

# **Quaker Valley School District**

Financial Statements and  
Required Supplementary and  
Supplementary Information

Year Ended June 30, 2018 with  
Independent Auditor's Report

**MaherDuessel**

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# QUAKER VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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# QUAKER VALLEY SCHOOL DISTRICT

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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, 2018, 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, 2018, 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.

## Change in Accounting Principle

As described in Note 1 to the financial statements, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" which requires the School District to record its proportionate share of the Public School Employees' Retirement System (PSERS) net OPEB liability and related items on the government-wide financial statements and to record the School District's total OPEB liability. Our opinion is not modified with respect to that matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xiii and the required supplementary information on pages 54 through 62 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 2, 2018

## 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, 2018.

### Financial Highlights

- The School District has consistently operated with 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, 2018, the School District's portion of the unfunded liability is \$71,811,000.
- The School District implemented Governmental Accounting Standards Board Statement No. 75 during fiscal year 2018. This Statement required the School District to record their full Other (than PSERS pension) Post-Employment Benefits (OPEB) liability. As of June 30, 2018, the School District's net OPEB liability is \$12,354,427.
- 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 (\$49,673,344), resulting in a deficit net position.
- The School District's total net position increased \$1,199,213 over the previous year. Net position of governmental activities increased by \$1,216,610 and net position from business-type activities decreased by \$17,397.
- As of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$12,459,769, an increase of \$2,352,484 in comparison to the prior year. The increase was primarily related to an operational surplus and \$1,373,669 of unexpended funds from bond proceeds borrowed for the purchase of property as a potential new high school site and other future capital project needs throughout the district. Of this ending fund balance amount, \$8,748,292 has been restricted either by outside parties or imposed by the School District's Board of Directors (Board). \$4,978,033 is committed for capital improvements and 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 82.5 percent of the total General Fund revenues. Real estate tax collection is the School District's single largest revenue. For the 2017-2018 fiscal year,

current real estate tax collections totaled \$32,568,141 or approximately 67.2 percent of total revenue. Collections increased by \$1,460,132 from 2016-2017 due to an increase in assessments from growth in the community and an annual increase in the millage. The tax rate assessed for the 2017-2018 school year was equal to 18.4009 mills, an increase from the 2016-2017 school year of .6620 mills.

- At the end of the 2017-2018 fiscal year, the unassigned fund balance for the General Fund was \$3,376,169 or 7.01 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 53 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 54-55; the schedule of the School District's proportionate share of the net pension liability and schedule of School District contributions on page 56; the schedule of the School District's proportionate share of PSERS net OPEB liability and schedule of School District contributions to the PSERS Premium Assistance on page 57; and the schedule of the School District's total liability for its retiree plan on page 58.

*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 63 through 65 of this report.

#### Government-wide Financial Analysis

The School District's total net position was \$(49,022,067) and \$(50,221,280) at June 30, 2018 and 2017, respectively.

**Table 1**  
**Fiscal Year Ended June 30, 2018**  
**Net Position**

<b>Assets</b>	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 20,417,948	\$ 121,588	\$ 20,539,536
Capital assets (net)	75,717,782	561,318	76,279,100
<b>Total Assets</b>	<b>96,135,730</b>	<b>682,906</b>	<b>96,818,636</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	1,645,149	-	1,645,149
Deferred outflows of resources for pension	11,461,000	-	11,461,000
Deferred outflows of resources for OPEBs	678,619	-	678,619
<b>Total Deferred Outflows of Resources</b>	<b>13,784,768</b>	<b>-</b>	<b>13,784,768</b>
<b>Liabilities</b>			
Current and other liabilities	6,768,260	31,629	6,799,889
Long-term liabilities:			
Due within one year	3,880,000	-	3,880,000
Due in more than one year	147,833,520	-	147,833,520
<b>Total Liabilities</b>	<b>158,481,780</b>	<b>31,629</b>	<b>158,513,409</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources for pension	812,000	-	812,000
Deferred inflows of resources for OPEBs	300,062	-	300,062
<b>Total Deferred Inflows of Resources</b>	<b>1,112,062</b>	<b>-</b>	<b>1,112,062</b>
<b>Net Position</b>			
Net investment in capital assets	12,745,155	561,318	13,306,473
Restricted	1,422,452	-	1,422,452
Unrestricted	(63,840,951)	89,959	(63,750,992)
<b>Total Net Position</b>	<b>\$ (49,673,344)</b>	<b>\$ 651,277</b>	<b>\$ (49,022,067)</b>

