



AUDIT REPORT

**Quakertown Community
*School District***

Quakertown, Pennsylvania

June 30, 2010

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

February 17, 2011

Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Quakertown Community School District (the "District"), Quakertown, Pennsylvania, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Quakertown Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2009 financial statements and, in our report dated March 29, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Quakertown Community School District, Quakertown, Pennsylvania, as of June 30, 2010, and the respective changes in its financial position and its cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2011, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of School Directors
Quakertown Community School District

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis - Unaudited

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, 2010. The intent of this section is to look at the District's performance as a whole; however, it also should be read in conjunction with the basic financial statements and the accompanying notes.

FINANCIAL ANALYSIS

The increase in net assets of the governmental activities was \$3,952,914 and the increase in the net assets of the business-type activities was \$96,359, for a total net asset increase of \$4,049,273.

The District expended \$4,791,499 on capital assets during the year.

As of June 30, 2010, \$21,915,600 in total net assets, of which \$10,416,015 was unrestricted, was available to meet the District's ongoing obligations to employees and creditors.

The actual results of the District's General Fund for 2009-2010 show that revenues and other financing sources collected during the year were over budget by \$286,558, and expenditures were under budget by \$3,529,647. The General Fund reported a positive fund balance of \$10,456,102 as of June 30, 2010, or 11.6 percent of the 2010-2011 \$89.8 million operating 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 entity-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 entity-wide financial statements - the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the entity-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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

Entity-wide Reporting Process

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

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

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

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

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

DISTRICT FUND REPORTING

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statement of net assets and statement of activities for its governmental and business-type activities (combined) as of June 30, 2010 and 2009 are summarized below.

STATEMENT OF NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
ASSETS			
Current and other assets	\$ 18,663,558	\$ 19,161,752	\$ (498,194)
Capital assets:			
Land	1,177,235	1,177,235	-
Land improvements	5,487,605	5,487,475	130
Buildings and improvements	111,780,944	109,467,163	2,313,781
Furniture and equipment	19,419,221	19,088,750	330,471
Construction-in-progress	10,918,530	8,771,413	2,147,117
Total Capital Assets	148,783,535	143,992,036	4,791,499
Less: Accumulated depreciation	(48,760,288)	(44,328,268)	(4,432,020)
Capital Assets, Net	<u>100,023,247</u>	<u>99,663,768</u>	<u>359,479</u>
TOTAL ASSETS	<u>\$118,686,805</u>	<u>\$118,825,520</u>	<u>\$ (138,715)</u>
LIABILITIES AND NET ASSETS			
Current liabilities	\$ 4,807,310	\$ 4,844,266	\$ (36,956)
Long-term liabilities:			
Due within one year	4,784,000	4,098,000	686,000
Due after one year	87,179,895	92,016,927	(4,837,032)
Total Liabilities	<u>96,771,205</u>	<u>100,959,193</u>	<u>(4,187,988)</u>
Net assets:			
Invested in capital assets, net of related debt	11,499,585	10,996,540	503,045
Unrestricted	10,416,015	6,869,787	3,546,228
Total Net Assets	<u>21,915,600</u>	<u>17,866,327</u>	<u>4,049,273</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$118,686,805</u>	<u>\$118,825,520</u>	<u>\$ (138,715)</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$21,915,600 at the close of the 2009-2010 fiscal year.

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

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

STATEMENT OF ACTIVITIES

	2010	2009	Variance
EXPENDITURES			
Governmental activities	\$ 79,813,858	\$ 79,813,982	\$ (124)
Business-type activities	1,916,200	1,922,728	(6,528)
TOTAL EXPENDITURES	<u>81,730,058</u>	<u>81,736,710</u>	<u>(6,652)</u>
REVENUES			
Program revenues:			
Charges for services	2,053,921	2,042,672	11,249
Operating grants and contributions	8,680,256	7,285,141	1,395,115
Capital grants and contributions	1,063,662	547,787	515,875
Total Program Revenues	<u>11,797,839</u>	<u>9,875,600</u>	<u>1,922,239</u>
General revenues	73,981,492	73,388,438	593,054
TOTAL REVENUES	<u>85,779,331</u>	<u>83,264,038</u>	<u>2,515,293</u>
 Change in Net Assets	 4,049,273	 1,527,328	 2,521,945
 Net Assets, Beginning of Year	 <u>17,866,327</u>	 <u>16,338,999</u>	 <u>1,527,328</u>
 Net Assets, End of Year	 <u>\$ 21,915,600</u>	 <u>\$ 17,866,327</u>	 <u>\$ 4,049,273</u>

The cost of all District activities in 2009-2010 was \$81,730,058. The amount that taxpayers ultimately financed for these activities through tax revenues was \$60,777,241, or 74.4 percent. A majority of the other cost was paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions (\$22,333,517, or 27 percent).

Increases in program revenues were related to the increase in subsidies received for special education, retirement reimbursement and social security reimbursement. In addition, general revenues increased due primarily to real estate tax revenues which increased commensurate with the increased millage rate. Increases in revenues were offset by a slight decrease in expenses. Overall, revenues exceeded expenses by \$4,049,273.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

General Fund Revenues

The District receives its General Fund revenues from three major sources, categorized as local, state and federal. The primary source of revenue, 74 percent, is from local sources, most of which comes from real estate taxes. State revenues account for 22 percent of the budget, and federal revenues four percent.

The largest increase in revenues came from real estate taxes. This increase was realized as a result of the increased millage rate of 3.2 percent, and an increase in assessed values of .2 percent due to assessment appeals offsetting any new properties added to the tax rolls.

