

**QUAKERTOWN COMMUNITY
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2015

TABLE OF CONTENTS

Page Number

1 – 2	Table of Contents
3 – 5	Independent Auditor's Report
	Required Supplementary Information
6 – 14	Management's Discussion and Analysis
	Government-wide Financial Statements
15	Statement of Net Position
16	Statement of Activities
	Fund Financial Statements
	<i>Governmental Funds</i>
17	Balance Sheet
18	Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities
19	Statement of Revenues, Expenditures, and Changes in Fund Balances
20	Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
	<i>Proprietary Funds</i>
21	Statement of Net Position
22	Statement of Revenues, Expenses, and Changes in Net Position
23	Statement of Cash Flows
	<i>Fiduciary Funds</i>
24	Statement of Fiduciary Net Position
25	Statement of Changes in Fiduciary Net Position
26 – 47	Notes to the Basic Financial Statements

(Continued)

TABLE OF CONTENTS (CONTINUED)

Page Number

Required Supplementary Information

48	Schedule of Funding Progress for the Post-employment Benefits Plan
49	Budgetary Comparison Schedule – General Fund
50	Notes to Budgetary Comparison Schedule
51	Schedule of District’s Proportionate Share of the Net Pension Liability
52	Schedule of District’s Pension Contribution

Single Audit Section

53 – 54	Schedule of Expenditures of Federal Awards and Certain State Grants
55	Notes to Schedule of Expenditures of Federal Awards and Certain State Grants
56 – 57	Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>
58 – 59	Independent Auditor’s Report on Compliance with Requirements for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133
60 – 63	Schedule of Findings and Questioned Costs
64	Corrective Action Plan

DRESLIN

AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, beginning for the year ended June 30, 2015, Quakertown Community School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To Comply with GASB Statement No. 68, the net position of the governmental activities has been restated as of July 1, 2014 to include the actuarially-determined net pension liability as of June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 14 and other required supplementary information on pages 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and certain state grants is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2016, on our consideration of Quakertown Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Quakertown Community School District's internal control over financial reporting and compliance.

Dreslin and Company, Inc.

West Chester, Pennsylvania
January 8, 2016

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the financial performance of Quakertown Community School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. 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 Net Position of all governmental activities was (\$94,694,466) and the the Net Position of all business-type activities was \$115,339, for a total Net Position of (\$94,579,127). The negative Net Position is due to the application of GASB #68 *Accounting and Financial Reporting for Pensions*. This reflects the net actuarially-determined net pension liability for the Quakertown Community School District as of June 30, 2015.

The District expended \$20,832,959 on capital assets during the year.

The actual results of the District's General Fund for 2014-2015 show that revenues and other financing sources collected during the year were under budget by \$965,385, and expenditures and other financing uses were under budget by \$3,896,830. The General Fund reported a positive fund balance of \$15,812,815 as of June 30, 2015, or 15.9 percent of the 2015-2016 \$99.5 million operating budget. Fund balance of \$107,936 is non-spendable; \$3,763,663 is committed; leaving \$11,941,216 as unassigned, which is 12 percent of the 2015-2016 budget.

DATA ANALYSIS: THE BASIC FINANCIAL STATEMENTS

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

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

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

Government-wide Reporting Process

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

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

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

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

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

DISTRICT FUND REPORTING

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

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

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statement of net position and statement of activities for its governmental and business-type activities (combined) as of June 30, 2015 as summarized below.

STATEMENT OF NET POSITION

	<u>2015</u>
ASSETS	
Current assets	\$ 38,600,086
Capital assets:	
Land	2,197,864
Land improvements	8,894,912
Buildings and improvements	126,789,802
Furniture and equipment	25,256,109
Construction-in-progress	55,599,366
Total capital assets	218,738,053
Less: Accumulated depreciation	(72,287,669)
Capital assets, net	146,450,384
Deferred Outflows of Resources	8,428,897
TOTAL ASSETS AND DEFERRED OUFLOWS OF RESOURCES	<u>\$ 193,479,367</u>
LIABILITIES	
Current liabilities	\$ 12,525,718
Long-term liabilities:	
Due within one year	6,307,676
Due after one year	260,928,100
TOTAL LIABILITIES	<u>279,761,494</u>
Deferred Inflows of Resources	8,297,000
NET POSITION	
Invested in capital assets, net of related debt	18,730,200
Unrestricted	(113,309,327)
TOTAL NET POSITION	<u>\$ (94,579,127)</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$94,579,127 at the close of the 2014-2015 fiscal year due to the adoption of GASB Statement #68 which required the net position of the governmental activities to be restated to include the actuarially-determined net pension liability as of June 30, 2014.

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

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

STATEMENT OF ACTIVITIES

REVENUES

Program revenues	
Charges for services	\$ 2,116,270
Operating grants and contributions	10,003,835
Capital grants and contributions	545,604
Total program revenues	12,665,709
General revenues	84,073,846
TOTAL REVENUES	96,739,555

EXPENSES

Governmental activities	92,651,480
Business-type activity	2,019,225
TOTAL EXPENSES	94,670,705
Change in net position	2,068,850
Net position, beginning of year	(96,647,977)
Net position, end of year	<u><u>\$ (94,579,127)</u></u>

The cost of all District activities in 2014-2015 was \$94,670,705. The amount that taxpayers ultimately financed for those activities through tax revenues was \$70,703,688, or 74.68%. A majority of the other cost was paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions, as well as charges for services.

General local revenues increased due primarily to real estate tax revenues, which increased commensurate with the increased millage rate. State revenues increased due to the state reimbursement subsidy of the district's payment towards the Public Employees' Retirement System. Overall revenues exceeded expenses by \$2,068,850.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

General Fund Revenues and Other Financing Sources

The District receives its General Fund revenues from three major sources, categorized as local, state, and federal. The primary source of revenue, 75.7%, is from local sources, most of which comes from real estate taxes. State revenues account for 23.2%, and federal revenues and other financing sources 1.1%.

The largest increase in local revenues came from real estate taxes. This increase was realized as a result of a 2.73(1.90%) millage rate increase.

	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Local revenues			
Real estate taxes	\$56,197,312	\$55,231,886	\$ 965,426
Interim real estate taxes	366,878	241,722	125,156
Earned income taxes	9,213,065	8,947,079	265,986
IDEA	832,803	719,700	113,103
Other	4,107,725	3,537,585	570,140
	<u>70,717,783</u>	<u>68,677,972</u>	<u>2,039,811</u>
State revenues			
Basic instructional subsidy	9,072,750	9,073,162	(412)
Special education	2,651,138	2,357,853	293,285
Transportation	1,246,965	1,236,668	10,297
Social security and retirement	5,868,434	4,990,339	878,095
Other	2,865,482	3,348,299	(482,817)
	<u>21,704,769</u>	<u>21,006,321</u>	<u>698,448</u>
Federal revenues			
Title I	373,374	373,951	(577)
Other	179,825	367,241	(187,416)
	<u>553,199</u>	<u>741,192</u>	<u>(187,993)</u>
Other financing sources	<u>501,371</u>	<u>606,523</u>	<u>(105,152)</u>
Total revenues and other financing sources	<u>\$93,477,122</u>	<u>\$91,032,008</u>	<u>\$2,445,114</u>

General Fund Expenditures and Other Financing Uses

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

	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Instruction	\$57,330,751	\$55,440,610	\$1,890,141
Support services	25,641,248	26,764,503	(1,123,255)
Operation of non-support services	965,273	871,431	93,842
Debt service	8,453,817	8,550,095	(96,278)
Total expenditures	<u>\$92,391,089</u>	<u>\$91,626,639</u>	<u>\$ 764,450</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

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

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

Fund Balances

The General Fund fund balance increased by \$1,086,033 for the 2014-15 fiscal year. This is the difference between the revenues and other financing sources of \$93,477,122 and the expenditures and other financing uses of \$92,391,089, as shown above. In addition, the fund balance decreased due to a prior-period adjustment of \$761,385 for an overstatement of State Rental Reimbursement Subsidies Receivables based upon revenue measurement and collectability. The fund balance, as a percentage of total expenditures and other financing uses, was 15.9%.

