

Quaker Valley School District

Financial Statements and
Required Supplementary and
Supplementary Information

Year Ended June 30, 2017 with
Independent Auditor's Report

MaherDuessel

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QUAKER VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2017

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QUAKER VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2017

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Independent Auditor's Report

Board of Directors Quaker Valley School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Quaker Valley School District (School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for 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. 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 activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xii and the required supplementary information on pages 48 through 54 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mahe Duessel

Pittsburgh, Pennsylvania
November 8, 2017

Management's Discussion and Analysis

As management of the Quaker Valley School District (School District), we offer the following overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2017.

Financial Highlights

- The School District has had over ten consecutive years of positive fiscal results while providing outstanding educational programs. The District continues to receive local, state, and national notoriety related to outstanding educational programs and services for students. Regional and national publications identify the School District as a premier school district whose students, faculty, and administration perform at exemplary levels.
- The School District implemented Governmental Accounting Standards Board Statement No. 68 during fiscal year 2015. This Statement required the School District to record their portion of the Public School Employees' Retirement System (PSERS) unfunded liability. As of June 30, 2017, the School District's portion of the unfunded liability is \$72,155,000.
- The liabilities and deferred inflows of the School District exceeded its assets and deferred outflows at the close of the most recent fiscal year by (\$40,640,984), resulting in a deficit net position.
- The School District's total net position decreased by \$1,802,152 over the previous year. Net position of governmental activities decreased by \$1,725,030 and net position from business-type activities decreased by \$77,122.
- As of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$10,107,285, a decrease of \$867,306 in comparison to the prior year. The decrease was primarily for capital project fund expenditures and the district experienced an operational deficit of approximately \$241,000 due to the impact of several unfunded mandates including PSERS contributions. Of this ending fund balance amount, \$6,632,494 has been restricted either by outside parties or imposed by the School District's Board of Directors (Board). \$2,912,146 is committed for construction costs. The Board committed \$1,075,000 for anticipated increases in future retirement cost. The Board also assigned \$817,500 for future pension contributions, \$250,000 for future healthcare costs, and \$1,500,000 for future facilities, technology, and equipment purchases.
- Local revenues represent 83.1 percent of the total General Fund revenues. Real estate tax collection is the School District's single largest revenue. For the 2016-2017 fiscal year, real estate tax collections totaled \$31,108,009 or approximately 67.9 percent of total revenue. Collections increased by \$1,004,739 from 2016-2017 due to an increase in assessments from growth in the community and a slight increase in the millage. The tax rate assessed for the 2016-2017 school year was equal to 17.7389 mills, an increase from the 2015-2016 school year of .4157 mills.

- At the end of the 2016-2017 fiscal year, the unassigned fund balance for the General Fund was \$2,985,159 or 6.49 percent of total General Fund expenditures.

Overview of the Financial Statements

The School District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. In addition to the basic financial statements, this report also contains required supplementary information and supplementary information.

Government-wide Financial Statements - The government-wide financial statements are designed to provide a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net position and the statement of activities show how the School District performed financially during the fiscal year. These two statements report the School District's net position and changes in those net positions. Changes in net position can result from financial and non-financial factors. Some examples of non-financial factors are School District property tax base and mandated educational programs.

The School District does not have a profit motive, so a true comparison is impossible. The statement of net position includes all of the School District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

Both government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through sales and subsidies (business-type activities). The business-type activities of the School District include only the Food Service Fund.

The government-wide financial statements can be found on pages 1 through 3 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Some funds are mandated by state law and by bond requirements.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the School District's activities are reported in governmental funds that focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called "modified accrual accounting," which measures cash and all other financial assets that can readily be converted to

cash. The governmental fund financial statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or difference) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental funds are reflected in reconciliations on pages 5 and 7.

The School District maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the School District's most significant funds. The School District's major governmental funds are the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major funds are provided in the form of combined statements elsewhere in this report.

The basic governmental funds financial statements can be found on pages 4 and 6 of this report.

Proprietary Fund - The School District maintains one proprietary fund to account for its food service program. The fund is presented as a business-type activity in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the food service operation. This fund is used to account for activities that are similar to business operations in the business sector. The basic proprietary fund financial statements can be found on pages 8 through 11 of this report.

Fiduciary Fund - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 12 of this report.

Notes to Financial Statements - The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 13 through 47 of this report.

Required Supplementary Information - The required supplementary information includes the statement of revenues, expenditures, and changes in fund balance on budget and actual for the General Fund on pages 48-49; the schedule of the School District's proportionate share of the net pension liability and schedule of School District contributions on page 50; and the schedule of funding progress for postemployment benefits other than pension benefits (OPEBs) is on page 51.

Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining statements in connection with other governmental funds are presented in this section. Combining and individual fund statements can be found on pages 55 through 57 of this report.

Government-wide Financial Analysis

The School District's total net position was \$(39,972,310) and \$(38,170,158) at June 30, 2017 and 2016, respectively.

Table 1
Fiscal Year Ended June 30, 2017
Net Position

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 18,006,742	\$ 70,917	\$ 18,077,659
Capital assets (net)	69,310,763	628,956	69,939,719
Total Assets	87,317,505	699,873	88,017,378
Deferred Outflows of Resources			
Deferred charge on refunding	1,919,340	-	1,919,340
Deferred outflows of resources for pension	13,628,452	-	13,628,452
Total Deferred Outflows of Resources	15,547,792	-	15,547,792
Liabilities			
Current and other liabilities	6,658,427	31,199	6,689,626
Long-term liabilities:			
Due within one year	3,685,000	-	3,685,000
Due in more than one year	132,103,854	-	132,103,854
Total Liabilities	142,447,281	31,199	142,478,480
Deferred Inflows of Resources			
Deferred inflows of resources for pension	1,059,000	-	1,059,000
Total Deferred Inflows of Resources	1,059,000	-	1,059,000
Net Position			
Net investment in capital assets	13,138,166	628,956	13,767,122
Restricted	30,159	-	30,159
Unrestricted	(53,809,309)	39,718	(53,769,591)
Total Net Position	\$ (40,640,984)	\$ 668,674	\$ (39,972,310)

Fiscal Year Ended June 30, 2016
Net Position

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 18,254,633	\$ 75,693	\$ 18,330,326
Capital assets (net)	71,560,172	696,594	72,256,766
Total Assets	89,814,805	772,287	90,587,092
Deferred Outflows of Resources			
Deferred charge on refunding	2,193,531	-	2,193,531
Deferred outflows of resources for pension	5,174,587	-	5,174,587
Total Deferred Outflows of Resources	7,368,118	-	7,368,118
Liabilities			
Current and other liabilities	6,167,231	26,491	6,193,722
Long-term liabilities:			
Due within one year	3,555,000	-	3,555,000
Due in more than one year	125,385,646	-	125,385,646
Total Liabilities	135,107,877	26,491	135,134,368
Deferred Inflows of Resources			
Deferred inflows of resources for pension	991,000	-	991,000
Total Deferred Inflows of Resources	991,000	-	991,000
Net Position			
Net investment in capital assets	12,150,755	696,594	12,847,349
Restricted	6	-	6
Unrestricted	(51,066,715)	49,202	(51,017,513)
Total Net Position	\$ (38,915,954)	\$ 745,796	\$ (38,170,158)

Government-wide Financial Analysis - The School District's capital assets decreased \$2,195,734 from fiscal year ended June 30, 2016 to fiscal year ended June 30, 2017. The School District's buildings include two elementary schools, one middle school, and one high school. It also includes technology and other assets net of depreciation. This decrease in capital assets was due to the depreciation expense exceeding the assets added.

The current liabilities lie in four line items: accounts payable and other current liabilities; accrued salaries and benefits; deposits payable; and accrued interest payable. Non-current liabilities consist of long-term debt and related premiums and discounts associated with

renovation and additions of the School District's four buildings. The other components are the compensated absence liability, other post-employment benefits, and net pension liability.

The School District's net position has decreased by \$1,802,152 during the current fiscal year.

Table 2 takes the information from the statement of activities, rearranges it slightly, to show the total revenues, expenses, and change to the net position of both the governmental activities and the business-type activities for fiscal years ended June 30, 2017 and 2016.

Table 2
Fiscal Year Ended June 30, 2017
Change in Net Position

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 27,950	\$ 557,458	\$ 585,408
Operating grants and contributions	6,315,152	294,144	6,609,296
Capital grants and contributions	-	-	-
General revenues:			
Property taxes	32,518,060	-	32,518,060
Other taxes	4,938,644	-	4,938,644
Grants, subsidies/contributions, unrestricted	2,059,938	-	2,059,938
Investment earnings	98,726	603	99,329
Gain on sale of capital assets	-	-	-
Miscellaneous income	6,419	-	6,419
Transfers	-	-	-
Total revenues	45,964,889	852,205	46,817,094
Expenses:			
Instruction	24,684,443	-	24,684,443
Support services	15,014,515	-	15,014,515
Non-instructional services	1,734,199	-	1,734,199
Interest on long-term debt	3,177,993	-	3,177,993
Unallocated depreciation expense	3,078,769	-	3,078,769
Food services	-	929,327	929,327
Total expenses	47,689,919	929,327	48,619,246
Change in Net Position	\$ (1,725,030)	\$ (77,122)	\$ (1,802,152)

Fiscal Year Ended June 30, 2016
Change in Net Position

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 47,965	\$ 591,253	\$ 639,218
Operating grants and contributions	5,957,298	290,668	6,247,966
Capital grants and contributions	-	-	-
General revenues:			
Property taxes	31,368,112	-	31,368,112
Other taxes	4,890,182	-	4,890,182
Grants, subsidies/contributions, unrestricted	1,945,313	-	1,945,313
Investment earnings	48,942	528	49,470
Gain on sale of capital assets	5,648	-	5,648
Miscellaneous income	814	-	814
Transfers	(87,701)	87,701	-
Total revenues	44,176,573	970,150	45,146,723
Expenses:			
Instruction	23,325,300	-	23,325,300
Support services	13,931,656	-	13,931,656
Non-instructional services	1,620,369	-	1,620,369
Interest on long-term debt	3,590,461	-	3,590,461
Unallocated depreciation expense	3,126,834	-	3,126,834
Food services	-	990,925	990,925
Total expenses	45,594,620	990,925	46,585,545
Change in Net Position	\$ (1,418,047)	\$ (20,775)	\$ (1,438,822)

The information labeled Table 3 shows the School District's largest functions as well as each program's net cost (total cost, less revenue generated by the activity). This table also shows the net costs offset by the other grants to articulate the remaining financial needs for these activities, which must be supported by local taxes and other miscellaneous revenue.