	2010	2009	Variance
Local Revenues			
Real estate taxes	\$ 49,367,261	\$ 47,706,664	\$ 1,660,597
Interim real estate taxes	554,859	388,756	166,103
Earned income taxes	7,887,569	8,121,630	(234,061)
Other	3,464,271	4,029,143	(564,872)
	<u>61,273,960</u>	<u>60,246,193</u>	<u>1,027,767</u>
State Revenues			
Basic instructional subsidy	7,939,169	8,837,219	(898,050)
Special education	2,605,685	2,561,497	44,188
Transportation	1,363,274	1,514,431	(151,157)
Social security and retirement	2,429,039	2,468,531	(39,492)
Other	4,203,286	3,926,339	276,947
	<u>18,540,453</u>	<u>19,308,017</u>	<u>(767,564)</u>
Federal Revenues	489,073	500,855	(11,782)
IDEA	737,676	732,213	5,463
ARRA funds	1,753,248	-	1,753,248
Other	129,334	155,510	(26,176)
	<u>3,109,331</u>	<u>1,388,578</u>	<u>1,720,753</u>
Other sources	<u>16,375</u>	<u>23,409</u>	<u>(7,034)</u>
TOTAL	<u>\$ 82,940,119</u>	<u>\$ 80,966,197</u>	<u>\$ 1,973,922</u>

General Fund Expenditures

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

	2010	2009	Variance
Instruction	\$ 49,285,786	\$ 47,716,791	\$ 1,568,995
Support services	23,388,174	24,915,457	(1,527,283)
Operation of noninstructional services	713,931	959,890	(245,959)
Debt service/other	6,473,824	6,724,474	(250,650)
	<u>\$ 79,861,715</u>	<u>\$ 80,316,612</u>	<u>\$ (454,897)</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

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.

Noninstructional services include student activities, athletics, and community services such as crossing guards.

Fund Balances

The fund balance for the General Fund increased by \$3,078,404. This is the difference between the revenues of \$82,940,119 and the expenditures of \$79,861,715, as shown above. In other words, the revenues exceeded the expenditures by \$3,078,404. The fund balance, as a percentage of total expenditures, was 13.1 percent.

The recommended fund balance level is between five percent and seven percent. During the budget process for the 2009-2010 fiscal year, the Board of School Directors (the "Board") intended to bring the fund balance within that range. However, the interest on debt was lower than anticipated; the required retirement contribution rate, established by the Commonwealth, was lower than anticipated; and a concerted District-wide effort curbed all expenditures except those critical to the operations of the schools due to the decrease in anticipated revenues, reflective of the downturn in the economy. This resulted in a higher fund balance than expected.

The Capital Projects fund balance decreased by \$4,126,429 to an ending balance of \$692,458. The decrease in fund balance was due to the planned spending of bond funds on capital projects.

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 \$100,023,247 invested in capital assets net of depreciation, with \$100,005,217 attributed to governmental activities. Acquisitions for governmental activities totaled \$4,789,582 and depreciation was \$4,421,145. The majority of the acquisitions were for the renovations and additions to Richland Elementary School. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis - Unaudited (cont'd)

Debt

At June 30, 2010, the District had \$90,056,000 in outstanding notes and bonds payable. The District paid \$4,358,000 in principal on outstanding debt during the fiscal year not including the refunding of GO Bonds Series of 2002, which resulted in a cash flow savings to the District of \$844,895. Other long-term obligations include accrued sick leave and retirement severance for employees of the District. Detailed information regarding long-term debt is included in the notes to the financial statements (Note 6).

Labor Relations

The Quakertown Community Education Association (QCEA), an affiliation of the National Education Association, represents the professional staff of the Quakertown Community School District and is under contract through 2011. The Quakertown Educational Support Personnel Association (QESPA), an affiliation of the National Education Association, represents the support staff of Quakertown Community School District and is under contract through 2011.

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.

The community will need to support the goals of this plan financially over the next five years. The costs associated with student achievement, improving community relations, continued professional development, renovation of District facilities and support for diversity initiatives will be included in future budgets.

Major Financial Issues and Future Challenges

Enrollment at Quakertown Community School District has increased approximately 233 students during the last 10 years. While the number of new homes being built has slowed significantly, the student population is expected to continue to grow over the next five years.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

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

In the fall of 2010, a major four-phase renovation to the High School will begin with the selection of an architect and an initial borrowing of \$15 million dollars for what is estimated to be a \$50-60 million dollar construction project.

The expected reauthorization of the Elementary and Secondary Education Act, now known as "No Child Left Behind," requires the District to expend additional funds for the purpose of getting 100 percent of its students to score "proficient" or higher on the Pennsylvania School System of Assessment ("PSSA") by the year 2014. Additional resources have already been added to the budget in the areas of math, reading and special education to help students demonstrate proficiency on the PSSA. Once results are given, all of the District's schools must develop learning environments in which all students become proficient. Expenses associated with extended day instruction, instructional support using technology, technology used for student data analysis and additional assistance for students with special needs, non-English speakers and lower socioeconomic students continues to require future spending.

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

Year	Rate	Additional Millage Impact
2011-2012	8.65%	1.8 Mills
2012-2013	12.19%	2.1 Mills
2013-2014	16.69%	2.7 Mills
2014-2015	21.18%	2.8 Mills

Revenue growth has been slowed by poor investment returns in addition to tax assessment appeals that have reduced the real estate tax base by as much as \$1.7 million over the last two years.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis - Unaudited (cont'd)

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. Additionally, rising health care and future construction costs could have a serious impact on a district's ability to adequately educate its students.