The recommended fund balance level is between five percent and eight percent. During the budget process for the 2014-15 fiscal year, the Board of School Directors (the Board) intended to bring the fund balance within that range. However, a district-wide effort to be conservative on all expenditures resulted in a higher fund balance than expected. \$2,513,663 of the 2014-15 Fund Balance is Committed for PSERS Rate Stabilization, \$1,250,000 is Committed for Capital Improvements, \$107,936 non-spendable, leaving the remaining \$11,941,216 Unassigned.

The Capital Projects fund balance increased by \$6,710,426 to an ending balance of \$8,931,470. The decrease in fund balance was due to the increased spending on the Senior High School Renovation and the timing of bond issues to fund the project. The High School Renovation will be completed in September 2017.

General Fund Budget Information

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

Capital Assets

The District has \$146,450,384 invested in capital assets net of depreciation. The majority of the acquisitions were for construction in progress for the Senior High School Renovation (see notes to the basic financial statements – Note 5).

Debt

At June 30, 2015, the District had \$135,733,000 in outstanding notes and bonds payable. The District paid \$5,034,000 in principal on outstanding debt during the fiscal year. Other long-term obligations include accrued sick leave and retirement severance for employees of the District. Detailed information regarding long-term debt is included in the notes to the financial statements (note 6).

Labor Relations

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

District Level Comprehensive Plan

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

Mission

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

Vision

The district's vision is to promote its 5,500 students to become lifelong learners, who are able to pursue academic excellence, exhibit personal responsibility, provide service to the community, and respect oneself, others and the environment. In preparing for a rapidly changing 21st Century society, our students enter our schools to learn and leave to serve. The goal of the school board is to achieve excellence in education consistent with its mission statement. The Board values academic achievement. This goal of excellence is supported by parents, and a seasoned, well-prepared and dedicated staff.

Shared Values

We believe we are responsible for maximizing student achievement for every child.

We believe everyone must act with civility, responsibility, and integrity.

We believe in a physically and intellectually safe environment for all.

We believe in the responsible stewardship of community resources.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

We believe learning provides choices and life enriching opportunities.

We believe education is collaboration between students, parents, staff, school board, and community.

We believe effective communication is essential.

We believe we are a community of learners focused on continuous improvement.

Initiatives

Based on the components of the plan as written, QCSD should continue moving forward with the following initiatives:

- Focused data-driven teacher collaboration time
- Transparency when selecting materials and resources
- Classroom instruction effectiveness
- Comprehensive professional development implemented with fidelity & focus
- PA Common Core standards-based instruction and common assessments
- Teacher Effectiveness (Teacher PVAAS) and School Performance Profile implementation
- Full Day Kindergarten
- Increased student achievement and graduation rate
- College and career readiness for all students
- World Language elementary through high school
- Effective homework & remediation protocols
- Use of PDE Standards Aligned System to improve instruction, assessment and achievement.

Major Financial Issues and Future Changes

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

In the summer of 2013, a major four-phase renovation to the High School began. The \$76 million dollar project will be completed in September of 2017. The millage impact of the project will be a 7.17 Mills phased in over an 8 year period. \$70,510,000 of the funding is now in place.

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

<u>Year</u>	<u>Rate</u>
2015-16	25.84%
2016-17	30.03%
2017-18	32.04%
2018-19	33.27%
2019-20	34.20%
2020-21	33.51%
2021-22	33.51%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

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

2008-09	\$ 400,050,702	
2009-10	401,522,240	0.37%
2010-11	401,198,336	-0.08%
2011-12	399,450,798	-0.44%
2012-13	401,139,569	0.42%
2013-14	399,774,960	-0.34%
2014-15	400,614,798	0.21%
2015-16	403,422,419	0.70%
2016-17	405,130,501	0.42%

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

Contacting the District Financial Management

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-type Activity	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 22,989,333	\$ 185,737	\$ 23,175,070
Investments	7,073,278	-	7,073,278
Taxes Receivable	3,708,530	-	3,708,530
Internal Balances	222,975	(222,975)	-
Due From Agency Fund	8,085	-	8,085
Due from Other Governments	3,775,794	199,192	3,974,986
Other Receivables	514,333	1,741	516,074
Inventories	-	36,128	36,128
Prepaid Expenses	107,936	-	107,936
Total Current Assets	<u>38,400,264</u>	<u>199,823</u>	<u>38,600,087</u>
Noncurrent Assets:			
Capital Assets:			
Land	2,197,864	-	2,197,864
Land Improvements	8,894,912	-	8,894,912
Construction in Progress	55,599,366	-	55,599,366
Buildings and Building Improvements	126,789,802	-	126,789,802
Property and Equipment	24,639,864	616,245	25,256,109
	218,121,808	616,245	218,738,053
Less: Accumulated Depreciation	<u>(71,692,857)</u>	<u>(594,812)</u>	<u>(72,287,669)</u>
Total Capital Assets, Net of Depreciation	<u>146,428,951</u>	<u>21,433</u>	<u>146,450,384</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	<u>8,428,897</u>	<u>-</u>	<u>8,428,897</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 193,258,112</u></u>	<u><u>\$ 221,256</u></u>	<u><u>\$ 193,479,368</u></u>
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 6,306,299	\$ 57,909	\$ 6,364,208
Accrued Salaries and Benefits	302,428	-	302,428
Payroll Deductions and Withholdings	4,296,783	-	4,296,783
Accrued Interest	1,417,549	-	1,417,549
Unearned Revenue	96,743	48,008	144,751
Portion Due or Payable Within One Year:			
Bonds and Notes Payable	5,780,000	-	5,780,000
Capital Lease Obligations	<u>527,676</u>	<u>-</u>	<u>527,676</u>
Total Current Liabilities	<u>18,727,478</u>	<u>105,917</u>	<u>18,833,395</u>
Long-term Liabilities:			
Bonds and Notes Payable	129,953,000	-	129,953,000
Capital Lease Obligations	390,978	-	390,978
Accumulated Compensated Absences	1,640,251	-	1,640,251
Net Pension Liability	128,598,000	-	128,598,000
Other Post-employment Benefits	<u>345,871</u>	<u>-</u>	<u>345,871</u>
Total Noncurrent Liabilities	<u>260,928,100</u>	<u>-</u>	<u>260,928,100</u>
Total Liabilities	<u>279,655,578</u>	<u>105,917</u>	<u>279,761,495</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>8,297,000</u>	<u>-</u>	<u>8,297,000</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	18,708,767	21,433	18,730,200
Unrestricted	<u>(113,403,233)</u>	<u>93,906</u>	<u>(113,309,327)</u>
Total Net Position	<u>(94,694,466)</u>	<u>115,339</u>	<u>(94,579,127)</u>
Total Liabilities and Net Position	<u><u>\$ 193,258,112</u></u>	<u><u>\$ 221,256</u></u>	<u><u>\$ 193,479,368</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activity</u>	<u>Total</u>
Governmental Activities:							
Instruction	\$ 57,384,822	\$ 631,831	\$ 6,281,674	\$ -	\$ (50,471,317)		\$ (50,471,317)
Instructional Student Support	10,103,255	-	817,130	-	(9,286,125)		(9,286,125)
Administrative Support Services	8,246,052	-	616,542	-	(7,629,510)		(7,629,510)
Operation and Maintenance of Plant Services	8,811,204	214,615	154,230	-	(8,442,359)		(8,442,359)
Pupil Transportation	3,362,377	-	1,246,966	-	(2,115,411)		(2,115,411)
Student Activities	953,773	118,009	72,392	-	(763,372)		(763,372)
Community Services	9,748	-	-	-	(9,748)		(9,748)
Interest on Long-term Debt	3,780,249	-	-	545,604	(3,234,645)		(3,234,645)
Total Governmental Activities	92,651,480	964,455	9,188,934	545,604	(81,952,487)		(81,952,487)
Business-type Activity:							
Food Service	2,019,225	1,151,815	814,901		-	\$ (52,509)	(52,509)
Total	\$ 94,670,705	\$ 2,116,270	\$ 10,003,835	\$ 545,604	(81,952,487)	(52,509)	(82,004,996)