**Fiscal Year Ended June 30, 2017**  
**Net Position**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current and other assets	\$ 18,006,742	\$ 70,917	\$ 18,077,659
Capital assets (net)	69,310,763	628,956	69,939,719
<b>Total Assets</b>	<b>87,317,505</b>	<b>699,873</b>	<b>88,017,378</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	1,919,340	-	1,919,340
Deferred outflows of resources for pension	13,628,452	-	13,628,452
<b>Total Deferred Outflows of Resources</b>	<b>15,547,792</b>	<b>-</b>	<b>15,547,792</b>
<b>Liabilities</b>			
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	142,352,824	-	142,352,824
<b>Total Liabilities</b>	<b>152,696,251</b>	<b>31,199</b>	<b>152,727,450</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources for pension	1,059,000	-	1,059,000
<b>Total Deferred Inflows of Resources</b>	<b>1,059,000</b>	<b>-</b>	<b>1,059,000</b>
<b>Net Position</b>			
Net investment in capital assets	13,138,166	628,956	13,767,122
Restricted	30,159	-	30,159
Unrestricted	(64,058,279)	39,718	(64,018,561)
<b>Total Net Position, restated</b>	<b>\$ (50,889,954)</b>	<b>\$ 668,674</b>	<b>\$ (50,221,280)</b>

*Government-wide Financial Analysis* - The School District's capital assets increased \$6,339,381 from fiscal year ended June 30, 2017 to fiscal year ended June 30, 2018. 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 increase in capital assets was a net result of additions to include the new property purchase less the annual depreciation expense.

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, net pension liability, and net OPEB liability.

The School District's net position has increased by \$1,199,213 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, 2018 and 2017.

**Table 2**  
**Fiscal Year Ended June 30, 2018**  
**Change in Net Position**

	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 298,811	\$ 571,113	\$ 869,924
Operating grants and contributions	6,788,751	300,506	7,089,257
Capital grants and contributions	25,000	-	25,000
General revenues:			
Property taxes	34,186,226	-	34,186,226
Other taxes	5,126,432	-	5,126,432
Grants, subsidies/contributions, unrestricted	2,100,399	-	2,100,399
Investment earnings	234,422	605	235,027
Gain (loss) on sale of capital assets	(153,948)	-	(153,948)
Miscellaneous income	1,781	-	1,781
Transfers	(60,000)	60,000	-
Total revenues	<b>48,547,874</b>	<b>932,224</b>	<b>49,480,098</b>
<b>Expenses:</b>			
Instruction	24,678,155	-	24,678,155
Support services	14,888,163	-	14,888,163
Non-instructional services	1,752,775	-	1,752,775
Interest on long-term debt	2,948,707	-	2,948,707
Unallocated depreciation expense	3,063,464	-	3,063,464
Food services	-	949,621	949,621
Total expenses	47,331,264	949,621	48,280,885
<b>Change in Net Position</b>	<b>\$ 1,216,610</b>	<b>\$ (17,397)</b>	<b>\$ 1,199,213</b>

**Fiscal Year Ended June 30, 2017**  
**Change in Net Position**

	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>			
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	-	-	-
<b>Total revenues</b>	<b>45,964,889</b>	<b>852,205</b>	<b>46,817,094</b>
<b>Expenses:</b>			
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
<b>Total expenses</b>	<b>47,689,919</b>	<b>929,327</b>	<b>48,619,246</b>
<b>Change in Net Position</b>	<b>\$ (1,725,030)</b>	<b>\$ (77,122)</b>	<b>\$ (1,802,152)</b>