Table 3
Fiscal Year Ended June 30, 2017
Governmental Activities

<u>Functions/Programs</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 24,684,443	\$ 20,850,094
Support services	15,014,515	13,204,409
Non-instructional services	1,734,199	1,540,765
Interest on long-term debt	3,177,993	2,672,780
Unallocated depreciation expense	3,078,769	3,078,769
Total governmental activities	<u>\$ 47,689,919</u>	41,346,817
Less:		
Unrestricted grants, subsidies		<u>2,059,938</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 39,286,879</u>

Financial Analysis of the School District's Funds

As previously noted, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, an unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$10,107,285. Approximately, 29.5 percent or \$2,985,159 of this total amount constitutes unassigned fund balance, which is available for spending at the School District's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending, because it has already been constrained for future pension contributions, capital projects, interfund advance receivable, and prepaid expenses.

The General Fund is the chief operating fund of the School District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$2,985,159, while the total fund balance amounted to \$7,017,291. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to the total fund expenditures. The unassigned fund balance represents 6.49 percent of total General Fund expenditures, while the total fund balance represents 15.25 percent of that same amount.

The fund balance of the School District's General Fund decreased by \$241,727 during the current fiscal year.

The Capital Projects Fund has a fund balance of \$3,012,146, of which \$2,912,146 is committed for future capital needs of the School District.

Proprietary Funds - The School District's business-type activities provide the same type of information found in the government-wide financial statements.

Net position of the Food Service Fund at the end of the year resulted in a balance of \$668,674. Total net position decreased by \$77,122. Management is committed and continues to implement different strategies that will make the School District's food service operation self-sustaining.

General Fund Budgetary Highlights - The School District's budget is prepared according to the laws of the Commonwealth of Pennsylvania (Commonwealth) and is based on the modified accrual system of accounting. The most significant fund in the School District's financial statements is the General Fund.

During the current fiscal year, the School Board authorized revisions to the original budget to accommodate differences from the original budget to actual expenditures of the School District. The budgeting systems are designed to tightly control budgets by administrators responsible for their respective accounts. Internal control procedures are built into the system by requiring purchase orders, which are approved at several levels, and with required signatures for all budget transfers and payment of expenditures. A schedule showing the School District's original and final budget amounts compared with the amounts actually paid and received is provided on pages 48 and 49.

For the General Fund, revenues and other financing sources were lower than budgeted amounts by \$675,195 or 1.47 percent. Federal funding for the current year was significantly decreased due to changes in program regulations and eligibility.

General Fund expenditures and other financing uses for the School District totaled \$46,040,712 for the current fiscal year and were \$1,432,636 lower than budgeted. The reduction was due to some employee positions being left vacant by retirement or resignation and spending less in benefits, purchased professional services, and other purchased services. Total expenditures include interfund transfers to the Athletic Fund of \$15,000.

Fund Balance Analysis - The School District's General Fund balance decreased by \$241,727. At June 30, 2017, the Board committed \$1,075,000 for future pension costs. \$817,500 was assigned for future pension contributions, \$250,000 assigned for future healthcare costs, and \$1,500,000 assigned for facilities, equipment, and technology purchases. The fund balance is within acceptable guidelines established by the Commonwealth.

The School District will continue to monitor operations keeping this fund balance within acceptable levels.

Table 4
Fiscal Years Ended June 30, 2017 and 2016
Summary of Governmental Change in General Fund Balance

	June 30, 2017	June 30, 2016
Beginning General Fund Balance	\$ 7,259,018	\$ 7,360,720
Net Change in Fund Balance	(241,727)	(101,702)
Ending General Fund Balance	\$ 7,017,291	\$ 7,259,018

Capital Asset and Debt Administration

Capital Assets - At June 30, 2017, the School District had \$70,061,032 invested in a broad range of capital assets, including land, buildings and system, improvements, construction in progress, machinery and equipment, technology infrastructure, text and library books, and vehicles. This amount represents a net decrease (including additions, deletions, and depreciation) of \$2,195,734 or 3.04 percent from last year.

In 2016-2017 there were no significant additions to the capital assets and the decrease is for the depreciation exceeding the assets added. Additional information on the School District’s capital assets can be found in the notes to financial statements on page 26 of this report.

Long-term Debt - At the end of the current fiscal year, the School District had total bonded outstanding debt of \$60,355,339. This debt is comprised of various bond issues, which were to provide renovation and additions to the high school and middle school (1997-1998 and 2011-2012), as well as Edgeworth and Osborne elementary schools (2005-2007). As mentioned, the Series 2010 A was refunded during the fiscal year.

The School District’s total debt obligations (including accrued compensated absences, net pension liability, and other post-employment benefits) increased by the net of \$6,848,208 during the 2016-2017 fiscal year.

The School District maintains an “Aa2” insured rating from Moody’s. Additional information on the School District’s long-term debt can be found in the notes to financial statements on pages 27 through 29 of this report.

Economic Factors and Next Year’s Budgets and Rates

The School District, encompassing a land area of 24.2 square miles, is located in Allegheny County along the Ohio River, 12 miles northwest of Pittsburgh, Pennsylvania. The School District altogether serves approximately 2,000 students from 11 municipalities: Aleppo Township, Bell Acres Borough, Edgeworth Borough, Glenfield Borough, Glen Osborne Borough, Haysville Borough, Leet Township, Leetsdale Borough, Sewickley Borough, Sewickley Heights Borough, and Sewickley Hills Borough.

Our elected officials and administration considered many factors when setting the School District's fiscal year 2016-2017 budget. The largest economic impact for future budgets will be the increases in salaries, health benefits, charter school tuition, and employer contributions to the Public School Employees' Retirement System (PSERS). The School District has positioned itself with committed and assigned fund balance for some of the increases in the retirement contribution rates and health care costs.

The revenue budget for fiscal year 2017-2018 is \$1,546,130 more than the budget for the 2016-2017 fiscal year. This represents a 3.33 percent increase in budgeted revenues. Real estate revenue was increased from new development within the School District, as well as an increase in the millage rate of 0.6620. Allegheny County reassessed the real estate values in 2013-2014. The School District continues to have appeal hearings on assessments from the prior year reassessment, but the development of business and residential assessments appears to keep increasing the tax base. The State's share of reimbursement to the District for retirement costs increased approximately \$377,000.

The expenditure budget for fiscal year 2017-2018 is \$1,785,978 more than the budget for the 2016-2017 fiscal year. The School District anticipates much higher personnel-related expenditures due to an 8.5 percent increase in the PSERS rate; this represents a \$749,500 increase to the 2016-2017 expenditure budget. Salaries are anticipated to increase \$676,500 or approx. 3.3%. The remaining increase is primarily due to increases in transportation and building maintenance costs.

The 2017-2018 budget plans for much higher retirement system costs. The PSERS trustees set the percentage of payroll that all school districts must pay in 2017-2018 to 32.57 percent, up from 30.03 percent in 2016-2017. It is anticipated that this contribution rate will continue to increase due to significant investment losses from prior years.

Requests for Information

This financial report is designed to provide a general overview of the School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance and Operations, Quaker Valley School District, 100 Leetsdale Industrial Drive, Suite B, Leetsdale, Pennsylvania 15056.