General Revenues:

Property Taxes, Levied for General Purposes	59,253,070	-	59,253,070
Taxes Levied for Specific Purposes	11,450,618	-	11,450,618
Grants and Entitlements Not Restricted to Specific Programs	11,723,888	-	11,723,888
Investment Earnings	96,164	543	96,707
Miscellaneous	231,893	146	232,039
Bond Premium	1,317,524		1,317,524
Total General Revenues	84,073,157	689	84,073,846
Change in Net Position	2,120,670	(51,820)	2,068,850
Net Position - Beginning of Year (As Restated)	(96,815,136)	167,159	(96,647,977)
Net Position - End of Year	\$ (94,694,466)	\$ 115,339	\$ (94,579,127)

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT**Balance Sheet
Governmental Funds
June 30, 2015**

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 15,928,134	\$ 7,061,199	\$ 22,989,333
Investments	992,821	6,080,457	7,073,278
Taxes Receivable	3,708,530	-	3,708,530
Interfund Receivable	231,060	-	231,060
Due from Other Governments	3,775,794	-	3,775,794
Other Receivables	514,333	-	514,333
Prepaid Expenses	107,936	-	107,936
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 25,258,608</u>	<u>\$ 13,141,656</u>	<u>\$ 38,400,264</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 2,096,113	\$ 4,210,186	\$ 6,306,299
Accrued Salaries and Benefits	302,428	-	302,428
Payroll Deductions and Withholdings	4,296,783	-	4,296,783
Unearned Revenue	96,743	-	96,743
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>6,792,067</u>	<u>4,210,186</u>	<u>11,002,253</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Real Estate Taxes	1,448,619	-	1,448,619
Deferred State Source Revenues	1,169,910	-	1,169,910
Deferred Other Taxes	35,197	-	35,197
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>2,653,726</u>	<u>-</u>	<u>2,653,726</u>
FUND BALANCES			
Non-spendable	107,936	-	107,936
Committed:			
PSERS Liability	2,513,663	-	2,513,663
Capital Reserve	1,250,000	-	1,250,000
Assigned:			
Capital Projects	-	8,931,470	8,931,470
Unassigned	11,941,216	-	11,941,216
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>15,812,815</u>	<u>8,931,470</u>	<u>24,744,285</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 25,258,608</u>	<u>\$ 13,141,656</u>	<u>\$ 38,400,264</u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
June 30, 2015

TOTAL GOVERNMENTAL FUND BALANCES	\$ 24,744,285
---	----------------------

Amounts reported for governmental activities in the Statement of
Net Position are different because of the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of assets is \$218,121,808, and the accumulated depreciation is \$71,692,857	146,428,951
---	-------------

Some of the District's revenues will not be collected soon enough after year end to pay for the current year's expenditures and, therefore, are not available in the fund:

Taxes	1,483,816
Revenues - State Sources	1,169,910

The Net Pension Liability is not due and payable in the current period and therefore is not reported in the funds. In addition, the deferred outflows and inflows of resources related to pensions do not represent current financial resources and therefore are not reported in the funds. Those items consist of:

Net Pension Liability	(128,598,000)
Deferred Inflows of Resources - Pensions	(8,297,000)
Deferred Outflows of Resources - Pensions	8,428,897

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:

Bonds and Notes Payable	(135,733,000)
Accrued Interest	(1,417,549)
Capital Lease Obligation	(918,654)
Other Post-employment Benefits	(345,871)
Accumulated Compensated Absences	(1,640,251)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (94,694,466)</u></u>
--	--------------------------------------

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Capital Projects Fund	Total
REVENUES			
Local Sources	\$ 70,717,783	\$ 32,416	\$ 70,750,199
State Sources	21,704,769	-	21,704,769
Federal Sources	553,199	-	553,199
	<hr/>	<hr/>	<hr/>
Total Revenues	92,975,751	32,416	93,008,167
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Instruction	57,330,751	-	57,330,751
Support Services	25,641,248	1,030,316	26,671,564
Operation of Non-instructional Services	965,273	-	965,273
Facilities Acquisition, Construction, and Improvement	-	20,648,025	20,648,025
Debt Service	8,453,817	346,173	8,799,990
	<hr/>	<hr/>	<hr/>
Total Expenditures	92,391,089	22,024,514	114,415,603
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	584,662	(21,992,098)	(21,407,436)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Debt	-	27,850,000	27,850,000
Proceeds from Refunding Bonds	-	18,750,000	18,750,000
Bond Premium	-	1,317,524	1,317,524
Bond Discount	-	-	-
Payment to Refunded Bond Escrow Agent	-	(19,215,000)	(19,215,000)
Proceeds from Extended Term Financing	490,821	-	490,821
Sale of or Compensation for Capital Assets	10,550	-	10,550
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	501,371	28,702,524	29,203,895
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	1,086,033	6,710,426	7,796,459
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning of Year (As Restated)	14,726,782	2,221,044	16,947,826
	<hr/>	<hr/>	<hr/>
Fund Balances - End of Year	<u>\$ 15,812,815</u>	<u>\$ 8,931,470</u>	<u>\$ 24,744,285</u>

(Continued)

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Reconciliation of Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
To the Statement of Activities
For the Year Ended June 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 7,796,459**

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

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

Capital Asset Purchases Capitalized	20,831,867
Depreciation Expense	(4,383,280)

Because some property and earned income taxes will not be collected for several months after year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. This amount is net of current year uncollectible accounts. 27,385

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

Proceeds from Issuance of Debt	(27,850,000)
Proceeds from Refunding Bonds	(18,750,000)
Payment to Refunded Bond Escrow Agent	19,215,000
Proceeds from Extended Term Financing	(490,821)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 5,034,000