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, 2018**  
**Governmental Activities**

<b>Functions/Programs</b>	Total Cost of Services	Net Cost of Services
Instruction	\$ 24,678,155	\$ 20,426,936
Support services	14,888,163	12,973,341
Non-instructional services	1,752,775	1,497,363
Interest on long-term debt	2,948,707	2,257,598
Unallocated depreciation expense	3,063,464	3,063,464
Total governmental activities	<b>\$ 47,331,264</b>	40,218,702
Less:		
Unrestricted grants, subsidies		2,100,399
<b>Total Needs from Local Taxes and Other Revenues</b>		<b>\$ 38,118,303</b>

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 \$12,459,769. Approximately, 27.1 percent or \$3,376,169 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 \$3,376,169, while the total fund balance amounted to \$7,353,977. 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 7.01 percent of total General Fund expenditures, while the total fund balance represents 15.27 percent of that same amount.

The fund balance of the School District's General Fund increased by \$336,686 during the current fiscal year.

The Capital Projects Fund has a fund balance of \$4,978,033, of which \$4,978,033 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 \$651,277. Total net position decreased by \$17,397. 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 54 and 55.

For the General Fund, revenues and other financing sources were higher than budgeted amounts by \$469,696 or 0.98 percent. The District received final approval of debt service reimbursements for the Middle School Project totaling approximately \$162,000. Real Estate and Earned Income Tax collections were also higher than budgeted.

General Fund expenditures and other financing uses for the School District totaled \$48,153,320 for the current fiscal year and were \$1,106,006 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, to the Food Service Fund of \$60,000, and to the Capital Projects Fund of \$1,128,500.

*Fund Balance Analysis* - The School District's General Fund balance increased by \$336,686. At June 30, 2018, 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, 2018 and 2017**  
**Summary of Governmental Change in General Fund Balance**

	June 30, 2018	June 30, 2017
Beginning General Fund Balance	\$ 7,017,291	\$ 7,259,018
Net Change in Fund Balance	336,686	(241,727)
Ending General Fund Balance	\$ 7,353,977	\$ 7,017,291

**Capital Asset and Debt Administration**

*Capital Assets* - At June 30, 2018, the School District had \$76,279,100 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 increase (including additions, deletions, and depreciation) of \$6,218,068 or 8.89 percent from last year.

The significant additions to capital assets was from the purchase of properties as a potential future site of a new high school facility totaling approximately \$8.4 million. The School District had started two major projects, the upgrade of the School District’s network infrastructure and the replacement of the HVAC chiller unit at Osborne Elementary, which added approximately \$1.3 million to the capital asset balance as of June 30, 2018. The School District sold two properties carried at approximately \$400,000 and applied the current year depreciation, both of which decreased the capital asset balance. 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 \$66,442,718. 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). The District issued General Obligation Bonds in the amount of \$9,915,000 during the 2017-2018 fiscal year for the acquisition of property previously noted and for various other capital project needs throughout the School District. After application of principal payments made during the year, the net increase to outstanding debt was \$6,087,379.

The School District’s total debt obligations (including accrued compensated absences, net pension liability, and net OPEB liability) total \$151,713,520. Additional information can be found in notes to financial statements on page 27 of this report.

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 30 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 2017-2018 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.

Our elected officials and administration considered many factors when setting the School District’s fiscal year 2017-2018 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) and capital needs for a high school facility. 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 2018-2019 is \$1,527,257 more than the budget for the 2017-2018 fiscal year. This represents a 3.18 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 0.5077. 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 expenditure budget for fiscal year 2018-2019 is \$818,782 more than the budget for the 2017-2018 fiscal year. The majority of the increase is due to contractual and mandated personnel salary and benefit annual increases and an increase in debt service for the 2017 General Obligation Bonds. The remaining increase is primarily due to increases in charter school tuition rates, special education services and cost-of-living increases.

