revenue was not recorded as revenue of the general fund for the year ended June 30, 2013. Similarly, revenues earned through June 30, 2012 that were collected during the subsequent 60 days included earned income taxes totaling \$1,409,727 that were not recorded as revenue of the general fund for the year ended June 30, 2012. Accordingly, the beginning fund balance of the general fund, as well as the beginning balance of the net position of the governmental activities, has been restated to reflect these revenues as receivable as of June 30, 2013 and 2012.

Unrecorded Accounts Payable of the Capital Projects Fund

The beginning fund balance of the capital projects fund, as well as the beginning balance of the net position of the governmental activities, has been restated to record previously unrecorded accounts payable of the capital projects fund as of June 30, 2013 and 2012.

Bond Issue Costs

Beginning with the year ended June 30, 2014, the District has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items previously reported as assets to be reported as deferred outflows of resources and requires certain items previously reported as liabilities to be reported as deferred inflows of resources. In addition, bond issuance costs – which prior to the year ended June 30, 2014 had been reported as deferred charges and amortized over the term of the related debt – are expensed as incurred under GASB Statement No. 65. In accordance with the requirements of GASB Statement No. 65, the beginning-of-year net position of the District's governmental activities has been restated in the Statement of Activities (page 23) to reflect the change in accounting for bond issue costs.

Capital Assets

Since the capital assets appraisals conducted as of June 30, 2013 and 2012 did not include certain costs of the Quakertown Senior High School building, the cost and accumulated depreciation of total capital assets were understated as of June 30, 2013 and 2012.

Net Effect on Fund Balance of the Governmental Funds and on Net Position of the Governmental Activities

The net effect of the prior-period adjustments on the fund balance of the governmental funds and on the net position of the governmental activities is as follows:

	As of June 30, 2013		As of June 30, 2012	
	Total Fund Balance of Governmental <u>Funds</u>	Total Net Position of Governmental <u>Activities</u>	Total Fund Balance of Governmental <u>Funds</u>	Total Net Position of Governmental <u>Activities</u>
Total Fund Balance of Governmental Funds / Total Net Position of Governmental Activities, as of June 30, as Previously Reported	\$41,276,055	\$22,483,266	\$36,442,769	\$22,318,594
<u>Add</u> : Unrecorded earned income tax revenue receivable as of June 30	1,860,632	1,860,632	1,409,727	1,409,727
<u>Less</u> : Unrecorded accounts payable as of June 30	(1,678,948)	(1,678,948)	(182,759)	(182,759)
<u>Add</u> : Unrecorded capital assets as of June 30	-	1,678,948	-	182,759
<u>Less</u> : Bond Issue Costs Previously Recorded as Deferred Charges	-	(1,035,296)	-	(1,041,329)
<u>Add</u> : Cost of High School Building Previously Excluded from Capital Assets, Net of Accumulated Depreciation	-	8,479,383	-	8,479,383
Total Fund Balance of Governmental Funds / Total Net Position of Governmental Activities, as of June 30, as Restated	<u>\$41,457,739</u>	<u>\$31,787,985</u>	<u>\$37,669,737</u>	<u>\$31,166,375</u>

14. SUBSEQUENT EVENTS

On July 18, 2014, the District entered into a capital lease for equipment. The initial principal balance of the lease totaled \$490,821; future payments under the lease totals \$500,000.

In August 2014, the Board of School Directors authorized the issuance of General Obligation Note, Series A of 2014, in the amount of \$8,755,000.

In September 2014, the Board of School Directors authorized the issuance of General Obligation Bonds, Series AA of 2014, in the amount of \$9,180,000.

In December 2014, the Board of School Directors authorized the issuance of General Obligation Bonds, Series of 2015, in the amount of \$18,670,000.