Contacting the District Financial Management

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010
(With Summarized Comparative Data for June 30, 2009)

	Governmental Activities	Business-type Activities	Totals	
			2010	2009*
ASSETS				
Cash and cash equivalents	\$ 12,246,056	\$ 276,608	\$ 12,522,664	\$ 14,355,193
Taxes receivable, net of allowance	2,654,529	-	2,654,529	2,032,057
Internal balances	54,730	(54,730)	-	-
Due from other governments	2,009,326	105,348	2,114,674	1,448,836
Other receivables	297,443	16,461	313,904	343,639
Inventories	151,349	66,558	217,907	238,142
Deferred charges on long term debt	839,880	-	839,880	743,885
Land	1,177,235	-	1,177,235	1,177,235
Land improvements	5,487,605	-	5,487,605	5,487,475
Construction-in-progress	10,918,530	-	10,918,530	8,771,413
Buildings and improvements	111,780,944	-	111,780,944	109,467,163
Furniture and equipment	18,855,421	563,800	19,419,221	19,088,750
Accumulated depreciation	(48,214,518)	(545,770)	(48,760,288)	(44,328,268)
TOTAL ASSETS	\$118,258,530	\$ 428,275	\$118,686,805	\$118,825,520
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable	\$ 2,431,762	\$ 7,283	\$ 2,439,045	\$ 2,778,430
Accrued salaries, payroll withholdings and benefits	1,855,523	-	1,855,523	1,781,331
Accrued interest payable	400,408	-	400,408	256,243
Deferred revenues	82,822	29,512	112,334	166
Other current liabilities	-	-	-	28,096
Long-term liabilities				
Portion due or payable within one year:				
Notes payable	3,544,000	-	3,544,000	3,418,000
Bonds payable	1,240,000	-	1,240,000	680,000
Portion due or payable after one year:				
Notes payable	37,192,000	-	37,192,000	61,417,000
Bonds payable	48,080,000	-	48,080,000	28,715,000
Accumulated compensated absences	1,707,015	-	1,707,015	1,768,738
Other post-employment benefits	200,880	-	200,880	116,189
TOTAL LIABILITIES	96,734,410	36,795	96,771,205	100,959,193
NET ASSETS:				
Invested in capital assets, net of related debt	11,481,555	18,030	11,499,585	10,996,540
Unrestricted	10,042,565	373,450	10,416,015	6,869,787
TOTAL NET ASSETS	21,524,120	391,480	21,915,600	17,866,327
TOTAL LIABILITIES AND NET ASSETS	\$118,258,530	\$ 428,275	\$118,686,805	\$118,825,520

* Restated for comparative purposes.

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

FOR THE YEAR ENDED JUNE 30, 2010

(With Summarized Comparative Data for the Year Ended June 30, 2009)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
						Totals
					2010	2009*
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 49,499,413	\$ 503,814	\$ 5,870,953	\$ -	\$ (43,124,646)	\$ (43,144,144)
Instructional student support	6,125,415	-	359,138	-	(5,766,277)	(5,548,484)
Administrative and financial support services	7,828,394	-	245,827	-	(7,582,567)	(8,487,482)
Operation and maintenance of plant services	9,726,169	159,262	146,168	-	(9,420,739)	(9,404,317)
Pupil transportation	3,548,015	-	1,363,274	-	(2,184,741)	(2,415,501)
Student activities	710,328	48,479	25,763	-	(636,086)	(899,368)
Community services	28,131	-	-	-	(28,131)	(14,160)
Interest on long-term debt	2,347,993	-	-	1,063,662	(1,284,331)	(2,017,419)
TOTAL GOVERNMENTAL ACTIVITIES	79,813,858	711,555	8,011,123	1,063,662	(70,027,518)	(71,930,875)
BUSINESS-TYPE ACTIVITIES						
Food service	1,916,200	1,342,366	669,133	-	-	69,765
TOTAL BUSINESS-TYPE ACTIVITIES	1,916,200	1,342,366	669,133	-	95,299	69,765
TOTAL PRIMARY GOVERNMENT	\$ 81,730,058	\$ 2,053,921	\$ 8,680,256	\$ 1,063,662	(69,932,219)	(71,861,110)
GENERAL REVENUES						
Property taxes, levied for general purposes					51,975,617	49,943,447
Taxes levied for specific purposes					8,801,624	9,022,340
Grants and entitlements not restricted to specific programs					12,589,599	13,485,834
Investment earnings					171,569	728,871
Miscellaneous					443,083	207,946
TOTAL GENERAL REVENUES					73,981,432	73,388,438
CHANGE IN NET ASSETS					3,952,914	1,527,328
NET ASSETS, BEGINNING OF YEAR					17,571,206	16,338,999
NET ASSETS, END OF YEAR					\$ 21,524,120	\$ 17,866,327

* Restated for comparative purposes.

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2010

(With Summarized Comparative Data for June 30, 2009)

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2010	2009
ASSETS				
Cash and cash equivalents	\$ 11,446,432	\$ 799,624	\$ 12,246,056	\$ 14,056,725
Taxes receivable, net of allowance	2,654,529	-	2,654,529	2,032,057
Due from other funds	99,167	-	99,167	139,951
Due from other governments	2,009,326	-	2,009,326	1,402,363
Other receivables	297,443	-	297,443	333,182
Inventories	151,349	-	151,349	157,360
TOTAL ASSETS	\$ 16,658,246	\$ 799,624	\$ 17,457,870	\$ 18,121,638
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ -	\$ 44,437	\$ 44,437	\$ -
Accounts payable	2,369,033	62,729	2,431,762	2,778,430
Accrued salaries, payroll withholdings and benefits	1,855,523	-	1,855,523	1,781,331
Deferred revenues	1,977,588	-	1,977,588	1,365,292
TOTAL LIABILITIES	6,202,144	107,166	6,309,310	5,925,053
FUND BALANCES				
Reserved for capital projects	-	692,458	692,458	4,818,887
Unreserved	10,456,102	-	10,456,102	7,377,698
TOTAL FUND BALANCES	10,456,102	692,458	11,148,560	12,196,585
TOTAL LIABILITIES AND FUND BALANCES	\$ 16,658,246	\$ 799,624	\$ 17,457,870	\$ 18,121,638