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 13,986,716	\$ 175,882	\$ 14,162,598
Property taxes receivable, net of allowance for uncollectibles	2,064,832	-	2,064,832
Earned income taxes receivable	227,611	-	227,611
Internal balances	123,703	(123,703)	-
Intergovernmental receivables	1,079,012	3,267	1,082,279
Other receivables	43,831	1,416	45,247
Prepaid assets	359,724	-	359,724
Inventory	-	14,055	14,055
Capital assets not being depreciated	1,005,660	-	1,005,660
Capital assets, net of accumulated depreciation	68,426,416	628,956	69,055,372
Total Assets	87,317,505	699,873	88,017,378
Deferred Outflows of Resources			
Deferred charge on refunding	1,919,340	-	1,919,340
Deferred outflows of resources for pension	13,628,452	-	13,628,452
Total Deferred Outflows of Resources	15,547,792	-	15,547,792
Liabilities			
Accounts payable and other current liabilities	852,453	192	852,645
Accrued salaries and benefits	5,000,256	-	5,000,256
Accrued interest payable	657,591	-	657,591
Unearned revenue	-	31,007	31,007
Deposits payable	148,127	-	148,127
Non-current liabilities:			
Due within one year	3,685,000	-	3,685,000
Due in more than one year	132,103,854	-	132,103,854
Total Liabilities	142,447,281	31,199	142,478,480
Deferred Inflows of Resources			
Deferred inflows of resources for pension	1,059,000	-	1,059,000
Net Position			
Net investment in capital assets	13,138,166	628,956	13,767,122
Restricted	30,159	-	30,159
Unrestricted	(53,809,309)	39,718	(53,769,591)
Total Net Position	\$ (40,640,984)	\$ 668,674	\$ (39,972,310)

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instructional services:							
Regular instruction	\$ 19,529,897	\$ 74,325	\$ 1,975,897	\$ -	\$ (17,479,675)	\$ -	\$ (17,479,675)
Special instruction	4,947,254	-	1,765,397	-	(3,181,857)	-	(3,181,857)
Vocational instruction	201,319	-	18,250	-	(183,069)	-	(183,069)
Other instructional programs	2,675	-	480	-	(2,195)	-	(2,195)
Nonpublic programs	3,298	-	-	-	(3,298)	-	(3,298)
Total instructional services	24,684,443	74,325	3,760,024	-	(20,850,094)	-	(20,850,094)
Support services:							
Pupil personnel	1,646,557	-	141,278	-	(1,505,279)	-	(1,505,279)
Instructional staff	2,303,077	-	206,949	-	(2,096,128)	-	(2,096,128)
Administration	2,586,311	-	216,313	-	(2,369,998)	-	(2,369,998)
Pupil health	463,190	-	92,509	-	(370,681)	-	(370,681)
Business services	679,232	-	57,451	-	(621,781)	-	(621,781)
Operation of plant and maintenance services	4,250,145	132,357	361,302	-	(3,756,486)	-	(3,756,486)
Student transportation services	2,154,622	-	517,551	-	(1,637,071)	-	(1,637,071)
Central administration	756,934	-	67,989	-	(688,945)	-	(688,945)
Other support services	174,447	-	16,407	-	(158,040)	-	(158,040)
Total support services	15,014,515	132,357	1,677,749	-	(13,204,409)	-	(13,204,409)
Non-instructional services:							
Student activities	1,206,229	27,950	100,676	-	(1,077,603)	-	(1,077,603)
Community services	527,970	-	64,808	-	(463,162)	-	(463,162)
Total non-instructional services	1,734,199	27,950	165,484	-	(1,540,765)	-	(1,540,765)
Unallocated expenses - excluding direct expenses reported as a function above:							
Depreciation expense	3,078,769	-	-	-	(3,078,769)	-	(3,078,769)
Interest on long-term debt	3,177,993	-	505,213	-	(2,672,780)	-	(2,672,780)
Total governmental activities	47,689,919	234,632	6,108,470	-	(41,346,817)	-	(41,346,817)

(Continued)

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

(Continued)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Business-Type Activities:							
Food service	929,327	557,458	294,144	-	-	(77,725)	(77,725)
Total Primary Government	<u>\$ 48,619,246</u>	<u>\$ 792,090</u>	<u>\$ 6,402,614</u>	<u>\$ -</u>	<u>(41,346,817)</u>	<u>(77,725)</u>	<u>(41,424,542)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net of uncollectibles				32,518,060	-		32,518,060
Earned income taxes				4,054,237	-		4,054,237
Other taxes levied for general purposes				884,407	-		884,407
Grants, subsidies, and contributions not restricted to specific programs				2,059,938	-		2,059,938
Investment earnings				98,726	603		99,329
Miscellaneous income				6,419	-		6,419
Total general revenues				<u>39,621,787</u>	<u>603</u>		<u>39,622,390</u>
Change in Net Position				(1,725,030)	(77,122)		(1,802,152)
Net Position:							
Beginning of year				<u>(38,915,954)</u>	<u>745,796</u>		<u>(38,170,158)</u>
End of year				<u>\$ (40,640,984)</u>	<u>\$ 668,674</u>		<u>\$ (39,972,310)</u>

(Concluded)

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

QUAKER VALLEY SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Capital Projects	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 10,781,803	\$ 3,125,852	\$ 79,061	\$ 13,986,716
Taxes receivable, net	2,292,443	-	-	2,292,443
Intergovernmental receivables	969,012	-	-	969,012
Other receivables	43,831	-	-	43,831
Prepaid assets	259,724	100,000	-	359,724
Due from other funds	267	-	-	267
Interfund advance receivable	129,908	-	-	129,908
Total Assets	\$ 14,476,988	\$ 3,225,852	\$ 79,061	\$ 17,781,901
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 638,162	\$ 213,706	\$ 585	\$ 852,453
Accrued salaries and benefits	5,000,256	-	-	5,000,256
Due to other funds	5,844	-	628	6,472
Deposits payable	148,127	-	-	148,127
Total Liabilities	5,792,389	213,706	1,213	6,007,308
Deferred Inflows of Resources:				
Unavailable revenue - real estate taxes	1,667,308	-	-	1,667,308
Fund Balance:				
Nonspendable:				
Prepays	259,724	100,000	-	359,724
Interfund advance	129,908	-	-	129,908
Restricted:				
Grant purposes	-	-	30,159	30,159
Committed:				
Future pension contributions	1,075,000	-	-	1,075,000
Capital Projects	-	2,912,146	-	2,912,146
Assigned:				
Future pension contributions	817,500	-	-	817,500
Future healthcare costs	250,000	-	-	250,000
Facilities, equipment, and technology	1,500,000	-	-	1,500,000
Athletics	-	-	47,689	47,689
Unassigned	2,985,159	-	-	2,985,159
Total Fund Balance	7,017,291	3,012,146	77,848	10,107,285
Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 14,476,988	\$ 3,225,852	\$ 79,061	\$ 17,781,901

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

QUAKER VALLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2017

Total Fund Balance - Governmental Funds \$ 10,107,285

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 69,432,076

Property taxes receivable received after 60 days are not considered available soon enough to pay for the current year's expenditures and, therefore, are reported as unavailable in the funds. 1,667,308

Governmental funds report the effect of deferred charge on refunding when debt is first issued, whereas this amount is a deferred outflow and amortized in the statement of activities. 1,919,340

Accrued interest payable is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds. (657,591)

Reimbursements due from governmental grantors for accrued debt service expenditures are not recorded in the funds, as the related debt service expenditures are not recorded until paid. 110,000

The actuarially accrued other post-employment benefit (OPEB) obligation, net pension liability, and deferred inflows and outflows of resources for pension for the School District's employees are not recorded on the fund financial statements. (61,828,765)

Long-term liabilities, including bonds payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ (58,213,250)	
Unamortized discount/premium	(2,142,089)	
Compensated absences	(1,035,298)	(61,390,637)
		(61,390,637)

Total Net Position - Governmental Activities \$ (40,640,984)

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2017

	General Fund	Capital Projects	Other Governmental Funds	Total
Revenues:				
Local sources	\$ 38,051,618	\$ 14,264	\$ 181,543	\$ 38,247,425
State sources	6,986,189	-	-	6,986,189
Federal sources	750,911	-	-	750,911
Total revenues	45,788,718	14,264	181,543	45,984,525
Expenditures:				
Current:				
Instruction	23,325,103	-	-	23,325,103
Support services	14,424,036	-	57,379	14,481,415
Operation of non-instructional services	1,639,384	-	95,330	1,734,714
Capital outlay	-	683,677	-	683,677
Debt service:				
Principal and interest	6,637,189	-	-	6,637,189
Total expenditures	46,025,712	683,677	152,709	46,862,098
Excess (Deficiency) of Revenues over Expenditures	(236,994)	(669,413)	28,834	(877,573)
Other Financing Sources (Uses):				
Refund of prior year's expenditures	10,267	-	-	10,267
Transfers in (out)	(15,000)	-	15,000	-
Total other financing sources (uses)	(4,733)	-	15,000	10,267
Net Change in Fund Balance	(241,727)	(669,413)	43,834	(867,306)
Fund Balance:				
Beginning of year	7,259,018	3,681,559	34,014	10,974,591
End of year	<u>\$ 7,017,291</u>	<u>\$ 3,012,146</u>	<u>\$ 77,848</u>	<u>\$ 10,107,285</u>

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

QUAKER VALLEY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Net Change in Fund Balance - Governmental Funds \$ (867,306)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year:

	Capital asset additions	\$ 950,673	
	Less: depreciation expense	<u>(3,078,769)</u>	(2,128,096)

Some taxes and state grants will not be collected for several months until after Quaker Valley School District's (School District) year-end; they are not considered "available" revenues in the governmental funds. The unavailable revenue changed by this amount during the year. (19,636)

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. 3,432,654

Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The difference between interest accrued in the statement of activities over the amount due is shown here. 26,542

In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits, and pension benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (2,169,188)

Change in Net Position of Governmental Activities \$ (1,725,030)

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2017

	Enterprise Fund Food Service
Assets	
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 175,882
Intergovernmental receivables	3,267
Other receivables	1,416
Due from other fund	6,205
Inventory	14,055
Total current assets	<hr/> 200,825 <hr/>
Non-current assets:	
Machinery and equipment	1,251,182
Less accumulated depreciation	<hr/> (622,226)
Total non-current assets	<hr/> 628,956 <hr/>
Total Assets	<hr/> \$ 829,781 <hr/>
Liabilities and Net Position	
<hr/>	
Liabilities:	
Accounts payable	\$ 192
Unearned revenue	31,007
Interfund advance payable	129,908
Total Liabilities	<hr/> 161,107 <hr/>
Net Position:	
Net investment in capital assets	628,956
Unrestricted	39,718
Total Net Position	<hr/> 668,674 <hr/>
Total Liabilities and Net Position	<hr/> \$ 829,781 <hr/>