Management has evaluated subsequent events through February 17, 2015, which is the date the financial statements were available to be issued.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Post-employment Benefits Plan
For the Year Ended June 30, 2014

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
5/1/2012	\$ -	\$ 6,411,946	\$ 6,411,946	0.00%	\$ 40,922,269	15.67%
5/1/2010	-	7,113,065	7,113,065	0.00%	37,038,903	19.20%
5/1/2008	-	3,971,082	3,971,082	0.00%	35,136,366	11.30%

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Employer Contributions	Percentage Contributed
2014	\$ 685,555	\$ 713,210	104%
2013	685,555	603,196	88%
2012	753,468	746,221	99%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget Favorable (Unfavorable)
Budgetary Fund Balance - Beginning of Year	14,025,747	14,200,404	15,542,098	1,341,694
Resources (Inflows):				
Revenues:				
Local Sources	\$ 69,262,115	\$ 69,320,192	\$ 69,229,000	\$ (91,192)
State Sources	21,760,001	21,766,767	21,006,321	(760,446)
Federal Sources	698,250	710,111	741,192	31,081
Other Financing Sources:				
Proceeds from Extended-term Financing	-	-	580,672	580,672
Sale of Capital Assets	10,000	10,000	-	(10,000)
Insurance Recoveries	-	-	25,851	25,851
Amounts Available for Appropriation	<u>105,756,113</u>	<u>106,007,474</u>	<u>107,125,134</u>	<u>1,117,660</u>
Charges to Appropriations (Outflows):				
Expenditures:				
Instruction:				
Regular Programs	38,869,012	38,932,210	37,923,526	1,008,684
Special Programs	11,860,830	11,087,666	10,792,053	295,613
Vocational Programs	2,940,535	2,863,535	2,809,079	54,456
Other Instructional Programs	<u>3,386,134</u>	<u>3,983,263</u>	<u>3,915,952</u>	<u>67,311</u>
Total Instruction	<u>57,056,511</u>	<u>56,866,674</u>	<u>55,440,610</u>	<u>1,426,064</u>
Support Services:				
Pupil Personnel Services	3,143,098	3,286,230	3,268,297	17,933
Instructional Staff Services	4,658,105	4,360,309	4,062,617	297,692
Administration Services	4,791,396	4,819,220	4,814,321	4,899
Pupil Health	1,011,009	1,011,863	944,065	67,798
Business Services	1,003,514	1,008,613	948,047	60,566
Operation and Maintenance of Plant Services	6,654,290	6,554,278	5,493,282	1,060,996
Student Transportation Services	3,867,630	4,632,630	3,920,220	712,410
Central Services	2,595,144	3,269,504	3,253,415	16,089
Other Support Services	<u>58,000</u>	<u>61,100</u>	<u>60,239</u>	<u>861</u>
Total Support Services	<u>27,782,186</u>	<u>29,003,747</u>	<u>26,764,503</u>	<u>2,239,244</u>
Operation of Non-instructional Services				
Student Activities	904,156	914,523	867,329	47,194
Community Services	<u>13,000</u>	<u>13,375</u>	<u>4,102</u>	<u>9,273</u>
Total Operation of Non-instructional Services	<u>917,156</u>	<u>927,898</u>	<u>871,431</u>	<u>56,467</u>
Debt Service	<u>8,742,701</u>	<u>8,451,596</u>	<u>8,550,095</u>	<u>(98,499)</u>
Other Financing Uses:				
Refund of Prior-year Receipts	-	-	10,328	(10,328)
Budgetary Reserve	<u>500,000</u>	-	-	-
Total Other Financing Uses	<u>500,000</u>	-	<u>10,328</u>	<u>(10,328)</u>
Total Charges to Appropriations	<u>94,998,554</u>	<u>95,249,915</u>	<u>91,636,967</u>	<u>3,612,948</u>
Fund Balance at End of Year	<u><u>\$ 10,757,559</u></u>	<u><u>\$ 10,757,559</u></u>	<u><u>\$ 15,488,167</u></u>	<u><u>\$ 4,730,608</u></u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to Budgetary Comparison Schedule