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
JUNE 30, 2010**

TOTAL GOVERNMENTAL FUND BALANCES	\$ 11,148,560
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Land	\$ 1,177,235	
Land improvements	5,487,605	
Construction-in-progress	10,918,530	
Buildings and improvements	111,780,944	
Furniture and equipment	18,855,421	
Accumulated depreciation	<u>(48,214,518)</u>	100,005,217

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

Notes payable	(40,736,000)	
Bonds payable	(49,320,000)	
Accumulated compensated absences	(1,707,015)	
Accrued interest	(400,408)	
Other post-employment benefits	<u>(200,880)</u>	(92,364,303)

Refunded debt and bond issuance costs resulted in deferred charges and credits which will be amortized over the life of the new debt but do not represent current rights.

839,880

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

1,894,766

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 21,524,120

These 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, 2010
(With Summarized Comparative Data for the Year Ended June 30, 2009)

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2010	2009
REVENUES				
Local sources	\$ 61,273,960	\$ 297,014	\$ 61,570,974	\$ 60,451,471
State sources	18,540,453	-	18,540,453	19,308,017
Federal sources	3,109,331	-	3,109,331	1,388,578
TOTAL REVENUES	82,923,744	297,014	83,220,758	81,148,066
EXPENDITURES				
Current:				
Instruction	49,285,786	-	49,285,786	47,559,431
Support services	23,388,174	180,079	23,568,253	25,020,926
Operation of noninstructional services	713,931	-	713,931	959,890
Capital outlays	-	4,423,443	4,423,443	7,984,024
Debt service	6,471,403	29,146	6,500,549	6,716,834
TOTAL EXPENDITURES	79,859,294	4,632,668	84,491,962	88,241,105
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,064,450	(4,335,654)	(1,271,204)	(7,093,039)
OTHER FINANCING SOURCES (USES)				
Issuance of debt - refunding	-	20,865,000	20,865,000	9,135,000
Payment of debt - refunding	-	(20,703,371)	(20,703,371)	(8,903,642)
Bond premium	-	47,596	47,596	-
Bond discount	-	-	-	(120,075)
Sale of/Compensation for capital assets	16,375	-	16,375	23,409
Refund of prior year expenditures	-	-	-	128,763
Refund of prior year receipts	(2,421)	-	(2,421)	(15,933)
TOTAL OTHER FINANCING SOURCES	13,954	209,225	223,179	247,522
NET CHANGE IN FUND BALANCES	3,078,404	(4,126,429)	(1,048,025)	(6,845,517)
FUND BALANCES, BEGINNING OF YEAR	7,377,698	4,818,887	12,196,585	19,042,102
FUND BALANCES, END OF YEAR	\$ 10,456,102	\$ 692,458	\$ 11,148,560	\$ 12,196,585

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (1,048,025)

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

Capital outlays are reported in governmental funds as expenditures which are recorded as either District-wide or function-specific (i.e., instruction, pupil services). However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$4,789,582) exceeded depreciation (\$4,421,145) in the period. 368,437

Because some property, occupation and per capita taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 529,640

Issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. (20,865,000)

Governmental funds report bond issuance cost, discounts and deferred amounts on refunding as expenditures and bond premiums as revenue. However, these amounts are reported on the statement of net assets as deferred charges and credits and are amortized over the life of the debt. 95,995

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave), other post-employment benefits and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the amount by which current period amounts paid exceeded current period compensated absences earned. (22,968)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 25,039,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (144,165)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,952,914

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	(GAAP Basis)	Final Budget
				Positive
				(Negative)
REVENUES				
Local sources	\$60,804,865	\$60,819,465	\$61,273,960	\$ 454,495
State sources	19,376,168	19,376,168	18,540,453	(835,715)
Federal sources	696,700	2,358,928	3,109,331	750,403
TOTAL REVENUES	80,877,733	82,554,561	82,923,744	369,183
EXPENDITURES				
Instruction:				
Regular programs	33,690,722	33,500,048	33,280,723	219,325
Special programs	9,014,899	11,222,141	11,219,825	2,316
Vocational programs	2,640,965	2,640,966	2,640,966	-
Other instructional programs	1,971,903	2,187,495	2,138,783	48,712
Adult education programs	14,543	14,543	5,489	9,054
Total Instruction	47,333,032	49,565,193	49,285,786	279,407
Support services:				
Pupil personnel services	2,455,692	2,514,570	2,300,764	213,806
Instructional staff services	3,122,648	3,202,204	2,982,108	220,096
Administrative services	4,217,250	4,249,742	4,248,348	1,394
Pupil health	1,023,573	1,024,029	841,392	182,637
Business services	772,971	869,842	869,171	671
Operation and maintenance of plant services	7,111,022	7,115,834	6,650,034	465,800
Student transportation services	3,867,100	3,867,100	3,548,015	319,085
Central and other support services	2,124,594	2,179,476	1,888,878	290,598
Other support services	60,500	60,600	59,464	1,136
Total Support Services	24,755,350	25,083,397	23,388,174	1,695,223
Operation of Noninstructional activities:				
Student Activities	724,492	722,252	685,800	36,452
Community Services	59,255	28,200	28,131	69
Total Operation of Noninstructional Activities	783,747	750,452	713,931	36,521
Debt service	8,280,165	7,989,899	6,471,403	1,518,496
TOTAL EXPENDITURES	81,152,294	83,388,941	79,859,294	3,529,647
EXCESS (DEFICIENCY) OF REVENUES OVER				
(UNDER) EXPENDITURES	(274,561)	(834,380)	3,064,450	3,898,830
OTHER FINANCING SOURCES (USES)				
Sale of/Compensation for capital assets	-	99,000	16,375	(82,625)
Refund of prior year receipts	-	(2,421)	(2,421)	-
Budgetary reserve	(600,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(600,000)	96,579	13,954	(82,625)
NET CHANGE IN FUND BALANCE	(874,561)	(737,801)	3,078,404	3,816,205
FUND BALANCE, BEGINNING OF YEAR	5,783,744	5,844,984	7,377,698	1,532,714
FUND BALANCE, END OF YEAR	\$ 4,909,183	\$ 5,107,183	\$10,456,102	\$ 5,348,919