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund Food Service</u>
Operating Revenues:	
<u>Food service revenue</u>	<u>\$ 557,458</u>
Operating Expenses:	
Salaries	287,397
Employee benefits	190,680
Other purchased services	2,359
Food	302,618
Supplies	68,956
Equipment	9,679
Depreciation	<u>67,638</u>
Total operating expenses	<u>929,327</u>
Net Operating Loss	<u>(371,869)</u>
Non-Operating Revenues:	
<u>State subsidies</u>	65,997
Federal revenues	184,023
Donated commodities	44,124
Interest income	<u>603</u>
Total non-operating revenues	<u>294,747</u>
Change in Net Position	(77,122)
Net Position:	
<u>Beginning of year</u>	<u>745,796</u>
End of year	<u><u>\$ 668,674</u></u>

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from users	\$ 562,461
Payments to employees	(478,077)
Payments to suppliers	<u>(332,120)</u>
Net cash provided by (used in) operating activities	<u>(247,736)</u>
<u>Cash Flows From Financing Activities:</u>	
Operating transfers	745
Federal subsidies	185,343
State subsidies	<u>65,997</u>
Net cash provided by (used in) financing activities	<u>252,085</u>
<u>Cash Flows From Investing Activities:</u>	
Interest income	<u>603</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,952
<u>Cash and Cash Equivalents:</u>	
Beginning of year	<u>170,930</u>
End of year	<u>\$ 175,882</u>

(Continued)

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017
(Continued)

Reconciliation of Net Operating Loss to Net Cash

Provided by (Used in) Operating Activities:

Net operating loss	\$	(371,869)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Donated commodities expense		44,124
Depreciation		67,638
Change in assets and liabilities:		
Due from other funds		(1,288)
Other receivables		10,209
Inventory		(1,258)
Accounts payable		(295)
Unearned revenue		5,003
		<hr/>
Net cash provided by (used in) operating activities	\$	<u>(247,736)</u>

(Concluded)

Non-Cash Financing Transaction:

The Food Service Fund received donated commodities from the Department of Agriculture in the amount of \$46,524 during the year.

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

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	<u>Agency Fund</u>
<hr/>	
Assets	
<hr/>	
Cash and cash equivalents	\$ 115,932
	<u><u>115,932</u></u>
Liabilities	
<hr/>	
Other current liabilities	\$ 115,932
	<u><u>115,932</u></u>

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

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

1. Summary of Significant Accounting Policies

The financial statements 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 accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

In evaluating the Quaker Valley School District (School District) as a primary government, management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the School District to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the School District reviews the applicability of the following criteria:

1. Organizations that make up the legal entity.
 2. Legally separate organizations if the Commissioners appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the School District.
 - a. Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. Financial Benefit or Burden - Exists if the School District (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.
 3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the School District.
 4. In management's judgment, exclusion of the component unit would render the financial statements misleading.
-

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

None of the potential component units evaluated meets the above criteria.

Related Organization

The Sewickley Public Library (Library) has a separately appointed Board and provides services to residents, generally within the geographic boundaries of the School District. During fiscal year 2017, the School District contributed \$515,000 to the Library.

The Library is excluded from the reporting entity because it is not considered fiscally dependent on the School District for the following reasons: (1) the Library receives funds from state and county governments and (2) the School District does not appoint a majority of the Library's Board or approve the Library's budget.

Joint Venture

The Parkway West Career and Technology Center and related Authority, as described more fully in Note 9, is considered a non-equity joint venture of the School District. Accordingly, the School District's net investment and share of operating results are not included in the School District's financial statements. Separate audited financial statements are available in the School District's business office.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of net position presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Taxes and other items not considered program related revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual proprietary fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

Governmental fund financial statements are reported 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 School District considers revenues to be available if they are collected within 60 days of the end of the current 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 pensions, other post-employment benefits, compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Deferred inflows of resources reported on the governmental funds balance sheet arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

criteria are met, the unavailable revenue is removed as a deferred inflow of resources and the revenue is recognized.

Unearned revenues arise when resources are received by the School District before it has legal claim to them, such as when intergovernmental funds are received prior to the occurrence of qualifying expenditures. During subsequent periods, when the School District has a legal claim to the resources, the unearned revenue is removed as a liability and the revenue is recognized.

The School District reports the following major governmental funds:

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

The Capital Projects Fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

Additionally, the School District reports the following other governmental funds:

Special Revenue Funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes. The Special Revenue Funds utilized by the School District are the Athletics Fund and the Grant Fund.

The School District reports the following major proprietary fund:

The Food Service Fund is authorized under Section 504 of the Public School Code of 1949 to account for all revenues and expenses pertaining to cafeteria operations. The Food Service Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs (i.e., expenses, including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Additionally, the School District reports the following fiduciary fund type:

The School District's Agency Fund is used to account for assets held by the School District in a trustee capacity for student activities. They are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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 School District's Food Service Fund are charges to customers for the sale of food. Operating expenses for enterprise 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.

Deposits and Investments

For the purposes of the statement of cash flows, the School District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and pooled funds investments subject to daily withdrawal.

Investments are stated at fair value. The School District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Receivables and Payables

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

All tax receivables are shown net of an allowance for uncollectible amounts.

Property taxes are levied as of July 1 on property values assessed as of the same date. The billings are considered past due on November 1, and penalties and interest are assessed.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Inventory and Prepaid Items

Textbooks and library books are recorded as instructional expenditures of the General Fund when purchased and recorded as capital assets in the government-wide financial statements.

Inventories of the Food Service Fund, consisting of food and paper supplies, are carried at cost using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Donated capital assets are recorded at estimated acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

<u>Assets</u>	<u>Years</u>
Buildings	30 - 50
Building improvements	20
Vehicles	5 - 10
Office equipment	3 - 20
Computer equipment	5 - 10
Food service equipment	6 - 12
Text and library books	5 - 10

Compensated Absences

The School District accrues for certain accumulated employee benefits, such as unpaid sick days and retirement bonuses. The amount of the accrual is based on the sick and retirement payments which are expected to be paid to employees upon their termination or retirement from the School District. These amounts are reflected as long-term liabilities unless retirements are likely within the upcoming fiscal year. The entire accumulated employee benefits liability is reported on the government-wide financial statements, and the current portion of the liability is reported within accrued salaries and benefits in the fund statements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the related bonds. Bonds are reported net of the applicable bond premium or discount.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. 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 in the year incurred.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Postemployment Benefits

In the government-wide financial statements, long-term liabilities related to postemployment benefits, including pensions, health insurance, and life insurance are calculated based on actuarial valuations as described in Notes 8 and 10.

Refunding Transactions

In accordance with applicable guidance, the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred outflow of resources on the statements of net position and amortized as a component of interest expense over the shorter of the term of the refunding issue or the refunded bonds.

Deferred Inflows and Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, differences between expected and actual experience, changes in assumptions, the effect of the change in the School District's proportion, the net difference between expected and actual investment earnings, and payments made to Public School Employees' Retirement System (PSERS) subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for the PSERS plan. Note 8 presents additional information about the PSERS plan.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and long-term interfund advances.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the School Board. Such commitment is made via a School Board resolution and must be made prior to

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

the end of the fiscal year. Removal of this commitment requires a School Board resolution.

- Assigned – This category represents intentions of the School Board to use the funds for specific purposes. Such assignment is made by the Director of Finance and Operations, but approval is obtained from the School Board for all such assignments.
- Unassigned – This category represents all other funds not otherwise defined.

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

Net Position

The government-wide and proprietary fund financial statements are required to report three components of net position:

Net investment in capital assets - The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. As of June 30, 2017, the School District had restrictions relating to their grant funds.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Adoption of Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*," GASB Statement No. 77, "*Tax Abatement Disclosures*," GASB Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*," GASB Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*," were adopted in the current year by the School District. These statements had no material impact on the School District's financial statements.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 75 (OPEB Employer), 81 (Split-Interest Agreements), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus), 86 (Certain Debt Extinguishment Issues), and 87 (Leases). Management has not yet determined the impact of these statements on the financial statements.

2. Cash and Cash Equivalents

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest funds consistent with sound business practices in the following types of investments:

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.

In March 2016, Act 10 was passed which expanded the scope of investment options available to school districts including repurchase agreements, commercial paper, negotiable certificates of deposit, and banker's acceptances. The School District elected to maintain its current investment policy due to the additional risk and oversight associated with the expanded investment options under Act 10.

The deposit and investment policy of the School District adheres to state statutes and prudent business practices. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents held by a Trustee of the School District. There were no deposits or investments made during the year which violated either the state statutes or the policy of the School District.

The following is a description of the School District's deposit and investment risks:

Credit Risk. The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. A portion of the School District's investments are held in U.S. Government Obligations and are therefore not exposed to this type of risk. These include investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) (described below), which has received an AAA rating from Standard & Poor's.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a formal deposit policy for custodial credit risk, as there is an existing requirement under Act 72 of the Pennsylvania state legislature whereby banking institutions are required to pool collateral for all governmental deposits, and have the collateral held by an approved custodian in the institution's name. As of June 30, 2017, \$2,701,384 of the School District's bank balance of \$3,051,384 was exposed to custodial credit risk.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Deposits are collateralized in accordance with Act 72 of the Pennsylvania state legislature. These deposits have a carrying amount of \$2,522,111 as of June 30, 2017.