## **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, 2018

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 16,266,698	\$ 123,868	\$ 16,390,566
Property taxes receivable, net of allowance for uncollectibles	2,184,121	-	2,184,121
Earned income taxes receivable	188,520	-	188,520
Internal balances	75,374	(75,374)	-
Intergovernmental receivables	1,422,787	55,916	1,478,703
Other receivables	27,230	3,166	30,396
Prepaid assets	253,218	-	253,218
Inventory	-	14,012	14,012
Capital assets not being depreciated	9,777,501	-	9,777,501
Capital assets, net of accumulated depreciation	<u>65,940,281</u>	<u>561,318</u>	<u>66,501,599</u>
<b>Total Assets</b>	<u>96,135,730</u>	<u>682,906</u>	<u>96,818,636</u>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	1,645,149	-	1,645,149
Deferred outflows of resources for pension	11,461,000	-	11,461,000
Deferred outflows of resources for OPEBs	<u>678,619</u>	<u>-</u>	<u>678,619</u>
<b>Total Deferred Outflows of Resources</b>	<u>13,784,768</u>	<u>-</u>	<u>13,784,768</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	433,888	67	433,955
Accrued salaries and benefits	5,372,559	-	5,372,559
Accrued interest payable	709,345	-	709,345
Unearned revenue	-	31,562	31,562
Deposits payable	252,468	-	252,468
Non-current liabilities:			
Due within one year	3,880,000	-	3,880,000
Due in more than one year	<u>147,833,520</u>	<u>-</u>	<u>147,833,520</u>
<b>Total Liabilities</b>	<u>158,481,780</u>	<u>31,629</u>	<u>158,513,409</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources for pension	812,000	-	812,000
Deferred inflows of resources for OPEBs	<u>300,062</u>	<u>-</u>	<u>300,062</u>
<b>Total Deferred Outflows of Resources</b>	<u>1,112,062</u>	<u>-</u>	<u>1,112,062</u>
<b>Net Position</b>			
Net investment in capital assets	12,745,155	561,318	13,306,473
Restricted	1,422,452	-	1,422,452
Unrestricted	<u>(63,840,951)</u>	<u>89,959</u>	<u>(63,750,992)</u>
<b>Total Net Position</b>	<u>\$ (49,673,344)</u>	<u>\$ 651,277</u>	<u>\$ (49,022,067)</u>

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

# QUAKER VALLEY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

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
<b>Governmental Activities:</b>							
Instructional services:							
Regular instruction	\$ 19,236,578	\$ 115,298	\$ 2,093,834	\$ -	\$ (17,027,446)	\$ -	\$ (17,027,446)
Special instruction	5,239,866	-	2,023,607	-	(3,216,259)	-	(3,216,259)
Vocational instruction	198,805	-	17,973	-	(180,832)	-	(180,832)
Other instructional programs	1,886	-	507	-	(1,379)	-	(1,379)
Nonpublic programs	1,020	-	-	-	(1,020)	-	(1,020)
Total instructional services	24,678,155	115,298	4,135,921	-	(20,426,936)	-	(20,426,936)
Support services:							
Pupil personnel	1,634,899	-	146,974	-	(1,487,925)	-	(1,487,925)
Instructional staff	2,319,026	-	250,943	-	(2,068,083)	-	(2,068,083)
Administration	2,555,082	-	227,425	-	(2,327,657)	-	(2,327,657)
Pupil health	354,868	-	85,781	-	(269,087)	-	(269,087)
Business services	718,789	-	63,644	-	(655,145)	-	(655,145)
Operation of plant and maintenance services	4,244,661	130,785	381,481	-	(3,732,395)	-	(3,732,395)
Student transportation services	2,066,539	-	527,541	-	(1,538,998)	-	(1,538,998)
Central administration	820,083	-	83,320	-	(736,763)	-	(736,763)
Other support services	174,216	-	16,928	-	(157,288)	-	(157,288)
Total support services	14,888,163	130,785	1,784,037	-	(12,973,341)	-	(12,973,341)
Non-instructional services:							
Student activities	1,214,800	52,728	111,717	25,000	(1,025,355)	-	(1,025,355)
Community services	537,975	-	65,967	-	(472,008)	-	(472,008)
Total non-instructional services	1,752,775	52,728	177,684	25,000	(1,497,363)	-	(1,497,363)
Unallocated expenses - excluding direct expenses reported as a function above:							
Depreciation expense	3,063,464	-	-	-	(3,063,464)	-	(3,063,464)
Interest on long-term debt	2,948,707	-	691,109	-	(2,257,598)	-	(2,257,598)
Total governmental activities	47,331,264	298,811	6,788,751	25,000	(40,218,702)	-	(40,218,702)