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2010
(With Comparative Data for June 30, 2009)

	Major Fund	
	Food Service Fund	
	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 276,608	\$ 298,468
Due from other governments	105,348	46,473
Other receivables	16,461	10,457
Inventories	66,558	80,782
Total Current Assets	<u>464,975</u>	<u>436,180</u>
CAPITAL ASSETS:		
Furniture and equipment	563,800	561,883
Accumulated depreciation	(545,770)	(534,895)
Capital Assets, Net	<u>18,030</u>	<u>26,988</u>
TOTAL ASSETS	<u><u>\$ 483,005</u></u>	<u><u>\$ 463,168</u></u>
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES		
Due to other funds	\$ -	\$ 139,951
Accounts payable	7,283	-
Contracts payable	29,512	-
Advances from other funds	54,730	-
Other current liabilities	-	28,096
Total Liabilities	<u>91,525</u>	<u>168,047</u>
NET ASSETS:		
Invested in capital assets, net of related debt	18,030	26,988
Unrestricted	373,450	268,133
Total Net Assets	<u>391,480</u>	<u>295,121</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 483,005</u></u>	<u><u>\$ 463,168</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Data for the Year Ended June 30, 2009)

	Major Fund	
	Food Service Fund	
	2010	2009
OPERATING REVENUES		
Food service revenues	\$ 1,341,504	\$ 1,370,326
Other operating revenues	862	-
Total Operating Revenues	<u>1,342,366</u>	<u>1,370,326</u>
OPERATING EXPENSES		
Salaries	794,812	758,799
Employee benefits	203,030	180,567
Other purchased services	90,427	113,722
Supplies	810,583	851,967
Depreciation	10,875	11,991
Dues and fees	3,658	-
Other operating expenses	2,815	5,682
Total Operating Expenses	<u>1,916,200</u>	<u>1,922,728</u>
OPERATING LOSS	<u>(573,834)</u>	<u>(552,402)</u>
NONOPERATING REVENUES		
Earnings on investments	1,060	1,976
State sources	97,771	96,355
Federal sources	571,362	525,812
Total Nonoperating Revenues	<u>670,193</u>	<u>624,143</u>
CHANGE IN NET ASSETS	96,359	71,741
NET ASSETS, BEGINNING OF YEAR	<u>295,121</u>	<u>223,380</u>
NET ASSETS, END OF YEAR	<u>\$ 391,480</u>	<u>\$ 295,121</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, 2010
(With Comparative Data for the Year Ended June 30, 2009)

	Major Fund Food Service Fund	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,307,404	\$ 1,401,123
Cash received from other operating revenue	862	-
Payments to suppliers	(816,094)	(830,235)
Payments to employees	(997,842)	(939,366)
Payments for other operating expenses	(6,473)	(35,338)
NET CASH USED BY OPERATING ACTIVITIES	<u>(512,143)</u>	<u>(403,816)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State sources	91,900	103,408
Federal sources	399,240	386,106
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>491,140</u>	<u>489,514</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,917)	(14,350)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,917)</u>	<u>(14,350)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Earnings on investments	1,060	1,976
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,060</u>	<u>1,976</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,860)	73,324
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>298,468</u>	<u>225,144</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 276,608</u></u>	<u><u>\$ 298,468</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (573,834)	\$ (552,402)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	10,875	11,991
Donated commodities	119,118	132,653
(Increase) Decrease in:		
Other receivables	(6,004)	2,701
Inventories	14,224	(3,182)
Increase (Decrease) in:		
Due to other funds	(139,951)	5,983
Accounts payable	7,283	-
Contracts payable	29,512	-
Advances from other funds	54,730	-
Other current liabilities	-	(1,560)
Deferred revenues	(28,096)	-
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (512,143)</u></u>	<u><u>\$ (403,816)</u></u>
SUPPLEMENTAL DISCLOSURE:		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	<u><u>\$ 119,118</u></u>	<u><u>\$ 132,653</u></u>

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

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2010**

	<u>Private- Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	<u>\$ 146,568</u>	<u>\$ 250,964</u>
TOTAL ASSETS	<u><u>\$ 146,568</u></u>	<u><u>\$ 250,964</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Due to student groups	<u>\$ -</u>	<u>\$ 250,964</u>
Total Liabilities	-	250,964
 NET ASSETS:		
Reserved for trust	<u>146,568</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 146,568</u></u>	<u><u>\$ 250,964</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Data for the year Ended June 30, 2009)

	<u>Private-Purpose Trust</u>	
	<u>2010</u>	<u>2009</u>
ADDITIONS		
Local contributions	<u>\$ 7,325</u>	<u>\$ 10,538</u>
TOTAL ADDITIONS	<u>7,325</u>	<u>10,538</u>
DEDUCTIONS		
Fees paid and scholarships awarded	<u>11,960</u>	<u>11,100</u>
TOTAL DEDUCTIONS	<u>11,960</u>	<u>11,100</u>
CHANGE IN NET ASSETS	(4,635)	(562)
NET ASSETS, BEGINNING OF YEAR	<u>151,203</u>	<u>151,765</u>
NET ASSETS, END OF YEAR	<u><u>\$ 146,568</u></u>	<u><u>\$ 151,203</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Quakertown Community School District (the "District") operates seven elementary schools, two middle schools, one freshmen center and one senior high school to provide education and related services to the residents of Quakertown, Richlandtown and Trumbauersville Boroughs and Haycock, Milford and Richland Townships. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member Board form of government.