Investments

PSDLAF and PLGIT were established as a common law trust organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The School District's deposits in these pooled funds are not subject to direct custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet and the statement of net position. The fair value of the School District's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. The School District can withdraw funds from the external investment pool without limitations or fees upon adequate notice. Otherwise, breakage fees may be charged.

The School District's pooled investment funds consist of the above-noted PSDLAF accounts. The School District's PSDLAF investments have a maturity of less than 90 days, and a fair market value of \$11,719,922 as of June 30, 2017. The carrying amount of the School District's investments in PSDLAF and PLGIT is \$11,640,487 as of June 30, 2017.

Fiduciary Fund

The School District maintains bank accounts for the various student activities funds. The balance of these accounts is reflected in the statement of net position. Receipts and disbursements for student activities were \$185,604 and \$191,691, respectively, for the year ended June 30, 2017. The carrying amount of deposits for the fiduciary funds was \$115,932 and the bank balance was \$134,702. The entire bank balance was not covered by federal depository insurance. This uninsured bank balance is collateralized in accordance with Act 72 of the Pennsylvania State Legislature.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

3. Real Estate Taxes

Real estate taxes are levied each July 1 on the assessed value listed as of the prior January 1 for all real estate located in the School District. These taxes are billed and collected by each municipality served by the School District. Taxes paid through August 31st are given a 2% discount. Amounts paid after October 31st are assessed a 10% penalty. An outside service collects delinquent real estate taxes and handles the property liens. The lien date for the 2016/2017 levy will be November 1, 2017.

The levy for fiscal year 2017 was based on assessed value on January 1, 2016 of approximately \$2.14 billion. The tax rate assessed for the year ended June 30, 2017 was equal to 17.7389 mills. General Fund property taxes receivables have been reported net of an allowance for doubtful accounts of approximately \$1,215,000 at June 30, 2017.

There is an appeal process through which a taxpayer may contest the assessed value of their property. This process could result in the reduction of future assessed values and consequently a loss of tax revenues. There are outstanding appeals at June 30, 2017, the results of which have yet to be determined. The revenue recorded in the financial statements reflects the estimated amount of net real estate tax revenue for the year.

4. Capital Assets

A summary of changes in capital assets during fiscal year 2017 is as follows:

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

	Balance at July 1, 2016	Additions	Deletions/ Transfers	Balance at June 30, 2017
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 801,958	\$ -	\$ -	\$ 801,958
Construction in progress	-	203,702	-	203,702
Total capital assets, not being depreciated	801,958	203,702	-	1,005,660
Capital assets, being depreciated:				
Site improvements	4,715,031	281,965	-	4,996,996
Building and improvements	86,358,403	-	-	86,358,403
Machinery and equipment	4,321,362	249,429	-	4,570,791
Text and library books	2,069,742	215,577	(249,492)	2,035,827
Vehicles	327,547	-	-	327,547
Total capital assets, being depreciated	97,792,085	746,971	(249,492)	98,289,564
Less: accumulated depreciation for:				
Site improvements	(2,490,294)	(337,791)	-	(2,828,085)
Building and improvements	(19,702,099)	(2,233,180)	-	(21,935,279)
Machinery and equipment	(2,982,889)	(293,042)	-	(3,275,931)
Text and library books	(1,712,728)	(175,227)	249,492	(1,638,463)
Vehicles	(145,861)	(39,529)	-	(185,390)
Total accumulated depreciation	(27,033,871)	(3,078,769)	249,492	(29,863,148)
Capital assets being depreciated, net	70,758,214	(2,331,798)	-	68,426,416
Governmental activities capital assets, net	\$ 71,560,172	\$ (2,128,096)	\$ -	\$ 69,432,076
	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 1,251,182	\$ -	\$ -	\$ 1,251,182
Less: accumulated depreciation for:				
Machinery and equipment	(554,588)	(67,638)	-	(622,226)
Business-type activities capital assets, net	\$ 696,594	\$ (67,638)	\$ -	\$ 628,956

Depreciation expense was not allocated for the year ended June 30, 2017.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

5. Long-Term Obligations

The Series B of 1997 General Obligation Bonds (1997 Bonds) were issued for the purpose of financing various capital and technology projects of the School District, which consisted of renovations and additions to the School District's Middle School and High School. The 1997 Bonds were composed of the Current Interest Bonds and the Capital Appreciation Bonds. The Current Interest Bonds bear interest at rates ranging from 4.15% to 4.40%. The Capital Appreciation Bonds accrue and compound interest on an annual basis and are carried at cost plus interest.

During July 2008, the School District issued Series 2008 A General Obligation Bonds in the amount of \$10,065,000, for the purpose of currently refunding the School District's Series of 1998 General Obligation Bonds. The Series 2008 A General Obligation Bonds bear interest at rates ranging from 3.00% to 5.00%. Payments are due semi-annually on the Series 2008 A General Obligation Bonds through October 2018.

On July 1, 2010, the School District issued Series 2010 A and B (Federally Taxable Build America Bonds – Direct Payment) General Obligation Bonds in the amount of \$355,000 and \$22,745,000, respectively, to be used for renovations and additions to the School District Middle School. The Series 2010 A General Obligation Bonds bear interest at rates ranging from 2.00% to 3.00%. The Series 2010 B (Federally Taxable Build America Bonds – Direct Payment) General Obligation Bonds bear interest at rates ranging from 5.30% to 6.06%. The School District elected to receive a credit payment from the federal government equal to 35% of each interest payment on the Series 2010 B Bonds. The credit payment will be paid directly to the School District as required under the Recovery Act. Principal payments are due annually on the Series 2010 A Bonds through October 2018 and on the Series 2010 B Bonds on October 2025, 2030, and 2035. Interest is due semi-annually in October and April on Series A and B. The Series 2010 A Bonds were currently refunded with the Series 2016 General Obligation Bonds.

In November 2014, the School District issued Series 2014 General Obligation Bonds in the amount of \$8,355,000, to advance refund Series B of 2005 General Obligation Bonds and advance refund Series of 2011 General Obligation Bonds. The Series 2014 General Obligation Bonds bear interest at rates ranging from .25% to 3.00%. Principal payments are due annually on the Series 2014 Bonds through April 2025. Interest is due semi-annually in April and October.

In December 2014, the School District issued Series 2015 General Obligation Bonds in the amount of \$20,630,000, to currently refund Series A of 2005 General Obligation Bonds. The

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Series 2015 General Obligation Bonds bear interest at rates ranging from .25% to 5.00%. Principal payments are due annually on the Series 2015 Bonds through October 2024. Interest is due semi-annually in April and October. The refunding resulted in a deferred charge on refunding of \$2,741,913 which is being amortized over the life of the refunded debt. The unamortized balance of the deferred charge on refunding is \$1,919,340 at June 30, 2017.

In January 2016, the School District issued Series 2016 General Obligation Bonds in the amount of \$6,700,000, to currently refund Series A of 2010 General Obligation Bonds and advance refund Series A of 2011 General Obligation Bonds. The Series 2016 General Obligation Bonds bear interest at rates ranging from .400% to 2.375%. Principal payments are due annually on the Series 2016 Bonds through October 2026. Interest is due semi-annually in April and October.

Changes in the School District's long-term liabilities for the year ended June 30, 2017 were as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017	Amounts Due Within One Year
Series of 1997 B	\$ 2,857,948	\$ 165,302	\$ (10,000)	\$ 3,013,250	\$ 5,000
Series of 2008 A	3,175,000	-	(1,005,000)	2,170,000	1,060,000
Series of 2010	22,745,000	-	-	22,745,000	-
Series of 2014	7,560,000	-	(680,000)	6,880,000	705,000
Series of 2015	18,635,000	-	(1,740,000)	16,895,000	1,800,000
Series of 2016	6,630,000	-	(120,000)	6,510,000	115,000
Unamortized discount	(134,642)	-	7,087	(127,555)	-
Unamortized premium	2,593,878	-	(324,234)	2,269,644	-
	<u>64,062,184</u>	<u>165,302</u>	<u>(3,872,147)</u>	<u>60,355,339</u>	<u>3,685,000</u>
OPEB obligation	1,958,101	285,116	-	2,243,217	-
Net pension liability	61,854,000	10,301,000	-	72,155,000	-
Accumulated employee benefits	1,066,361	-	(31,063)	1,035,298	-
	<u>\$ 128,940,646</u>	<u>\$ 10,751,418</u>	<u>\$ (3,903,210)</u>	<u>\$ 135,788,854</u>	<u>\$ 3,685,000</u>

Additions to the General Obligation Bond Series of 1997 B are the increase in accreted value for fiscal year 2017.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2018	\$ 3,685,000	\$ 2,566,713	\$ 6,251,713
2019	3,505,000	2,422,413	5,927,413
2020	3,560,000	2,293,813	5,853,813
2021	3,675,000	2,180,583	5,855,583
2022	3,775,000	2,077,718	5,852,718
2023-2027	21,175,000	8,077,031	29,252,031
2028-2032	9,965,000	4,714,886	14,679,886
2033-2036	9,495,000	1,466,581	10,961,581
	<u>58,835,000</u>	<u>25,799,738</u>	<u>84,634,738</u>
Unamortized premium	2,269,644	-	2,269,644
Unamortized discount	(127,555)	-	(127,555)
Deferred interest	(621,750)	621,750	-
	<u>\$ 60,355,339</u>	<u>\$ 26,421,488</u>	<u>\$ 86,776,827</u>

6. Leases and Commitments

Operating Lease

During February 2010, the School District entered into a new lease for office space. The term of the lease is for ten years commencing on July 1, 2010 and ending on June 30, 2020. The general terms of the lease require the lessor to provide for utilities, building repairs, and maintenance. During July 2015, the School District entered into a new four-year lease for copiers ending July 28, 2019. Payments under the leases totaled \$186,185 during fiscal year 2017.