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 600,049

Compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 131,804

Because some state rental revenues will not be collected for several months after year end, they are not considered as "available" revenues by the government funds but are accrued in the statement of activities. 408,525

Other post-employment benefits do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (31,785)

The net change in the net pension liability, as well as the change in the related deferred inflows and outflows, is reported in the statement of activities, but is not reported in the fund financial statements. 195,775

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt in the statement of activities. (614,308)

Change in Net Position of Governmental Activities	\$ 2,120,670
---	--------------

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

Statement of Net Position

Proprietary Fund

June 30, 2015

(With Comparative Data as of June 30 2014)

	Enterprise Fund - Food Service Fund	
	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 185,737	\$ 100,725
Due from Other Governments	199,192	58,940
Other Receivables	1,741	120,712
Inventories	<u>36,128</u>	<u>33,209</u>
Total Current Assets	<u>422,798</u>	<u>313,586</u>
Capital Assets:		
Equipment	616,245	610,353
Less: Accumulated Depreciation	<u>(594,812)</u>	<u>(579,304)</u>
Capital Assets - Net	<u>21,433</u>	<u>31,049</u>
Total Assets	<u><u>\$ 444,231</u></u>	<u><u>\$ 344,635</u></u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 57,909	\$ 79,651
Interfund Payable	222,975	53,771
Unearned Revenues	<u>48,008</u>	<u>44,054</u>
Total (Current) Liabilities	<u>328,892</u>	<u>177,476</u>
NET POSITION		
Invested in Capital Assets	21,433	31,049
Unrestricted	<u>93,906</u>	<u>136,110</u>
Total Net Position	<u>115,339</u>	<u>167,159</u>
Total Liabilities and Net Position	<u><u>\$ 444,231</u></u>	<u><u>\$ 344,635</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Change in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2015
(With Comparative Data for the Year Ended June 30, 2014)

	Enterprise Fund - Food Service Fund	
	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Food Service Revenues	\$ 1,151,961	\$ 1,169,334
Total Operating Revenues	<u>1,151,961</u>	<u>1,169,334</u>
OPERATING EXPENSES		
Payroll	367,586	366,679
Employee Benefits	125,823	99,654
Purchased Property Services	68,594	62,185
Other Purchased Services	680,735	575,341
Supplies	764,187	846,074
Depreciation	10,708	12,091
Dues and Fees	-	50
Other Operating Expenses	<u>1,592</u>	<u>1,961</u>
Total Operating Expenses	<u>2,019,225</u>	<u>1,964,035</u>
Operating (Loss)	<u>(867,264)</u>	<u>(794,701)</u>
NONOPERATING REVENUES		
Interest Income	543	596
State Sources	99,012	91,630
Federal Sources	<u>715,889</u>	<u>681,390</u>
Total Nonoperating Revenue	<u>815,444</u>	<u>773,616</u>
Change in Net Position	(51,820)	(21,085)
Total Net Position - Beginning of Year	<u>167,159</u>	<u>188,244</u>
Total Net Position - End of Year	<u>\$ 115,339</u>	<u>\$ 167,159</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, 2015
(With Comparative Data for the Year Ended June 30, 2014)

	Enterprise Fund - Food Service Fund	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,274,741	\$ 1,044,630
Cash Received from Other Operating Revenue	146	325
Cash Payments to Employees	(493,409)	(466,333)
Cash Payments to Suppliers	(1,368,974)	(1,438,291)
Cash Payments for Other Operating Expenses	<u>(1,592)</u>	<u>(2,011)</u>
Net Cash (Used) by Operating Activities	<u>(589,088)</u>	<u>(861,680)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Sources	87,598	100,821
Federal Sources	<u>587,050</u>	<u>669,446</u>
Net Cash Provided by Noncapital Financing Activities	<u>674,648</u>	<u>770,267</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	<u>(1,091)</u>	<u>-</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,091)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	<u>543</u>	<u>596</u>
Net Cash Provided by Investing Activities	<u>543</u>	<u>596</u>
Net Increase (Decrease) in Cash and Cash Equivalents	85,012	(90,817)
Cash and Cash Equivalents - Beginning of Year	<u>100,725</u>	<u>191,542</u>
Cash and Cash Equivalents - End of Year	<u>\$ 185,737</u>	<u>\$ 100,725</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:		
Operating (Loss)	\$ (867,264)	\$ (794,701)
Adjustments to Reconcile Operating (Loss) to		
Net Cash (Used) by Operating Activities		
Depreciation	10,708	12,091
(Increase) Decrease in Current Assets:		
Receivables	118,971	(110,148)
Inventories	(2,919)	37,030
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Interfund Payable	147,462	8,279
Unearned Revenues	<u>3,954</u>	<u>(14,231)</u>
Net Cash (Used) by Operating Activities	<u>\$ (589,088)</u>	<u>\$ (861,680)</u>
Schedule of Noncash Noncapital Financing Activities:		
USDA Donated Commodities	\$ 113,981	\$ 91,718

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2015

	Private-purpose <u>Trust Fund</u>	Agency <u>Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 131,862	\$ 28,725
Investments	<u>-</u>	<u>278,459</u>
Total Assets	<u>131,862</u>	<u>\$ 307,184</u>
LIABILITIES		
Due to General Fund		\$ 8,085
Due to Student Organizations	<u>-</u>	<u>299,099</u>
Total Liabilities	<u>-</u>	<u>\$ 307,184</u>
NET POSITION		
Reserved for Trust	<u>\$ 131,862</u>	

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015
(With Comparative Data For the Year Ended June 30, 2015)

	<u>Private-purpose Trust Fund</u>	
	<u>2015</u>	<u>2014</u>
ADDITIONS		
Local Contributions	<u>\$ 11,607</u>	<u>\$ 14,142</u>
Total Additions	<u>11,607</u>	<u>14,142</u>
DEDUCTIONS		
Scholarships Awarded	<u>15,725</u>	<u>12,825</u>
Total Deductions	<u>15,725</u>	<u>12,825</u>
Change in Net Position	(4,118)	1,317
Net Position - Beginning of Year	<u>135,980</u>	<u>134,663</u>
Net Position - End of Year	<u><u>\$ 131,862</u></u>	<u><u>\$ 135,980</u></u>

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Fund Types

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

General Fund

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

Capital Projects Fund

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

Proprietary Fund Type

Enterprise (Food Service) Fund

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

Fiduciary Fund Types

Private-purpose Trust Fund

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

Agency Fund

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

Estimates

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

Cash and Cash Equivalents

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

Intergovernmental Receivables/Payables

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

Inventories

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

Capital Assets

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

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

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

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

Compensated Absences

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

Deferred Outflows of Resources or Deferred Inflows of Resources

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District reports certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively.

Entity-wide Financial Statements

Deferred outflows and inflows of resources include certain items related to the pension plan, which are listed in Note 7.

Fund Financial Statements

Deferred inflows of resources include amounts included in Taxes Receivable that were not considered to be available to liquidate liabilities of the current period.