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

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Entity-wide Financial Statements

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

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

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental program. Expenses are those that are specifically associated with a service or

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

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

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

The ***Capital Projects Fund*** is used to account for the acquisition, construction and renovation of major capital facilities and their related capital assets.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition

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

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

Expenditure Recognition

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

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District allocates "building-wide costs" to the proprietary fund. Specifically, general fund expenditures that partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are proportionately recognized within the proprietary fund. Similarly, the proprietary fund recognizes a cost for the building space it occupies and is included in other operating expenses.

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the entity-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

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

Cash and Cash Equivalents

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

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 occupation and per capita taxes receivable are presented net of allowances for estimated uncollectibles of \$3,730,921. 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.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 - August 31	- Discount period, 2% of gross levy
September 1 - October 31	- Face Period
November 1 to collection	- Penalty Period, 10% of gross levy
January 15	- Lien Date

Assessed valuations of property are determined by the Bucks County Board of Assessments, and the District is responsible for collection. The tax on real estate for public school purposes for fiscal year 2009-2010 was 129.5 mills (\$129.50 for \$1,000 of assessed valuation).

Inventories

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

Capital Assets

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

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

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

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

Land improvements	20-40 years
Buildings and improvements	20-40 years
Furniture and equipment	5-10 years

Compensated Absences

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

months of each fiscal year end. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. The current portion of this debt is based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts on refunding are recorded as a decrease to debt payable and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

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

Fund Equity

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2009, from which the comparative data was derived.

Use of Estimates in the Preparation of Financial Statements

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for all capital projects funds.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to the date final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and include the effect of approved budget amendments.

NOTE 3 DEPOSITS

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2010, the carrying amount of the District's deposits was \$12,920,196 and the bank balance was \$14,673,805. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,768,302 was collateralized with U.S. Treasury securities held at the Federal Reserve Bank in the District's name.

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, 2010, PLGIT was rated as AAA by a nationally recognized statistical rating agency.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 4 DEFERRED REVENUES

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

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

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 1,177,235	\$ -	\$ -	\$ 1,177,235
Construction-in-progress	8,771,413	4,257,314	2,110,197	10,918,530
Total Capital Assets Not Being Depreciated	9,948,648	4,257,314	2,110,197	12,095,765
Capital assets being depreciated:				
Land improvements	5,487,475	130	-	5,487,605
Buildings and improvements	109,467,163	2,313,781	-	111,780,944
Furniture and equipment	18,526,867	328,554	-	18,855,421
Total Capital Assets Being Depreciated	133,481,505	2,642,465	-	136,123,970
Less accumulated depreciation for:				
Land improvements	2,208,391	253,265	-	2,461,656
Buildings and improvements	28,144,713	2,762,146	-	30,906,859
Furniture and equipment	13,440,269	1,405,734	-	14,846,003
Total accumulated depreciation	43,793,373	4,421,145	-	48,214,518
Total Capital Assets Being Depreciated, Net	89,688,132	(1,778,680)	-	87,909,452
GOVERNMENTAL ACTIVITIES, NET	\$ 99,636,780	\$ 2,478,634	\$ 2,110,197	\$ 100,005,217
BUSINESS-TYPE ACTIVITIES:				
Capital assets being depreciated:				
Furniture and equipment	\$ 561,883	\$ 1,917	\$ -	\$ 563,800
Total Capital Assets Being Depreciated	561,883	1,917	-	563,800
Less accumulated depreciation for:				
Furniture and equipment	534,895	10,875	-	545,770
Total accumulated depreciation	534,895	10,875	-	545,770
BUSINESS-TYPE ACTIVITIES, NET	\$ 26,988	\$ (8,958)	\$ -	\$ 18,030

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 5 **CAPITAL ASSETS** (cont'd)

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

Governmental activities:

Instruction	\$ 227,178
Instructional student support	104,754
Administrative and financial support services	892,260
Operation and maintenance of plant services	3,170,624
Student activities	<u>26,329</u>

Total Depreciation Expense - Governmental Activities	<u>\$ 4,421,145</u>
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Business-type Activities - Food Service	<u>\$ 10,875</u>
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NOTE 6 **GENERAL LONG-TERM DEBT**

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2010:

	<u>Balance July 01, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>
Notes payable	\$ 64,835,000	\$ -	\$24,099,000	\$ 40,736,000
Bonds payable	29,395,000	20,865,000	940,000	49,320,000
Accumulated compensated absences	1,768,738	-	61,723	1,707,015
Other post-employment	<u>116,189</u>	<u>84,691</u>	<u>-</u>	<u>200,880</u>
TOTALS	<u>\$ 96,114,927</u>	<u>\$20,949,691</u>	<u>\$25,100,723</u>	<u>\$ 91,963,895</u>

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

General Obligation Notes

Series B of 1997, maturing through October 2017, bearing interest at 4.20%, payable monthly.	\$ 2,169,000
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Series of 2000, maturing through March 2017, bearing interest at 4.38%, payable monthly.	6,447,000
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Series B of 2000, maturing through July 2021, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	3,422,000
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Series C of 2000, maturing through August 2025, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	9,082,000
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QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBT (cont'd)

Series of 2002, maturing through November 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.