(Continued)

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

# QUAKER VALLEY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

(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
<b>Business-Type Activities:</b>							
Food service	949,621	571,113	300,506	-	-	(78,002)	(78,002)
<b>Total Primary Government</b>	<u>\$ 48,280,885</u>	<u>\$ 869,924</u>	<u>\$ 7,089,257</u>	<u>\$ 25,000</u>	(40,218,702)	(78,002)	(40,296,704)
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes, net of uncollectibles					34,186,226	-	34,186,226
Earned income taxes					4,237,396	-	4,237,396
Other taxes levied for general purposes					889,036	-	889,036
Grants, subsidies, and contributions not restricted to specific programs					2,100,399	-	2,100,399
Investment earnings					234,422	605	235,027
Miscellaneous income					1,781	-	1,781
Loss on sale of capital assets					(153,948)	-	(153,948)
Transfers					(60,000)	60,000	-
Total general revenues, special item and transfers					<u>41,435,312</u>	<u>60,605</u>	<u>41,495,917</u>
<b>Change in Net Position</b>					1,216,610	(17,397)	1,199,213
<b>Net Position:</b>							
Beginning of year, restated					(50,889,954)	668,674	(50,221,280)
End of year					<u>\$ (49,673,344)</u>	<u>\$ 651,277</u>	<u>\$ (49,022,067)</u>

(Concluded)

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

# QUAKER VALLEY SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Capital Projects	Other Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 12,287,632	\$ 3,849,533	\$ 129,533	\$ 16,266,698
Taxes receivable, net	2,372,641	-	-	2,372,641
Intergovernmental receivables	1,327,155	-	-	1,327,155
Other receivables	27,230	-	-	27,230
Prepaid assets	253,218	-	-	253,218
Due from other funds	622	1,128,500	-	1,129,122
Interfund advance receivable	82,090	-	-	82,090
<b>Total Assets</b>	<b>\$ 16,350,588</b>	<b>\$ 4,978,033</b>	<b>\$ 129,533</b>	<b>\$ 21,458,154</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 432,560	\$ -	\$ 1,328	\$ 433,888
Accrued salaries and benefits	5,372,559	-	-	5,372,559
Due to other funds	1,135,392	-	446	1,135,838
Deposits payable	252,468	-	-	252,468
<b>Total Liabilities</b>	<b>7,192,979</b>	<b>-</b>	<b>1,774</b>	<b>7,194,753</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenue - real estate taxes	1,803,632	-	-	1,803,632
<b>Fund Balance:</b>				
<b>Nonspendable:</b>				
Prepays	253,218	-	-	253,218
Interfund advance	82,090	-	-	82,090
<b>Restricted:</b>				
Grant purposes	-	-	48,783	48,783
High School Construction	-	1,373,669	-	1,373,669
<b>Committed:</b>				
Future pension contributions	1,075,000	-	-	1,075,000
Capital Projects	-	3,604,364	-	3,604,364
<b>Assigned:</b>				
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	-	-	78,976	78,976
Unassigned	3,376,169	-	-	3,376,169
<b>Total Fund Balance</b>	<b>7,353,977</b>	<b>4,978,033</b>	<b>127,759</b>	<b>12,459,769</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 16,350,588</b>	<b>\$ 4,978,033</b>	<b>\$ 129,533</b>	<b>\$ 21,458,154</b>

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, 2018

**Total Fund Balance - Governmental Funds** \$ 12,459,769

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. 75,717,782

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. 1,803,632

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. 1,645,149

Accrued interest payable is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds. (709,345)