Pension:

Beginning with the year ended June 30, 2015, the District has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The effects of implementing this statement are reflected in the district-wide financial statements, the Notes to the financial statements, and in the presentation of certain required supplementary information. The effects on the net position of the governmental activities are described in Note 13.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Obligations

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

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

Interfund Assets/Liabilities

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, the presentation of prior-year totals by fund and activity type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2014, from which the comparative data was derived.

Fund Balance

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

report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact. As of June 30, 2015, non-spendable fund balance represents prepaid expenses.

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

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

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

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

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

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

2. CASH AND INVESTMENTS

Cash

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

created by the General Assembly of the Commonwealth of Pennsylvania or insured by the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2015, the carrying amount of the District's deposits in these financial statements is \$23,335,656 and the bank balance is \$25,380,743. As of June 30, 2015, \$24,630,743 of the District's bank balance of \$25,380,743 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. As of June 30, 2015, PLGIT was rated as AAAm by Standard & Poor's.

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 146.65 mills (\$146.65 per \$1,000 of assessed valuation) for the year ended June 30, 2015. Assessed valuation of property is established by the Bucks County Board of Assessments, and the District is responsible for collection. Real property in the district for the July 1, 2015 levy was assessed at \$400,604,238. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

4. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables as of June 30, 2015:

	Interfund Receivables	Interfund Payables
General Fund	\$231,060	
Food Service Fund		\$222,975
Activities Fund		8,085
Totals	<u>\$231,060</u>	<u>\$231,060</u>

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

5. CAPITAL ASSETS

Capital Asset Activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	\$ 2,187,468	\$ 10,396	\$ -	\$ 2,197,864
Construction in Progress	<u>37,638,012</u>	<u>17,961,354</u>	<u>-</u>	<u>55,599,366</u>
Total Capital Assets Not Being Depreciated	<u>39,825,480</u>	<u>17,971,750</u>	<u>-</u>	<u>57,797,230</u>
Capital Assets Being Depreciated				
Land Improvements	6,620,593	2,274,319	-	8,894,912
Buildings and Improvements	126,789,802	-	-	126,789,802
Property and Equipment	<u>24,054,066</u>	<u>585,798</u>	<u>-</u>	<u>24,639,864</u>
Total Capital Assets Being Depreciated	<u>157,464,461</u>	<u>2,860,117</u>	<u>-</u>	<u>160,324,578</u>
Less: Accumulated Depreciation:				
Land Improvements	(4,233,991)	(313,480)		(4,547,471)
Buildings and Improvements	(43,379,077)	(3,063,942)		(46,443,019)
Property and Equipment	<u>(19,696,509)</u>	<u>(1,005,858)</u>	<u>-</u>	<u>(20,702,367)</u>
Total Accumulated Depreciation	<u>(67,309,577)</u>	<u>(4,383,280)</u>	<u>-</u>	<u>(71,692,857)</u>
Total Capital Assets Being Depreciated, Net	<u>90,154,884</u>	<u>(1,523,163)</u>	<u>-</u>	<u>88,631,721</u>
Governmental Activities Capital Assets, Net	<u>\$ 129,980,364</u>	<u>\$ 16,448,587</u>	<u>\$ -</u>	<u>\$ 146,428,951</u>
<u>Business-type Activities</u>				
Capital Assets Being Depreciated				
Property and Equipment	\$ 615,153	\$ 1,092	\$ -	\$ 616,245
Less: Accumulated Depreciation	<u>(584,104)</u>	<u>(10,708)</u>	<u>-</u>	<u>(594,812)</u>
Business-type Activities Capital Assets, Net	<u>\$ 31,049</u>	<u>\$ (9,616)</u>	<u>\$ -</u>	<u>\$ 21,433</u>

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

Instruction	\$ 268,783
Instructional Student Support	569,006
Administrative Support Services	2,120
Operation and Maintenance of Plant Services	3,525,966
Student Activities	<u>17,405</u>
Total	<u><u>\$4,383,280</u></u>

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the District for the year ending June 30, 2015:

Type	Principal Outstanding July 1, 2014	Additions	Repayments	Principal Outstanding June 30, 2015	Due Within One Year
General Obligation Note - 1997 B	\$ 1,211,000		\$ 277,000	\$ 934,000	\$ 293,000
General Obligation Note - 2000	2,920,000		961,000	1,959,000	997,000
General Obligation Note - 2000 B	2,785,000		177,000	2,608,000	183,000
General Obligation Note - 2000 C	6,275,000		782,000	5,493,000	818,000
General Obligation Note - 2003	3,403,000		283,000	3,120,000	295,000
General Obligation Note - 2004 Emmaus	8,600,000		700,000	7,900,000	800,000
General Obligation Note - 2006	1,203,000		589,000	614,000	614,000
General Obligation Bond - 2009 A	19,215,000		19,215,000	-	-
General Obligation Bond - 2010	14,985,000		5,000	14,980,000	5,000
General Obligation Bond - 2010 A	8,365,000		600,000	7,765,000	610,000
General Obligation Bond - 2011	9,700,000		5,000	9,695,000	5,000
General Obligation Bond - 2012	8,950,000		5,000	8,945,000	5,000
General Obligation Bond - 2013	9,480,000		80,000	9,400,000	30,000
General Obligation Bond - 2013 A	7,295,000		340,000	6,955,000	555,000
General Obligation Bond - 2013 B	8,995,000		-	8,995,000	5,000
General Obligation Bond - 2014		\$ 9,995,000	-	9,995,000	130,000
General Obligation Bond - 2014 A		8,755,000	230,000	8,525,000	430,000
General Obligation Bond - 2014 AA		9,180,000	-	9,180,000	5,000
General Obligation Bond - 2015	<u>-</u>	<u>18,670,000</u>	<u>-</u>	<u>18,670,000</u>	<u>-</u>
Total General Obligation Bonds and Notes	113,382,000	46,600,000	24,249,000	135,733,000	5,780,000
Capital Lease Obligations	1,027,882	490,821	600,049	918,654	527,676
Compensated Absences	1,772,055	-	131,804	1,640,251	-
Other Post-employment Benefits	<u>314,086</u>	<u>31,785</u>	<u>-</u>	<u>345,871</u>	<u>-</u>
Total	<u><u>\$ 116,496,023</u></u>	<u><u>\$ 47,122,606</u></u>	<u><u>\$ 24,980,853</u></u>	<u><u>\$ 138,637,776</u></u>	<u><u>\$ 6,307,676</u></u>

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

Bonds and notes payable at June 30, 2015 consisted of:

General Obligation Note – Series B of 1997, maturing through October 2017, bearing interest at 4.2%. Interest is payable monthly.	\$934,000
General Obligation Note – Series 2000, maturing through March 2017, bearing interest at 4.38%. Interest is payable monthly.	1,959,000
General Obligation Note – Series B of 2000, maturing through July 2021, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	2,608,000
General Obligation Note – Series C of 2000, maturing through August 2020, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	\$5,493,000
General Obligation Note – Series of 2003, maturing through October 2025, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	3,120,000
General Obligation Note – Series of 2004, Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	7,900,000
General Obligation Note – Series of 2006, maturing through April 2016, bearing interest at 4.02%. Interest is payable monthly.	614,000
General Obligation Bond – Series of 2010, maturing through August 2026, bearing interest from 2% to 4%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	14,980,000
General Obligation Bond – Series A of 2010, maturing through August 2025, bearing interest ranging from 0.6% to 3.75%. Interest is payable semi-annually in February and August. This series provided funds to refund the Series A of 2004 bonds. This refunding resulted in an economic gain of \$344,383.	7,765,000
General Obligation Bond – Series of 2011, maturing through August 2027, bearing interest from 2% to 3.5%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	9,695,000
General Obligation Bond – Series of 2012, maturing through August 2030, bearing interest from 1.25% to 2.73%. Interest is payable semi-annually	

in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	8,945,000
General Obligation Bond – Series of 2013, maturing through November 2024, bearing interest ranging from 0.4% to 2.73%. Interest is payable semi-annually in May and November. This series provided funds to refund the Series of 2008 bonds. This refunding resulted in an economic gain of \$1,101,218	\$9,400,000
General Obligation Bond – Series A of 2013, maturing through August 2025, bearing interest ranging from 2% to 3%. Interest is payable semi-annually in February and August. This series provided funds to refund the Series of 2009 bonds. This refunding resulted in an economic gain of \$407,230.	6,955,000
General Obligation Bond – Series B of 2013, maturing through August 2031, bearing interest ranging from 2% to 4%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	8,995,000
General Obligation Bond – Series of 2014, maturing through October 2023, bearing interest ranging from .35% to 4%. Interest is payable semi-annually in March and September. This series provided funds to refund the Series A of 2009 bonds.	9,995,000
General Obligation Bond – Series A of 2014, maturing through September 2020, bearing interest ranging from .25% to 5%. Interest is payable semi-annually in March and September. This series provided funds to refund Series A of 2009 bonds.	8,525,000
General Obligation Bond – Series AA of 2014, maturing through August 2032, bearing interest ranging from .75% to 3.5%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	9,180,000
General Obligation Bond – Series of 2015, maturing through August 2033, bearing interest ranging from 2% to 3.75%. Interest is payable semi-annually in February and August. This series provided funds to finance capital improvements to school facilities and buildings.	18,670,000

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 5,780,000	\$ 4,010,459	\$ 9,790,459
2017	6,070,000	3,850,396	9,920,396
2018	6,331,000	3,643,937	9,974,937
2019	6,638,000	3,438,206	10,076,206
2020	6,908,000	3,224,748	10,132,748
2021-2025	37,881,000	13,734,404	51,615,404
2026-2030	40,065,000	7,791,760	47,856,760
2031-2034	<u>26,060,000</u>	<u>1,576,791</u>	<u>27,636,791</u>
Totals	<u>\$ 135,733,000</u>	<u>\$ 41,270,701</u>	<u>\$ 177,003,701</u>

Interest expense for the year ended June 30, 2015 totaled \$3,146,110.

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

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

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

On July 18, 2014, the District entered into a lease-purchase agreement with American Capital Financial Services, Inc. for the purchase of computer equipment. The present value of the lease payments is \$490,821, which was included in governmental activities capital assets. The lease provides for four annual payments of \$125,000. The implicit interest rate is 1.338%.

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

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 527,676	\$ 10,872	\$ 538,548
2017	267,628	4,786	272,414
2018	<u>123,350</u>	<u>1,650</u>	<u>125,000</u>
Totals	<u>\$ 918,654</u>	<u>\$ 17,308</u>	<u>\$ 935,962</u>

7. PENSION PLAN

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

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

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

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

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

Employer Contribution: Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2015, the rate of employer's contribution was 21.4% of covered

payroll. The 21.4% rate is composed of a pension contribution rate of 21% for pension benefits and 0.4% for healthcare insurance premium assistance. The District's contributions to PSERS for the fiscal year ending June 30, 2015, 2014, and 2013, were \$8,798,946, \$7,026,975, and \$5,231,891, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the School District reported a liability of \$128,598,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was 0.3249 percent, which was an increase of 0.0199 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of \$933,352. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Investment Earnings	\$ -	\$ 6,895,000
Changes in Proportions		1,402,000
Contributions Subsequent to the Measurement Date	<u>8,428,897</u>	<u>-</u>
Totals	<u>\$ 8,428,897</u>	<u>\$ 8,297,000</u>

\$763,254 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Inflows of Resources</u>
2016	\$2,743,000
2017	2,743,000
2018	2,743,000
2019	<u>68,000</u>
	<u>\$8,297,000</u>

Actuarial assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50% (includes inflation at 3.00%)
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

The following was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Return Rate of Return</u>
Public Markets Global Equity	19%	5.0%
Private Markets (Equity)	21%	6.5%
Private Real Estate	13%	4.7%
Global Fixed Income	8%	2.0%
U.S. Long Treasuries	3%	1.4%
TIPS	12%	1.2%
High-yield Bonds	6%	1.7%
Cash	3%	90.0%
Absolute Return	10%	4.8%
Risk Parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	<u>-9%</u>	1.1%
Total	<u>100%</u>	

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Center's Proportionate Share of the Net Pension Liability	\$ 160,408,000	\$ 128,598,000	\$ 101,441,000

Pension Plan Fiduciary Net Position

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

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

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

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

Funding Policy: The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For the year ended June 30, 2015, the District contributed \$533,586 to the plan for the current premiums.

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

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

Normal Cost (Service Cost for One Year)	\$ 239,197
Interest on Normal Cost	10,764
Amortization of Unfunded Actuarial Accrued Liability	<u>320,558</u>
Annual Required Contribution (ARC)	570,519
Interest on Net OPEB Obligation	14,134
Adjustment to Annual Required Contributions	<u>(19,282)</u>
Annual OPEB Cost (Expense)	565,371
Contributions Toward the OPEB Cost	<u>(533,586)</u>
Increase in Net OPEB Obligation	31,785
Net OPEB Obligation - Beginning of Year	<u>314,086</u>
Net OPEB Obligation - End of Year	<u><u>\$ 345,871</u></u>

Funded Status and Funding Progress: As of May 1, 2014, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$5,221,532, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,221,532. The covered payroll (annual payroll of active employees covered by the plan) was \$40,462,060, and the ratio of the UAAL to the covered payroll was 12.90%.

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

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the May 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 6.5% in 2014, decreasing by 0.5% per year to 5.5% in 2016. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2015 was 23 years.

9. FUND BALANCE COMMITMENTS

The School Board has established a Stabilization Arrangement reflected as committed fund balance for future PSERS rate increases. The current balance is \$2,513,663 and will begin funding PSERS rate increases over the next several years as the retirement contribution rate is projected to increase significantly. Additionally, \$1,250,000 is committed for capital projects.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District is a participant in the SDIC consortium which manages the risk for all participants. For insured programs, there were no significant reductions in insurance coverages during the year ended June 30, 2015. Settlement amounts have not exceeded insurance coverage for the current year or three years prior.

11. CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

Capital Improvement Commitments

As of June 30, 2015, the District had outstanding construction projects to be completed of approximately \$15,889,012.