836,000

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.

4,245,000

Series of 2004 Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.

11,200,000

Series of 2006, maturing through April 2016, bearing interest at 4.02%, payable monthly.

3,335,000

General Obligation Bonds

Series A of 2004, maturing through August 2025, bearing interest ranging from 3.25% to 4.60%, interest payable semi-annually in February and August.

9,820,000

Series of 2008, maturing through November 2024, bearing interest at 3.90%, payable semi-annually.

9,890,000

Series of 2009, maturing through August 2025, bearing interest ranging from 2.00% to 4.13%, interest payable semi-annually in February and August. This series of 2009 provided funds to refund the Series 2003 and 2003A bonds.

9,005,000

Series of 2009A, maturing through October 2023, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually in April and October. This series A of 2009 provided funds to refund the Series 2002 bonds. This current refunding was undertaken to reduce total debt service payments over the next 14 years by \$844,895 and resulted in an economic gain of \$555,229.

20,605,000

TOTAL

\$ 90,056,000

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBT (cont'd)

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

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2011	\$ 4,784,000	\$ 2,878,027	\$ 7,662,027
2012	4,980,000	2,782,921	7,762,921
2013	5,158,000	2,570,233	7,728,233
2014	5,342,000	2,388,125	7,730,125
2015	5,539,000	2,265,942	7,804,942
2016-2020	30,582,000	8,954,184	39,536,184
2021-2025	32,126,000	10,868,801	42,994,801
2026	1,545,000	33,825	1,578,825
	<u>\$ 90,056,000</u>	<u>\$ 32,742,058</u>	<u>\$122,798,058</u>

NOTE 7 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 6.25 percent and 7.5 percent of salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2010, the rate of employer contribution was 4.78 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2008, 2009 and 2010 were \$2,964,487, \$1,973,957 and \$1,947,697, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District 50 percent of its contribution each year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 8 JOINT VENTURE

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

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

Future rental payments are scheduled as follows:

Year Ending June 30,

2011	\$ 96,439
2012	96,223
2013	95,874
2014	95,402
2015	96,322
2016-2020	479,014
2021-2025	480,058
2026	95,139
Total	1,534,471
Less: Interest requirements	<u>(323,367)</u>
Outstanding rental payments	<u>\$ 1,211,104</u>

NOTE 9 INTERNAL RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2010 is as follows:

Receivable To	Amount	Payable From	Amount
General Fund	\$ 44,437	Capital Projects Fund	\$ 44,437
General Fund	\$ 54,730	Food Service Fund	\$ 54,730

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 10 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, 2010, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed to date are as follows:

	<u>Project Amount</u>	<u>Completed to June 30, 2010</u>	<u>Commitments</u>
Richland Elementary School addition and renovation	<u>\$ 10,802,903</u>	<u>\$ 9,464,021</u>	<u>\$ 1,338,882</u>

In addition, the District has incurred costs in the amount of \$1,454,509 for other projects that were not under a formal construction commitment as of June 30, 2010.

NOTE 11 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 2009-2010 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

Effective for the 2008-2009 fiscal year, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits provided by the District. This

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Statement generally provides for prospective Implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

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

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2010, the District contributed \$491,753 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 576,444
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	576,444
Contributions made	<u>(491,753)</u>
Increase in net OPEB obligation	84,691
Net OPEB obligation - beginning of year	<u>116,189</u>
Net OPEB obligation - end of year	<u>\$ 200,880</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Funded Status and Funding Progress

As of May 1, 2008, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$5,662,472, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$5,662,472. The covered payroll (annual payroll of active employees covered by the plan) was \$35,136,366, and the ratio of the UAAL to the covered payroll was 16.12 percent.

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

Actuarial Methods and Assumptions

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

In the May 1, 2008 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 8.5 percent in 2008, reduced by decrements to an ultimate rate of five percent in 2015 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2010 was 28 years.

NOTE 13 PRIOR PERIOD ADJUSTMENT

During the current year, the District recorded an adjustment to the beginning net assets of the governmental activities as of June 30, 2009 resulting in a decrease of \$200,255 in net assets. The adjustment was made to agree the District's capital asset records to the records maintained by a third-party appraisal company. In addition, the District has restated prior year comparative information as of June 30, 2009 to reflect changes based on the adjustment.

During the current year, the District also recorded an adjustment to the beginning general fund fund balance and net assets of the governmental activities as of June 30, 2009 resulting in an increase of \$157,360 in the fund balance and net assets. The adjustment was made to record inventory to the balance sheet which had previously been expensed when purchased. In addition, the District has restated prior year comparative information as of June 30, 2009 to reflect changes based on the adjustment.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 14 SUBSEQUENT EVENTS

On December 2, 2010, the District issued bonds in the amount of \$24,865,000 for the purposes of refunding outstanding General Obligation Note, Series A of 2004 and for financing capital improvements to District schools.

The District has evaluated all subsequent events through February 17, 2011, the date the financial statements were available to be issued.

SINGLE AUDIT

**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**

February 17, 2011

Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Quakertown Community School District, Quakertown, Pennsylvania as of and for the year ended June 30, 2010, and have issued our report thereon dated February 17, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Quakertown Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Quakertown Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of School Directors
Quakertown Community School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Quakertown Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving the internal control over financial reporting which we have reported to management of Quakertown Community School District in a separate letter dated February 17, 2011.