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. 95,632

The actuarially accrued net OPEB liability, net pension liability, and deferred inflows and outflows of resources for OPEBS and pension for the School District's employees are not recorded on the fund financial statements. (73,137,870)

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	\$ (64,617,776)	
	Unamortized discount/premium	(1,824,942)	
	Compensated absences	(1,105,375)	(67,548,093)

**Total Net Position - Governmental Activities** \$ (49,673,344)

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, 2018

	General Fund	Capital Projects	Other Governmental Funds	Total
<b>Revenues:</b>				
Local sources	\$ 39,969,405	\$ 82,687	\$ 156,022	\$ 40,208,114
State sources	7,522,157	-	-	7,522,157
Federal sources	980,265	-	-	980,265
<b>Total revenues</b>	<b>48,471,827</b>	<b>82,687</b>	<b>156,022</b>	<b>48,710,536</b>
<b>Expenditures:</b>				
Current:				
Instruction	24,186,735	-	-	24,186,735
Support services	14,775,944	-	64,670	14,840,614
Operation of non-instructional services	1,643,670	-	56,441	1,700,111
Capital outlay	-	9,265,150	-	9,265,150
Debt service:				
Principal and interest	6,272,801	94,990	-	6,367,791
Bond issuance costs	-	165,610	-	165,610
<b>Total expenditures</b>	<b>46,879,150</b>	<b>9,525,750</b>	<b>121,111</b>	<b>56,526,011</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>1,592,677</b>	<b>(9,443,063)</b>	<b>34,911</b>	<b>(7,815,475)</b>
<b>Other Financing Sources (Uses):</b>				
Bond premium	-	83,018	-	83,018
Refund of prior year's expenditures	18,179	-	-	18,179
Refund of prior year's revenues	(70,670)	-	-	(70,670)
Bond proceeds	-	9,915,000	-	9,915,000
Sale of capital assets	-	282,432	-	282,432
Transfer out to Food Service Fund	(60,000)	-	-	(60,000)
Transfers in (out)	(1,143,500)	1,128,500	15,000	-
<b>Total other financing sources (uses)</b>	<b>(1,255,991)</b>	<b>11,408,950</b>	<b>15,000</b>	<b>10,167,959</b>
<b>Net Change in Fund Balance</b>	<b>336,686</b>	<b>1,965,887</b>	<b>49,911</b>	<b>2,352,484</b>
<b>Fund Balance:</b>				
Beginning of year	7,017,291	3,012,146	77,848	10,107,285
End of year	\$ 7,353,977	\$ 4,978,033	\$ 127,759	\$ 12,459,769

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, 2018

**Net Change in Fund Balance - Governmental Funds** \$ 2,352,484

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 capital outlay exceeded depreciation in the current year:

	Capital asset additions	\$ 9,785,550	
	Less: depreciation expense	<u>(3,063,464)</u>	6,722,086

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. 121,956

The net effect of various transactions involving capital assets (i.e., sales and donations). (436,380)

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. (6,361,570)

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. (51,754)

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. (1,130,212)

**Change in Net Position of Governmental Activities** \$ 1,216,610

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

# QUAKER VALLEY SCHOOL DISTRICT

## STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2018

	Enterprise Fund Food Service
<b>Assets</b>	
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 123,868
Intergovernmental receivables	55,916
Other receivables	3,166
Due from other fund	6,716
Inventory	14,012
Total current assets	<hr/> 203,678 <hr/>
Non-current assets:	
Machinery and equipment	1,251,182
Less accumulated depreciation	(689,864)
Total non-current assets	<hr/> 561,318 <hr/>
<b>Total Assets</b>	<hr/> <b>\$ 764,996</b> <hr/>
<b>Liabilities and Net Position</b>	
<hr/>	
Liabilities:	
Accounts payable	\$ 67
Unearned revenue	31,562
Interfund advance payable	82,090
Total Liabilities	<hr/> 113,719 <hr/>
Net Position:	
Net investment in capital assets	561,318
Unrestricted	89,959
Total Net Position	<hr/> 651,277 <hr/>
<b>Total Liabilities and Net Position</b>	<hr/> <b>\$ 764,996</b> <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, 2018