1. BUDGETARY DATA

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2014

Grantor/Pass-through Grantor/ Program Title	Federal CDFA Number	Pass-through Grantor's Identifying Number	Grant Period	Program or Award Amount	Total Received	Accrued (Deferred) Revenue 6/30/13	Accrued (Deferred) Revenue 6/30/14	Revenue Recognized	Expenditures
FEDERAL AWARDS									
<u>U.S. DEPARTMENT OF EDUCATION</u>									
Passed through Pennsylvania Department of Education									
Title I	84.010	013-130353	7/1/12 - 9/30/13	\$ 410,661	\$ 52,894	\$ 52,894	\$ -	\$ -	\$ -
Title I	84.010	013-140353	7/1/13 - 9/30/14	373,951	300,272	-	73,679	373,951	373,951
Totals - CFDA # 84.010					353,166	52,894	73,679	373,951	373,951
Title II	84.367	020-130353	7/1/12 - 9/30/13	121,036	15,908	15,908	-	-	-
Title II	84.367	020-140353	7/1/13 - 9/30/14	114,619	91,852	-	22,767	114,619	114,619
Totals - CFDA # 84.367					107,760	15,908	22,767	114,619	114,619
Title III	84.365	010-130353	7/1/12 - 9/30/13	28,097	9,022	(2,495)	-	11,517	11,517
Title III	84.365	010-140353	7/1/13 - 9/30/14	22,840	7,613	-	(2,571)	5,042	5,042
Totals - CFDA # 84.365					16,635	(2,495)	(2,571)	16,559	16,559
Passed through Bucks County Intermediate Unit #22									
IDEA	84.027	062-13-0-022-1	7/1/12 - 6/30/13	747,210	308,691	308,691	-	-	-
IDEA	84.027	062-12-0-022-1	7/1/13 - 6/30/14	719,700	514,857	-	204,843	719,700	719,700
Totals - CFDA # 84.027					823,548	308,691	204,843	719,700	719,700
IDEA Section 619	84.173	131-12-0-022	7/1/12 - 6/30/13	3,389	3,389	3,389	-	-	-
Totals - CFDA # 84.173					3,389	3,389	-	-	-
Race To The Top	84.413A	B413A120004	7/1/12 - 9/30/15	26,735	26,346	18,926	-	7,420	7,420
Totals - CFDA # 84.413A					26,346	18,926	-	7,420	7,420
Passed Through Tuscarola Intermediate Unit #11									
PA Leads	84.377	N/A	7/1/12 - 6/30/13	15,000	14,171	9,198	-	4,973	4,973
Totals - CFDA # 84.377					14,171	9,198	-	4,973	4,973
TOTAL U.S. DEPARTMENT OF EDUCATION					\$ 1,345,015	\$ 406,511	\$ 298,718	\$ 1,237,222	\$ 1,237,222

(Continued)

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards and Certain State Grants (Continued)
For the Year Ended June 30, 2014

Grantor/Pass-through Grantor/ Program Title	Federal CDFA Number	Pass-through Grantor's Identifying Number	Grant Period	Program or Award Amount	Total Received	Accrued (Deferred) Revenue 6/30/13	Accrued (Deferred) Revenue 6/30/14	Revenue Recognized	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>									
Child Nutrition Cluster									
Passed Through Pennsylvania Department of Education									
National School Breakfast Program	10.553	N/A	7/1/12 - 6/30/13	N/A	\$ 719	\$ 719	\$ -	\$ -	\$ -
National School Breakfast Program	10.553	N/A	7/1/13 - 6/30/14	N/A	12,623	-	943	13,566	13,566
National School Lunch Program	10.555	N/A	7/1/12 - 6/30/13	N/A	25,962	25,962	-	-	-
National School Lunch Program	10.555	N/A	7/1/13 - 6/30/14	N/A	538,425	-	37,681	576,106	576,106
Passed Through Pennsylvania Department of Agriculture									
Value of USDA Donated Commodities	10.555	N/A		N/A	<u>77,811</u>	<u>(19,417)</u>	<u>(5,510)</u>	<u>91,718</u>	<u>91,718</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE / Child Nutrition Cluster					<u>655,540</u>	<u>7,264</u>	<u>33,114</u>	<u>681,390</u>	<u>681,390</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
Passed Through Commonwealth of Pennsylvania									
Medical Assistance Reimbursement	93.778	N/A	N/A	N/A	<u>37,820</u>	<u>7,579</u>	<u>10,821</u>	<u>41,062</u>	<u>41,062</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES / CFDA # 93.778					<u>37,820</u>	<u>7,579</u>	<u>10,821</u>	<u>41,062</u>	<u>41,062</u>
TOTAL FEDERAL AWARDS					<u>2,038,375</u>	<u>421,354</u>	<u>342,653</u>	<u>1,959,674</u>	<u>1,959,674</u>
CERTAIN STATE GRANTS									
National School Lunch Program	N/A	N/A	7/1/12 - 6/30/13		2,292	2,292	-	-	-
National School Lunch Program	N/A	N/A	7/1/13 - 6/30/14		<u>44,268</u>	<u>-</u>	<u>3,026</u>	<u>47,294</u>	<u>47,294</u>
TOTAL OF CERTAIN STATE GRANTS					<u>46,560</u>	<u>2,292</u>	<u>3,026</u>	<u>47,294</u>	<u>47,294</u>
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS					<u>\$ 2,084,935</u>	<u>\$ 423,646</u>	<u>\$ 345,679</u>	<u>\$ 2,006,968</u>	<u>\$ 2,006,968</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2014