12. JOINT VENTURE

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

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

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

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

Future rental payments are schedule as follows:

Year Ending June 30	2005 <u>Lease</u>	2014 <u>Lease</u>	<u>Total</u>
2016	\$ 95,529	\$ 321,718	\$ 417,247
2017	96,149	321,087	417,236
2018	96,595	322,905	419,500
2019	95,313	321,580	416,893
2020	95,430	323,244	418,674
2021-2025	480,058	1,611,613	2,091,671
2026-2030	95,140	1,612,629	1,707,769
2031-2035	-	1,614,263	1,614,263
2036-2040	-	1,614,195	1,614,195
2041-2044	-	1,288,314	1,288,314
Total	<u>\$ 1,054,214</u>	<u>\$ 9,351,548</u>	<u>\$ 10,405,762</u>

13. RESTATEMENT OF FUND BALANCE AND FINANCIAL POSITION

Reflected in these financial statements are the following adjustments to the beginning fund balance of the General Fund and net position of the governmental activities.

Overstatement of Due from Other Governments

For the fund financial statements, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the fiscal period.

Included in amounts due from other governments as of June 30, 2014 were state rental subsidies receivables totaling \$761,385. Of this total, only \$36,771 was received during the year ended June 30, 2015; no amounts were received soon enough after June 30, 2014 to be deemed available to pay current liabilities. Since state rental subsidies receivable totaling \$761,385 did not represent available resources as of June 30, 2014, the beginning fund balance of the General Fund has been restated to adjust the balance of Due from Other Governments.

In the entity-wide financial statements, revenues are recorded when earned, regardless of the timing of related cash flows. Since the District believes that the entire balance of state subsidies receivable is fully collectible, no adjustment has been made to the net position of the governmental activities in the entity-wide financial statements.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

Beginning with the year ended June 30, 2015, the District has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To comply with GASB Statement No. 68, the net position of the governmental activities has been restated as of June 30, 2014 to include the actuarially-determined net pension liability as of June 30, 2014.

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

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

	As of June 30, 2014	
	Total Fund Balance of General Fund	Total Net Position of Governmental Activities
Total Fund Balance of General Fund / Total Net Position of Governmental Activities as of June 30, 2014, as Previously Reported	\$ 15,488,167	\$ 31,846,742
<u>Less:</u> Overstatement of State Rental Subsidies Receivable	(761,385)	-
<u>Less:</u> Net Pension Liability as of June 30, 2014	-	(135,295,000)
<u>Add:</u> Deferred Outflows of Resources - Pension, as of June 30, 2014	-	6,633,122
Total Fund Balance of General Fund / Total Net Position of Governmental Activities as of June 30, 2014, as Restated	<u>\$ 14,726,782</u>	<u>\$ (96,815,136)</u>

14. SUBSEQUENT EVENTS

On July 15, 2015, the District entered into a capital lease for equipment. The initial principal balance of the lease totaled \$584,613; future payments under the lease totals \$600,000.

Management has evaluated subsequent events through January 8, 2016, which is the date the financial statements were available to be issued.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Post-employment Benefits Plan
For the Year Ended June 30, 2015

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
5/1/2014	\$ -	\$ 5,221,532	\$ 5,221,532	0.00%	\$ 40,462,060	12.90%
5/1/2012	-	6,411,946	6,411,946	0.00%	40,922,269	15.67%
5/1/2010	-	7,113,065	7,113,065	0.00%	37,038,903	19.20%

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Employer Contributions	Percentage Contributed
2015	\$ 570,519	\$ 533,586	94%
2014	685,555	713,210	104%
2013	685,555	603,196	88%

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Budgetary Fund Balance - Beginning of Year	13,038,452	13,084,842	14,726,782	1,641,940
Resources (Inflows):				
Revenues:				
Local Sources	\$ 70,872,917	\$ 70,917,478	\$70,717,783	\$ (199,695)
State Sources	22,806,791	22,762,232	21,704,769	(1,057,463)
Federal Sources	735,000	752,797	553,199	(199,598)
Other Financing Sources:				
Proceeds from Extended-term Financing	-	-	490,821	490,821
Sale of Capital Assets	10,000	10,000	10,550	550
Amounts Available for Appropriation	107,463,160	107,527,349	108,203,904	676,555
Charges to Appropriations (Outflows):				
Expenditures:				
Instruction:				
Regular Programs	39,994,369	40,640,493	39,184,196	1,456,297
Special Programs	11,822,099	11,647,905	11,561,373	86,532
Vocational Programs	3,119,739	3,119,739	3,145,763	(26,024)
Other Instructional Programs	3,913,862	3,887,921	3,439,419	448,502
Total Instruction	58,850,069	59,296,058	57,330,751	1,965,307
Support Services:				
Pupil Personnel Services	3,533,697	3,414,964	3,489,095	(74,131)
Instructional Staff Services	4,679,766	4,701,931	4,197,937	503,994
Administration Services	4,936,495	4,851,618	4,451,357	400,261
Pupil Health	1,011,881	997,049	950,614	46,435
Business Services	963,332	922,492	918,218	4,274
Operation and Maintenance of Plant Services	5,619,759	5,610,043	5,351,020	259,023
Student Transportation Services	3,608,540	3,608,540	3,362,377	246,163
Central Services	2,587,937	2,489,376	2,863,114	(373,738)
Other Support Services	58,500	58,600	57,516	1,084
Total Support Services	26,999,907	26,654,613	25,641,248	1,013,365
Operation of Non-instructional Services				
Student Activities	914,532	926,906	955,525	(28,619)
Community Services	13,000	13,800	9,748	4,052
Total Operation of Non-instructional Services	927,532	940,706	965,273	(24,567)
Debt Service	8,646,222	8,596,542	8,453,817	142,725
Other Financing Uses:				
Budgetary Reserve	800,000	800,000		800,000
Total Other Financing Uses	800,000	800,000	-	800,000
Total Charges to Appropriations	96,223,730	96,287,919	92,391,089	3,896,830
Fund Balance at End of Year	<u>\$ 11,239,430</u>	<u>\$ 11,239,430</u>	<u>\$15,812,815</u>	<u>\$ 4,573,385</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to Budgetary Comparison Schedule

1. BUDGETARY DATA

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of School's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2015 and 2014

	June 30, 2015	June 30, 2014
School's Proportion of the Net Pension Liability	0.3249%	0.3305%
School's Proportionate Share of the Net Pension Liability	\$ 128,598,000	\$ 135,295,000
School's Covered-Employee Payroll	\$ 41,457,011	\$ 42,415,836
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	310.20%	318.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.24%	54.49%

The amounts presented for each fiscal year were determined as of the end of the previous fiscal year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of School's Pension Contributions
For the Years Ended June 30, 2015 and 2014

	June 30, 2015	June 30, 2014
Contractually-Required Contribution	\$ 8,428,897	\$ 6,633,122
Contributions in Relation to the Contractually-Required Contribution	<u>(8,428,897)</u>	<u>(6,633,122)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School's Covered-Employee Payroll	\$ 41,116,571	\$ 41,457,011
Contributions as a Percentage of Covered-Employee Payroll	20.50%	16.00%

The amounts presented for each fiscal year were determined as of the end of the previous fiscal year.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2015