The total minimum future commitments under the leases for the year ended June 30, 2017 are as follows:

2018	\$ 178,604
2019	183,204
2020	124,900
	<u>\$ 486,708</u>

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

7. Health Consortium

The School District is one of fifty members of the Allegheny County Schools Health Insurance Consortium (Consortium). The Consortium is a public entity risk pool which affords health care coverage for members' employees on a pooled basis. The School District pays premiums to the Consortium based upon rates established by the trustees of the Consortium. The Consortium establishes rates with the objective of satisfying current costs and claims of covered health care services, as well as maintaining working capital requirements and a Premium Stabilization Fund for periods when actual costs of coverage exceed premiums collected from members. At the end of each fiscal year, actual claims experience is compared with premiums paid. The difference results in either a retroactive refund or charge. Included in the retroactive refund/charge is a calculation for the reserve needed to cover expenses incurred but not yet reported by health providers. Any retroactive charge may be paid from the Premium Stabilization Fund, up to ten percent of total premiums paid. The remainder may be charged to the Schools. At June 30, 2017, the Consortium's net assets available for benefits approximated \$47.7 million. The School District's share of this amount is approximately \$680,000. The Consortium also maintains a portion of the Premium Stabilization Fund to cover potential future catastrophic losses. Independent insurance coverage for catastrophic losses is not maintained by the Consortium or the School District.

The School District paid premiums during the year of approximately \$3.6 million. The Consortium's agreement permits participants to withdraw from the Consortium under specified terms. In such an event, the withdrawing member is entitled to or responsible for a proportionate share of the Consortium fund balance or deficit as determined on the date of withdrawal.

8. Retirement Benefits

Summary of Significant Accounting Policies

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 PSERS and additions to/deductions from PSERS' 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

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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fair value. The net pension liability is recorded as a governmental activity as the future obligation is expected to be paid from the General Fund.

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

QUAKER VALLEY SCHOOL DISTRICT

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

Health Insurance Premium Assistance Program

In addition, PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program. The Premium Assistance is not included in the calculation of the net pension liability as it does not qualify under the provisions of GASB Statement No. 68.

Member Contributions

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

Active members who joined PSERS prior to July 22, 1983:

Membership Class T-C	5.25%
Membership Class T-D	6.50%

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:

Membership Class T-C	6.25%
Membership Class T-D	7.50%

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Members who joined PSERS after June 30, 2001, and before July 1, 2011:

Membership Class T-D 7.50%

Members who joined PSERS after June 30, 2011:

Membership Class T-E* 7.50%

Membership Class T-F** 10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Employer Contributions:

The School District's contractually required pension contribution rate for the fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the School District was required to contribute 0.83% of covered payroll to Premium Assistance.

The combined contribution rate will increase to 32.57% in fiscal year 2018 and is projected to grow to 36.40% by fiscal year 2022.

The School District contributed \$5,645,835 toward pension benefits which were recognized by PSERS for the year ended June 30, 2017. Approximately \$1.5 million is owed to PSERS as of June 30, 2017, which represents the School District's required contribution for the end-of-year payroll. Contributions are remitted monthly.

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school districts for at least one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth approximating \$2.7 million during the current year. Because the Commonwealth payments are received as a reimbursement, and are not made directly to PSERS, they do not qualify as a special funding situation.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2017, the School District reported a liability of \$72,155,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2015 to June 30, 2016. 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 PSERS' total one-year reported covered payroll. At June 30, 2016, the School District's proportion was 0.1456%, which was an increase of .0028% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$7,719,000. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 4,022,000	\$ -
Changes in proportion	1,198,000	(458,000)
Net differences between expected and actual experience	-	(601,000)
Changes in assumptions	2,605,000	-
School District contributions subsequent to the measurement date	<u>5,803,452</u>	<u>-</u>
Total	<u>\$ 13,628,452</u>	<u>\$ (1,059,000)</u>

\$5,803,452 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

<u>Year Ending June 30:</u>	
2018	\$ (1,355,000)
2019	(1,355,000)
2020	(2,299,000)
2021	<u>(1,757,000)</u>
Total	<u>\$ (6,766,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward PSERS' total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth of 1.0%, and merit or seniority increases of 1.25%
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 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.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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 target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	20.0%
Financing (LIBOR)	-14.0%	0.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the current contribution rate and that the 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.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
School District's proportionate share of the net pension liability	\$ 88,265,000	\$ 72,155,000	\$ 58,618,000

Pension Plan Fiduciary Net Position

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

403(b) Retirement Plan

Employees of the School District may participate in a 403(b) retirement plan. Contributions are made under a Salary Reduction Agreement with the School District. This agreement allows the School District to withhold money from the employee's paycheck to be contributed directly into a 403(b) account. The School District does not contribute to this plan. Maximum contributions follow the limits given by the Internal Revenue Service.

9. Parkway West Career and Technology Center and Related Authority

The School District is one of twelve member School Districts of the Parkway West Career and Technology Center and related Authority (Parkway). Parkway, which provides vocational-technical education and training for high school students, is controlled and governed by the Joint Board, which is composed of all of the school board members of the entire member School Districts. Direct oversight of Parkway's operations is the responsibility of the Joint Committee, which consists of one representative from each

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

participating School District. The School District's share of annual operating and capital costs for Parkway fluctuates based on the percentage enrollment in the school and is reflected as expenditures of the General Fund. The amount paid by the School District in the current fiscal year was approximately \$214,000. The net current assets of Parkway at June 30, 2017 are to be used to fund future years' operations and are not significant to the School District. Separate audited financial statements are available in the School District's business office.

10. Other Post-Retirement Benefits (OPEBs)

Plan Description

In addition to the pension benefits described in Note 8, the School District provides and administers varying levels of medical, dental, vision, and life insurance coverage to the following employee groups:

- Administrators
- Teachers
- Educational, Paraprofessionals, and Support Personnel
- Food Service, Operation, and Maintenance

The School District is responsible for a portion of the cost as set by the contract agreement in force at the time of retirement. The School District pays the premium for these benefits; however, the retiree must reimburse the School District for a portion, or all, of the costs in some cases.

The benefit limits and employee and employer contributions are established through employee contracts and past practices. The plan is not accounted for as a Trust Fund as an irrevocable trust has not been established, the plan does not issue a separate report, and activity of the plan is reported in the School District's General Fund.

Details of the benefits provided are as follows:

All Employees

Life Insurance will be provided for any employee who has attained 15 years with the School District. Employees who retire between July 1, 1976 and June 30, 1991 receive

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

\$2,400; employees who retired between July 1, 1991 and June 30, 2000 receive \$5,000; employees who retired after July 1, 2000 received \$10,000.

Administrators

Administrators who retired prior to July 1, 2009 must reach 15 years with the district and reach age 55. Administrators who retire under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until age 70 or Medicare eligibility if district service exceeds 35 years. If the member has reached 15 years with the district, the member and spouse will receive full paid benefits until Medicare eligibility. The member may continue coverage under a Medicare supplement plan until age 70 and shall be reimbursed for 50% of the premiums. The member and spouse may elect dental and vision coverage by paying the full premium. If the member exceeds 35 years of service, the spouse contribution will be 50% of the premium and the member will not be eligible for post-Medicare benefits. The member must enroll to receive the PSERS supplements and forward them to the district. If the member elects a Medicare supplement plan, the PSERS supplement will be deducted from the total premium, and then the 50% reimbursement will be calculated from the new total. If the member has not reached 15 years with the district, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

Administrators who retired between July 1, 2009 and June 30, 2012 must reach 10 years with the School District and 20 years with PSERS. Administrators who retire under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until Medicare age. If the member has reached 10 years with the district and 20 years with PSERS, the member and spouse will receive full paid benefits for the earlier of 10 years or Medicare eligibility, less the \$100 PSERS supplement (if eligible). The member and spouse must contribute the active co-pays. The member and spouse may elect dental and vision coverage by paying the full premium. If the member has not reached 10 years with the district and 20 years with PSERS, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

Administrators who retire between July 1, 2012 and June 30, 2015 are the same as above except the member must reach 12 years with the School District and 20 years with PSERS.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Administrators who retire after July 1, 2015 are the same as above except the member must reach five years with the School District.