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


BARBACANE, THORNTON & COMPANY LLP

**REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810
T 302.478.8940
F 302.468.4001
www.btcpa.com

February 17, 2011

Board of School Directors
Quakertown Community School District
Quakertown, Pennsylvania

Compliance

We have audited the compliance of Quakertown Community School District, Quakertown, Pennsylvania, with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Quakertown Community School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Quakertown Community School District's management. Our responsibility is to express an opinion on Quakertown Community School District's compliance based on our audit.

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

In our opinion, Quakertown Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Quakertown Community School District, Quakertown, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit,

To the Board of School Directors
Quakertown Community School District

we considered Quakertown Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Quakertown Community School District's internal control over compliance.

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

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

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Internal control over financial reporting:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |
| • Noncompliance material to financial statements noted? | <u> </u> Yes | <u> X </u> No |

Federal Awards

Internal control over major programs:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

 Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010, 84.389

Title I & Title I ARRA

84.027, 84.391

I.D.E.A. & I.D.E.A. ARRA

84.394

State Fiscal Stabilization Fund

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

\$ 300,000

Auditee qualified as low-risk auditee?

 X Yes No

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

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THRU GRANTOR'S NUMBER	GRANT PERIOD BEGINNING / ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 07/01/2009	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2010
U.S. DEPARTMENT OF EDUCATION										
<u>Passed through PA Department of Education</u>										
Title I	I	84.010	013-09-0353	07/01/08 - 09/30/09	\$ 517,615	103,462	77,031	24,620	\$ 24,620	\$ (1,811)
Title I	I	84.010	013-10-0353	07/01/09 - 09/30/10	465,057	373,622	-	458,830	458,830	85,208
Title I - Academic Achievement Award	I	84.010	077-09-0353	07/07/08 - 09/30/09	3,000	1,800	1,227	573	573	-
Title I - Academic Achievement Award	I	84.010	077-10-0353	07/01/09 - 09/30/10	4,000	1,440	-	5,050	5,050	3,610
Title II - Improving Teacher Quality	I	84.367	020-09-0353	07/07/08 - 09/30/09	145,333	29,067	2,411	26,656	26,656	-
Title II - Improving Teacher Quality	I	84.367	020-10-0353	07/01/09 - 09/30/10	143,491	133,925	-	141,516	141,516	7,591
Drug-Free Schools	I	84.186	100-10-0353	12/04/09 - 09/30/10	13,799	13,799	-	13,799	13,799	-
Title III	I	84.365	010-09-0353	09/08/08 - 09/30/09	16,069	7,341	(5,874)	13,215	13,215	-
Title III	I	84.365	010-10-0353	09/22/09 - 09/30/10	19,771	19,771	-	17,452	17,452	(2,319)
Title I - ARRA	I	84.389	127-10-0353	05/20/09 - 09/30/10	234,117	206,909	-	158,962	158,962	(47,947)
Fiscal Stabilization - Basic Ed. - ARRA	I	84.394	126-10-0353	07/01/09 - 06/30/09	1,068,482	979,442	-	1,068,482	1,068,482	89,040
<u>Passed through Bucks County I. U.</u>										
I.D.E.A.	I	84.027	N/A	07/01/08 - 06/30/09	732,213	215,169	215,169	-	-	-
I.D.E.A.	I	84.027	N/A	07/01/09 - 06/30/10	735,733	517,280	-	737,676	737,676	220,396
I.D.E.A. - ARRA	I	84.391	N/A	02/17/09 - 09/30/10	858,465	347,612	-	441,029	441,029	93,417
TOTAL U.S. DEPT OF EDUCATION						<u>2,950,639</u>	<u>289,964</u>	<u>3,107,860</u>	<u>3,107,860</u>	<u>447,185</u>
U.S. DEPARTMENT OF AGRICULTURE										
<u>Passed through PA Department of Agriculture</u>										
National School Lunch - Commodities	I	10.555	N/A		N/A	113,218	(26,143)	119,118	119,118	(20,243)
<u>Passed through PA Department of Education</u>										
National School Lunch	I	10.555	N/A	07/01/08 - 06/30/09	N/A	27,500	27,500	-	-	-
National School Breakfast	I	10.553	N/A	07/01/08 - 06/30/09	N/A	108	108	-	-	-
National School Lunch	I	10.555	N/A	07/01/09 - 06/30/10	N/A	370,676	-	450,976	450,976	80,300
National School Breakfast	I	10.553	N/A	07/01/09 - 06/30/10	N/A	956	-	1,268	1,268	312
State Matching Share	S	N/A	N/A	07/01/08 - 06/30/09	N/A	3,408	3,408	-	-	-
State Matching Share	S	N/A	N/A	07/01/09 - 06/30/10	N/A	40,779	-	49,118	49,118	8,339
TOTAL U.S. DEPT OF AGRICULTURE						<u>556,645</u>	<u>4,873</u>	<u>620,480</u>	<u>620,480</u>	<u>68,708</u>
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS						<u>\$3,507,284</u>	<u>\$294,837</u>	<u>\$ 3,728,340</u>	<u>\$ 3,728,340</u>	<u>\$515,893</u>

Source Codes

- D- Direct Funding
- I- Indirect Funding
- S- State Share

Footnotes:

- a) Total amount of commodities received from U.S. Department of Agriculture.
- b) Beginning inventory at July 1.
- c) Total amount of commodities used.
- d) Ending inventory at June 30.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

NOTE A SCOPE OF THIS SCHEDULE

The 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.

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY 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 under CFDA #10.555 National School Lunch - Commodities represent surplus food consumed by the District during the 2009-2010 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2010 was \$1,471.