Grantor/Pass-through Grantor/ Program Title	Federal CDFA Number	Pass-through Grantor's Identifying Number	Grant Period	Program or Award Amount	Total Received	Accrued (Deferred) Revenue 6/30/14	Accrued (Deferred) Revenue 6/30/15	Revenue Recognized	Expenditures
FEDERAL AWARDS									
<u>U.S. DEPARTMENT OF EDUCATION</u>									
Passed through Pennsylvania Department of Education									
Title I	84.010	013-140353	7/1/13 - 9/30/14	\$ 373,951	\$ 73,679	\$ 73,679	\$ -	\$ -	\$ -
Title I	84.010	013-150353	8/27/14-9/30/15	373,374	267,464	-	105,910	373,374	373,374
Totals - CFDA # 84.010					341,143	73,679	105,910	373,374	373,374
Title II	84.367	020-140353	7/1/13 - 9/30/14	114,619	22,767	22,767	-	-	-
Title II	84.367	020-150353	8/27/14-9/30/15	114,111	81,556	-	32,555	114,111	114,111
Totals - CFDA # 84.367					104,323	22,767	32,555	114,111	114,111
Title III	84.365	010-140353	7/1/13 - 9/30/14	22,840	14,996	(2,571)	-	17,567	17,567
Title III	84.365	010-150353	8/27/14-9/30/15	27,374	27,374	-	(4,874)	22,500	22,500
Totals - CFDA # 84.365					42,370	(2,571)	(4,874)	40,067	40,067
Passed through Bucks County Intermediate Unit #22									
IDEA	84.027	062-13-0-022-1	7/1/13 - 6/30/14	719,700	204,843	204,843	-	-	-
IDEA	84.027	062-14-0-022-1	7/1/14 - 6/30/15	832,803	472,433	-	360,370	832,803	832,803
Totals - CFDA # 84.027					677,276	204,843	360,370	832,803	832,803
IDEA Section 619	84.173	131-14-0-022	7/1/14 - 6/30/15	3,549	-	-	3,549	3,549	3,549
Totals - CFDA # 84.173					-	-	3,549	3,549	3,549
Passed Through Commonwealth of Pennsylvania									
Medical Assistance Reimbursement	93.778	N/A	N/A	N/A	31,378	10,821	5,089	25,646	25,646
Totals - CFDA # 84.377					31,378	10,821	5,089	25,646	25,646
TOTAL U.S. DEPARTMENT OF EDUCATION					\$ 1,196,490	\$ 309,539	\$ 502,599	\$ 1,389,550	\$ 1,389,550

(Continued)

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards and Certain State Grants (Continued)
For the Year Ended June 30, 2015

Grantor/Pass-through Grantor/ Program Title	Federal CDFA Number	Pass-through Grantor's Identifying Number	Grant Period	Program or Award Amount	Total Received	Accrued (Deferred) Revenue 6/30/14	Accrued (Deferred) Revenue 6/30/15	Revenue Recognized	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>									
Child Nutrition Cluster									
Passed Through Pennsylvania Department of Education									
National School Breakfast Program	10.553	N/A	7/1/13 - 6/30/14	N/A	\$ 943	\$ 943	\$ -	\$ -	\$ -
National School Breakfast Program	10.553	N/A	7/1/14 - 6/30/15	N/A	9,340	-	5,075	14,415	14,415
National School Lunch Program	10.555	N/A	7/1/13 - 6/30/14	N/A	37,681	37,681	-	-	-
National School Lunch Program	10.555	N/A	7/1/14 - 6/30/15	N/A	425,105	-	162,387	587,492	587,492
Passed Through Pennsylvania Department of Agriculture									
Value of USDA Donated Commodities	10.555	N/A		N/A	<u>115,160</u>	<u>(5,510)</u>	<u>(6,689)</u>	<u>113,981</u>	<u>113,981</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE / Child Nutrition Cluster					<u>588,229</u>	<u>33,114</u>	<u>160,773</u>	<u>715,888</u>	<u>715,888</u>
TOTAL FEDERAL AWARDS					<u>1,784,719</u>	<u>342,653</u>	<u>663,372</u>	<u>2,105,438</u>	<u>2,105,438</u>
CERTAIN STATE GRANTS									
National School Lunch Program	N/A	N/A	7/1/13 - 6/30/14		3,026	3,026	-	-	-
National School Lunch Program	N/A	N/A	7/1/14 - 6/30/15		<u>33,200</u>	<u>-</u>	<u>12,421</u>	<u>45,621</u>	<u>45,621</u>
TOTAL OF CERTAIN STATE GRANTS					<u>36,226</u>	<u>3,026</u>	<u>12,421</u>	<u>45,621</u>	<u>45,621</u>
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS					<u>\$ 1,820,945</u>	<u>\$ 345,679</u>	<u>\$ 675,793</u>	<u>\$ 2,151,059</u>	<u>\$ 2,151,059</u>

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2015

1. GENERAL INFORMATION

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

2. BASIS OF ACCOUNTING

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

3. NON-MONETARY FEDERAL AWARDS – DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555, National School Lunch – Commodities, represent surplus food consumed by the District during the year ended June 30, 2015.

DRESLIN

AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Quakertown Community School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Quakertown Community School District's basic financial statements, and have issued our report thereon dated January 8, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Quakertown Community School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item number 2015-001.

Quakertown Community School District's Response to Findings

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

Purpose of this Report

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

Dreslin and Company, Inc.

West Chester, Pennsylvania
January 8, 2016

DRESLIN

AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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

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

Report on Compliance for Each Major Federal Program

We have audited Quakertown Community School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Quakertown Community School District's major federal programs for the year ended June 30, 2015. Quakertown Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Quakertown Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Dreslin and Company, Inc.

West Chester, Pennsylvania
January 8, 2016

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified: None.

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

Compliance and Other Matters

Noncompliance material to financial statements noted: None.

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

Federal Awards:

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

Internal control over major program:

Material weaknesses identified: None.

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Identification of Major Programs:

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION I.D.E.A. - Section B	84.027	\$ 832,803
Total Major Program Expenditures		<u>\$ 832,803</u>

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

Auditee qualified as low risk auditee? Yes

Findings Related to Financial Statements Audit

Status of prior-year findings

2014-001 Capital Lease Recording

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

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

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

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

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

Current Status: It appears that management has reviewed all lease agreements to ensure all capital leases are properly recorded.

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

2014-002 Compliance with Laws and Regulations

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

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

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

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

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

Current Status: It appears that management has not implemented the prior-year corrective action plan with respect to this finding. See current-year item number 2015-001.

Current-year findings and questioned costs

2015-001 Compliance with Laws and Regulations

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

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

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

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

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

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015

Findings Related to Major Federal Award Programs

Status of prior-year findings

None

Current-year findings and questioned costs

None



Quakertown Community School District

Business Services
100 Commerce Drive
Quakertown, PA 18951
(215) 529-2032
FAX (215) 529-2036

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2015

January 8, 2016

The Quakertown Community School District respectfully submits the following corrective action plan for the year ended June 30, 2015.

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

FINDINGS-FINANCIAL STATEMENTS-AUDIT

2015-1 Compliance with laws and regulations

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

Action Taken:

- 1) The Personnel Department created a checklist to make sure that all documentation is accounted for.
- 2) Documents will be dated on the screen so that the Personnel Department will know historically when files and documents were received.
- 3) Missing documentation was from an older file. Since then new Personnel Employees were hired with better education and training in the human resource field, as well as, technology skills.
- 4) In the summer we will have an employee of the Personnel Department go through the Personnel Files to look for missing documentation and follow up with those employees to provide that missing documentation. If the auditors identify missing documentation in their future audit testing we will contact those employees to get the documentation until all older files on existing employees are up to date.

Sincerely,

Robert Riegel
Business Administrator