Teachers

Teachers who retired prior to July 1, 2008 from the School District under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until age 70 or Medicare eligibility if district service exceeds 35 years. If the member has reached 15 P-years with the district and 30 years with PSERS, the member and spouse will receive full paid benefits until Medicare eligibility. The member may continue coverage under a Medicare supplement plan until age 70 and shall be reimbursed for 50% of the premiums. The member and spouse may elect dental and vision coverage by paying the full premium. If the member exceeds 35 years of service, the spouse contribution will be 50% of the premium and the member will not be eligible for post-Medicare benefits. The member must enroll to receive the PSERS supplements and forward them to the district. If the member elects a Medicare supplement plan, the PSERS supplement will be deducted from the total premium, and then the 50% reimbursement will be calculated from the new total. If the member has not reached 15 years with the district, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

Teachers who retired between July 1, 2008 and June 30, 2015 under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until age 70 or Medicare eligibility if district service exceeds 35 years. If the member has reached 15 years with the district and 30 years with PSERS, the member and spouse will receive full paid benefits for the earlier of 10 years or Medicare eligibility. The member and spouse must contribute the active co-pays. The member may continue coverage under a Medicare supplement plan until age 70 and shall be reimbursed for 50% of the premiums. The member and spouse may elect dental and vision coverage by paying the full premium. If the 10 years of coverage are exhausted, and the member and/or spouse have not reached Medicare age, they may continue by paying the full premium. The member must enroll to receive the PSERS supplements and forward them to the district. If the member has not reached 15 years with the district and 30 years with PSERS, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Teachers who retire after July 1, 2015 are the same as above except the member must reach 15 years with the School District and 30 years with PSERS.

Educational, Paraprofessionals, and Support Personnel

Educational, paraprofessionals, and support personnel who retired between January 1, 2010 and June 30, 2011 from the School District under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until Medicare age. If the member has reached 15 years with PSERS, the member will receive full paid benefits until Medicare eligibility. The School District's contributions will freeze at the 2010-2011 premium rate and the member must contribute any increase in premiums. The School District will also contribute a one-time cash payment based on the following schedule: two participants, \$250 payment; three participants, \$500 payment; and four or more participants, \$750 payment. Alternatively, the member may elect a one-time cash payment in lieu of any coverage or reimbursement based on the following schedule: one participant, \$7,500 payment; two participants, \$9,000 payment; three participants, \$10,000 payment; and four or more participants, \$12,000 payment. If the member has reached 15 years with the School District yet has not accrued 15 years of service with PSERS, the member may elect a \$2,500 cash payment. The member and spouse may elect dental and vision coverage by paying the full premium. The member must enroll to receive the PSERS supplements and forward them to the School District. If the member has not reached 15 years with PSERS, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

Educational, paraprofessionals, and support personnel who retire between January 1, 2012 and June 30, 2014 from the School District receive the same benefits as above except the member must reach 20 years with PSERS to qualify for the School District subsidy and 15 years with the School District, but not 20 years with the PSERS to qualify for the \$2,500 cash payment, and the School District's contributions freeze at the 2011-2012 premium rates.

Educational, paraprofessionals, and support personnel who retired between January 1, 2015 and December 31, 2016 from the School District under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until Medicare age. If the member has reached 20 years with PSERS, the member will receive full paid benefits until Medicare eligibility. The School District's contributions will freeze at the 2014-2015 premium rate and the member must contribute any increase in premiums. In addition, the member must enroll to receive the PSERS supplement and

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

forward it to the School District. The School District will also contribute a one-time cash payment based on the following schedule: three participants, \$150 payment; and four or more participants, \$200 payment. Alternatively, the member may elect a one-time cash payment in lieu of any coverage or reimbursement based on the following schedule if retiring before June 30, 2016: one participant, \$9,500 payment; two to three participants, \$10,000 payment; and four or more participants, \$11,000 payment. If retiring after June 30, 2016, the member may elect a one-time cash payment in lieu of any coverage or reimbursement based on the following schedule: one to two participants, \$5,000 payment; and three or more participants, \$6,000 payment. If the member has not reached 20 years with PSERS, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

Educational, paraprofessionals, and support personnel who retired between January 1, 2017 and June 30, 2017 from the School District under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until Medicare age. If the member has reached 15 years with the School District and 20 years with PSERS, the member will receive full paid benefits until Medicare eligibility. The School District's contributions will freeze at the 2016-2017 premium rate and the member must contribute any increase in premiums. In addition, the member must enroll to receive the PSERS supplement and forward it to the School District. The School District will also contribute a one-time cash payment based on the following schedule: one to two participants, \$25 payment; and three or more participants, \$100 payment. Alternatively, the member may elect a one-time cash payment in lieu of any coverage or reimbursement based on the following schedule: one to two participants, \$5,000 payment; and three or more participants, \$6,000 payment. If the member has not reached 15 years with the School District and 20 years with PSERS, the member may elect the ACT 110/43 Benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

Educational, paraprofessionals, and support personnel who retire outside of the date ranges above from the School District are eligible under ACT 110/43. All employees are eligible under ACT 110/43 if they retire with 30 years of PSERS service or upon superannuation retirement. Retired employees under ACT 110/43 are allowed to continue coverage for themselves and dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

QUAKER VALLEY SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2017

Food Service and Operation and Maintenance

Full-time 12-month Food Service and Operation and Maintenance employees who retire between July 1, 2014 and June 30, 2018 from the School District under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefit coverages until Medicare age. If the member has reached 20 years with the School District and superannuation, the member will receive full paid benefits until Medicare eligibility. The School District's contributions will freeze at the 2014-2015 premium rate and the member must contribute any increase in premiums. In addition, the member must enroll to receive the PSERS supplement and forward it to the School District. If the member has between 10 and 20 years with the School District and superannuation, the School District will contribute \$200 per month. The member and spouse are responsible for the remaining premium. If the member has not reached 10 years with the School District or superannuation, the member may elect the Act 110/43 benefit if eligible. In the event of the member's death, the spouse may continue equal coverage at the time of the member's death.

All other Food Service and Operation and Maintenance employees who retire from the School District are eligible under ACT 110/43. All employees are eligible under ACT 110/43 if they retire with 30 years of PSERS service or upon superannuation retirement. Retired employees under ACT 110/43 are allowed to continue coverage for themselves and dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. For the year ended June 30, 2017, the School District recognized \$547,635 for current premiums for 179 retired participants.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual OPEB cost 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 the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) based on level dollar, 30-year open period. The following table shows the component of the School District's annual OPEB cost

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

for the year, the amount actually contributed, and changes in the School District's net OPEB obligation:

Annual required contribution	\$ 864,847
Interest on net OPEB obligation	88,115
Adjustment to annual required contribution	<u>(120,211)</u>
Annual OPEB cost	832,751
Contributions made	<u>(547,635)</u>
Increase in net OPEB obligation	285,116
Net OPEB obligation - beginning of year	<u>1,958,101</u>
Net OPEB obligation - end of year	<u><u>\$ 2,243,217</u></u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation are as follows:

Fiscal Year Ending	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2017	\$ 832,751	68.41%	\$ 2,243,217
June 30, 2016	780,782	72.96%	1,958,101
June 30, 2015	784,566	70.56%	1,746,990

Funded Status and Funding Progress

The schedule of funding progress for the postemployment medical, dental, vision, and life insurance benefits as of the most recent valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-PUC (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2016	\$ -	\$ 7,888,755	\$ 7,888,755	0%	\$ 18,041,625	43.73%

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Healthcare cost trend assumptions are based on recent experience and anticipated future cost increases under the School District's medical plans. Amounts determined regarding the funded status 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. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

The ARC for the current year was computed as of July 1, 2016 using the following actuarial assumptions:

- actuarial cost method – entry age normal;
- amortization method and period – level dollar; 30 years, open;
- discount rate – 4.50%
- Mortality - Separate rates are assumed pre-retirement and post-retirement using the benefits used in the PSERS defined benefit pension plan actuarial valuation;
- Health care cost trend rates – 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020; rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

11. Advances and Interfunds Receivable, Payable, and Interfund Transfers

Interfund receivables and payables and transfers at June 30, 2017 are summarized below:

Fund	Due From Other Funds	Due to Other Funds
Major Funds:		
General	\$ 267	\$ 5,844
Enterprise	6,205	-
Grant Fund	-	628
Total	\$ 6,472	\$ 6,472

Fund	Advances Receivable	Advances Payable
Major Funds:		
General	\$ 129,908	\$ -
Enterprise	-	129,908
Total	\$ 129,908	\$ 129,908

Fund	Transfer In	Transfer Out
Major Funds:		
General	\$ -	\$ 15,000
Other governmental funds:		
Athletics Fund	15,000	-
Total	\$ 15,000	\$ 15,000

Transactions between funds which are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts. When repayment is not expected to be made with the next fiscal year, the transactions are accounted for through advances receivable and advances payable. The due to other funds represents the reimbursement of expenditures incurred on that fund's behalf.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

The advance payable from the Enterprise Fund to the General Fund represents amounts expected to be repaid from Enterprise Fund operations in future years.

The transfer into the Special Revenue Athletics Fund represents a contribution from the General Fund to cover expenditures in excess of revenues.

12. Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; and natural disasters for which the School District carries commercial insurance. Management believes the insurance coverage is sufficient to cover the School District against potential losses. There have been no significant changes in insurance coverage since the prior fiscal year.

On May 30, 2017, the Quaker Valley School Board entered into a sales agreement to purchase approximately 130 acres of land as a potential site for a new high school facility. The final price for the land will be determined upon closing following a period of due diligence by the School District. The district made a refundable down payment of \$100,000 upon execution of the sales agreement.