1. GENERAL INFORMATION

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

2. BASIS OF ACCOUNTING

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

3. NON-MONETARY FEDERAL AWARDS – DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555, National School Lunch – Commodities, represent surplus food consumed by the District during the year ended June 30, 2014.

DRESLIN

AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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

To the Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Quakertown Community School District's basic financial statements, and have issued our report thereon dated February 17, 2015.

Internal Control Over Financial Reporting

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

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

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

that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item number 2014-1, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Quakertown Community School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item number 2014-2.

Quakertown Community School District's Response to Findings

Quakertown Community School District's response to the finding identified in our audit is described in the accompanying corrective action plan. Quakertown Community School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dreslin and Company, Inc.

West Chester, Pennsylvania
February 17, 2015

DRESLIN

AND COMPANY, INC.

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

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

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

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

To the Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Quakertown Community School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Quakertown Community School District's major federal programs for the year ended June 30, 2014. Quakertown Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Quakertown Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Quakertown Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Quakertown Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Quakertown Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Quakertown Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Quakertown Community School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dreslin and Company, Inc.

West Chester, Pennsylvania
February 17, 2015

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified: None.

Significant deficiencies identified that are not considered to be material weaknesses: One significant deficiency related to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Compliance and Other Matters

Noncompliance material to financial statements noted: None.

Other matters that are required to be reported in accordance with Government Auditing Standards: One instance of noncompliance is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Federal Awards:

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major program:

Material weaknesses identified: None.

Significant deficiencies identified that are not considered to be material weaknesses: None.

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133: None.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Identification of Major Programs:

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>		
Title I	84.010	<u>\$ 373,951</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Child Nutrition Cluster		
National School Breakfast Program	10.553	13,566
National School Lunch Program	10.555	576,106
Value of USDA Donated Commodities	10.555	<u>91,718</u>
Total - Child Nutrition Cluster		<u>681,390</u>
Total Major Program Expenditures		<u><u>\$ 1,055,341</u></u>

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low risk auditee? Yes

Findings Related to Financial Statements Audit

Status of prior-year findings

2013-1 Capital Lease Recording

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

Criteria: Generally accepted governmental accounting principles require capital lease issuances to be recorded as an other financing source on the fund financial statements and as long term debt on the government-wide financial statements.

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

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

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

Current Status: It appears that management has not reviewed all lease agreements to ensure all capital leases are properly recorded. See current-year item number 2014-1.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

2013-2 Compliance with Laws and Regulations

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

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

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

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

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

Current Status: It appears that management has not implemented the prior-year corrective action plan with respect to this finding. See current-year item number 2014-2.

Current-year findings and questioned costs

2014-1 Capital Lease Recording

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

Criteria: Generally accepted governmental accounting principles require capital lease issuances to be recorded as an other financing source on the fund financial statements and as long term debt on the government-wide financial statements.

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

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

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

2014-2 Compliance with Laws and Regulations

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

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

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

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

Findings Related to Major Federal Award Programs

Status of prior-year findings

None

Current-year findings and questioned costs

None



CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2014

January 28, 2015

The Quakertown Community School District respectfully submits the following corrective action plan for the year ended June 30, 2014.

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

FINDINGS – FINANCIAL STATEMENTS AUDIT

2014-1 Capital Lease Recording

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

Action Taken:

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

2014-2 Compliance with laws and regulations

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

Action Taken:

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

Sincerely yours,

Robert Riegel, CPA
Business Manager
Quakertown Community School District
P: 215-529-2032
F: 215-529-2036