REQUIRED SUPPLEMENTARY INFORMATION

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues and Other Financing Sources:				
Revenues:				
Local sources:				
Current real estate taxes	\$ 31,062,629	\$ 31,062,629	\$ 31,108,009	\$ 45,380
Public utility realty tax	40,000	40,000	40,074	74
Per capita taxes	71,900	71,900	71,316	(584)
Earned income tax	4,375,000	4,375,000	4,054,237	(320,763)
Real estate transfer tax	635,000	635,000	773,017	138,017
Delinquent taxes	1,310,000	1,310,000	1,410,220	100,220
Interest	32,950	32,950	84,202	51,252
Revenue from student activities	-	-	-	-
Rentals	130,000	130,000	132,357	2,357
Tuition	95,167	95,167	74,325	(20,842)
Contributions	50,000	50,000	18,626	(31,374)
Federal revenue from intermediary sources	270,000	270,000	278,816	8,816
Miscellaneous	250	250	6,419	6,169
Total local sources	38,072,896	38,072,896	38,051,618	(21,278)
State sources:				
Basic instructional subsidy	1,453,736	1,453,736	1,389,013	(64,723)
Special education	827,544	827,544	812,318	(15,226)
Transportation	371,000	371,000	329,363	(41,637)
Other state grants	12,000	12,000	18,243	6,243
Rentals and sinking fund	129,467	129,467	82,257	(47,210)
Medical and dental services	54,000	54,000	51,076	(2,924)
State Property Tax Reduction Allocation	670,925	670,925	670,925	-
Safe schools grant	20,000	20,000	44,989	24,989
Ready to learn block grant	-	-	66,366	66,366
Social Security payments	754,210	754,210	769,824	15,614
Retirement contributions	2,898,014	2,898,014	2,751,815	(146,199)
Total state sources	7,190,896	7,190,896	6,986,189	(204,707)
Federal sources:				
Title I Grants to Local Educational Agencies	147,178	147,178	183,217	36,039
Improving Teacher Quality	48,250	48,250	47,902	(348)
ARRA - Build America Bonds	441,710	441,710	442,423	713
School Based Access Medicaid Reimbursement Program	310,000	310,000	72,129	(237,871)
Medical Assistance Reimbursement for Administrative Claims	12,000	12,000	4,430	(7,570)
Title III English as a Second Language	1,250	1,250	810	(440)
Total federal sources	960,388	960,388	750,911	(209,477)
Other financing sources:				
Refund of prior year's expenditures	-	-	10,267	10,267
Transfers in	250,000	250,000	-	(250,000)
Total revenues and other financing sources	46,474,180	46,474,180	45,798,985	(675,195)

(Continued)

See accompanying notes to required supplementary schedules.

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2017
(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures and Other Financing Uses:				
Instruction:				
Regular programs	19,100,488	18,564,165	18,406,531	157,634
Special programs	4,854,108	5,098,101	4,711,444	386,657
Vocational education programs	181,926	209,754	201,155	8,599
Other instructional programs	5,518	5,518	2,675	2,843
Nonpublic school programs	7,000	7,000	3,298	3,702
Total instruction	24,149,040	23,884,538	23,325,103	559,435
Support services:				
Pupil personnel	1,623,782	1,623,782	1,543,442	80,340
Instructional staff	2,345,905	2,378,577	2,206,083	172,494
Administration	2,389,233	2,486,208	2,429,820	56,388
Pupil health	439,757	476,207	439,774	36,433
Business	660,319	660,319	646,192	14,127
Operation and maintenance of plant services	4,014,110	4,152,650	4,100,550	52,100
Student transportation services	2,082,450	2,162,950	2,162,788	162
Central services	795,654	781,439	726,351	55,088
Other support services	187,176	188,576	169,036	19,540
Total support services	14,538,386	14,910,708	14,424,036	486,672
Operation of non-instructional services:				
Student activities	1,237,115	1,157,123	1,111,414	45,709
Community services	530,800	530,800	527,970	2,830
Total operation of non-instructional services	1,767,915	1,687,923	1,639,384	48,539
Debt service	6,663,007	6,644,704	6,637,189	7,515
Other financing uses:				
Interfund transfer out	105,000	95,475	15,000	80,475
Budgetary reserve	250,000	250,000	-	250,000
Total expenditures and other financing sources (uses)	47,473,348	47,473,348	46,040,712	1,432,636
Net Change in Fund Balance	\$ (999,168)	\$ (999,168)	(241,727)	\$ 757,441
Fund Balance:				
Beginning of year			7,259,018	
End of year			<u>\$ 7,017,291</u>	

(Concluded)

See accompanying notes to required supplementary schedules.

QUAKER VALLEY SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years¹

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability	0.1456%	0.1428%	0.1446%
School District's proportionate share of the net pension liability	\$ 72,155,000	\$ 61,854,000	\$ 57,234,000
School District's covered-employee payroll	\$ 18,857,547	\$ 18,375,701	\$ 18,447,580
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.6320%	336.6076%	310.2521%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	50.14%	54.36%	57.24%

¹ The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS

Last 10 Fiscal Years²

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 5,645,835	\$ 4,680,608	\$ 3,660,073
Contributions recognized by PSERS	<u>5,645,835</u>	<u>4,680,608</u>	<u>3,660,073</u>
Difference between contractually required employer contribution and contributions recognized by PSERS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 19,928,717	\$ 18,908,109	\$ 18,311,205
Contributions as a percentage of covered-employee payroll	28.33%	24.75%	19.99%

² The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to required supplementary schedules.

QUAKER VALLEY SCHOOL DISTRICT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2016	\$ -	\$ 7,888,755	\$ 7,888,755	0%	\$ 18,041,625	43.73%
07/01/2014	-	7,845,894	7,845,894	0%	16,391,442	47.87%
07/01/2012	-	7,635,060	7,635,060	0%	17,113,127	44.62%

See accompanying notes to required supplementary schedules.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2017

1. Budgetary Information

The Quaker Valley School District (School District) is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

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

1. Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Directors (Board) is then called for the purpose of adopting the proposed budget after 30 days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
4. The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

The Public School Code allows the Board to authorize budget transfer amendments between functions during the year. The budget data reflected in the required supplementary information includes the effect of such approved budget transfer amendments. The School District's management does not have the authority to approve the budget or any budget transfer amendments. The School District's expenditures may not legally exceed the revised budget amounts by function and object. Accordingly, the legal level of budgetary control is at the object level within each function and fund. Function is defined as a program area such as instructional services, and object is defined as the nature of the expenditure, such as salaries or supplies.

Annual appropriations lapse at year-end. No supplemental appropriations were required during the current fiscal year. Budgetary control for the capital projects and special revenue funds is maintained through provisions of related grant agreements and bond indentures.

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2017

2. Factors and Trends Used in the Actuarial Valuation for Pension Benefits

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2015 actuarial valuation were made during the fiscal year ended June 30, 2017. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

Changes in benefit terms	None
Changes in assumptions	None
Actuarial assumptions:	
Investment rate of 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%
Benefit payments	No postretirement benefit increases assumed in the future
Multiple decrement tables	Mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

QUAKER VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2017

3. Factors and Trends Used in the Actuarial Valuation for Pension Postemployment Benefits Other Than Pension Benefits (OPEBs)

The information presented in the OPEBs required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	7/1/2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Amortization period	30 years
Actuarial assumptions:	
Investment rate of return	2.50%
Discount rate	4.50%
Mortality	Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit plan actuarial valuation

Annual trend rates for OPEB costs:

<u>Year</u>	<u>Medical/Rx</u>
2017	6.0%
2018-2020	5.5
2021 and later	Continues gradually decreasing each year to 3.8% in 2075 and later

SUPPLEMENTARY INFORMATION

QUAKER VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET OTHER GOVERNMENTAL FUNDS

JUNE 30, 2017

	Athletics Fund	Grant Fund	Total Other Governmental Funds
Assets			
Cash and cash equivalents	\$ 48,274	\$ 30,787	\$ 79,061
Total Assets	\$ 48,274	\$ 30,787	\$ 79,061
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 585	\$ -	\$ 585
Due to other funds	-	628	628
Total Liabilities	585	628	1,213
Fund Balance:			
Restricted	-	30,159	30,159
Assigned	47,689	-	47,689
Total Fund Balance	47,689	30,159	77,848
Total Liabilities and Fund Balance	\$ 48,274	\$ 30,787	\$ 79,061

QUAKER VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OTHER GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2017

	Athletics Fund	Grant Fund	Total Other Governmental Funds
Revenues:			
Local sources	\$ 27,950	\$ 153,593	\$ 181,543
Expenditures:			
Current:			
Support services	-	57,379	57,379
Operation of non-instructional services	29,269	66,061	95,330
Total expenditures	29,269	123,440	152,709
Excess (Deficiency) of Revenues Over Expenditures	(1,319)	30,153	28,834
Other Financing Sources (Uses):			
Transfers in (out)	15,000	-	15,000
Total other financing sources (uses)	15,000	-	15,000
Net Change in Fund Balance	13,681	30,153	43,834
Fund Balance:			
Beginning of year	34,008	6	34,014
End of year	\$ 47,689	\$ 30,159	\$ 77,848

QUAKER VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND - STUDENT ACTIVITIES

JUNE 30, 2017

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
<hr/> Assets <hr/>				
Cash and cash equivalents	<u>\$ 122,019</u>	<u>\$ 185,604</u>	<u>\$ 191,691</u>	<u>\$ 115,932</u>
<hr/> Liabilities <hr/>				
Other current liabilities	<u>\$ 122,019</u>	<u>\$ 185,604</u>	<u>\$ 191,691</u>	<u>\$ 115,932</u>