	<u>Enterprise Fund Food Service</u>
<b>Operating Revenues:</b>	
<u>Food service revenue</u>	<u>\$ 571,113</u>
<b>Operating Expenses:</b>	
Salaries	297,723
Employee benefits	196,832
Other purchased services	1,655
Food	304,292
Supplies	63,302
Equipment	18,179
Depreciation	<u>67,638</u>
Total operating expenses	<u>949,621</u>
<b>Net Operating Loss</b>	<u>(378,508)</u>
<b>Non-Operating Revenues:</b>	
State subsidies	71,386
Federal revenues	186,164
Donated commodities	42,956
Interest income	<u>605</u>
Total non-operating revenues	<u>301,111</u>
Income (loss) before transfer in	(77,397)
<b>Transfer in</b>	<u>60,000</u>
<b>Change in Net Position</b>	(17,397)
<b>Net Position:</b>	
<u>Beginning of year</u>	<u>668,674</u>
End of year	<u><u>\$ 651,277</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, 2018

	Enterprise Fund Food Service
<b>Cash Flows From Operating Activities:</b>	
Receipts from users	\$ 571,668
Payments to employees	(494,555)
Payments to suppliers	(346,815)
Net cash provided by (used in) operating activities	(269,702)
<b>Cash Flows From Financing Activities:</b>	
Operating transfers	12,182
Federal subsidies	138,076
State subsidies	66,825
Net cash provided by (used in) financing activities	217,083
<b>Cash Flows From Investing Activities:</b>	
Interest income	605
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(52,014)
<b>Cash and Cash Equivalents:</b>	
Beginning of year	175,882
End of year	\$ 123,868

(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, 2018  
(Continued)

### Reconciliation of Net Operating Loss to Net Cash

#### Provided by (Used in) Operating Activities:

Net operating loss	\$	(378,508)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Donated commodities		42,956
Depreciation		67,638
Change in assets and liabilities:		
Due from other funds		(511)
Other receivables		(1,750)
Inventory		43
Accounts payable		(125)
Unearned revenue		555
		<hr/>
Net cash provided by (used in) operating activities	\$	<u>(269,702)</u>

(Concluded)

#### Non-Cash Financing Transaction:

The Food Service Fund received donated commodities from the Department of Agriculture in the amount of \$42,521 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, 2018

	<u>Agency Fund</u>
<hr/>	
<b>Assets</b>	
<hr/>	
Cash and cash equivalents	\$ 115,507
	<u>115,507</u>
<b>Liabilities</b>	
<hr/>	
Other current liabilities	\$ 115,507
	<u>115,507</u>

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

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### 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, 2018

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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 2018, the School District contributed \$525,000 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, 2018

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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 for real estate revenues and 30 days for all other revenues. 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.

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

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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, including the new high school construction, 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.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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.

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, 2018

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### 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, 2018

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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 and discounts on debt issuances are reported as other financing sources and uses, respectively. 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, 2018

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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, 9, 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 and OPEBS

In conjunction with pension and OPEB 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 the plans subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions or a deferred inflow or outflow of resources related to OPEBs on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for each plan. Notes 8 through 10 present additional information about the School District's pension and OPEB plans.

### 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, 2018

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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, 2018, the School District had restrictions relating to the new high school construction and grant funds.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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.

### 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.

### Adoption of Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*," was adopted in the current year by the School District. As a result of this implementation, the government-wide net position as of July 1, 2017 was restated with a decrease of \$10,248,970 to record the School District's proportionate share of PSERS' net OPEB liability and to record the School District's total OPEB liability as it relates to their post-employment benefits plan. Both OPEB liabilities are further described in Notes 9 and 10.

The following GASB statements were also adopted for the year ended June 30, 2018: Statement Nos. 81 (Split-Interest Agreements), 82 (Pensions; requirements of paragraph 7), 85 (Omnibus), and 86 (Certain Debt Extinguishment issues). These statements had no significant impact on the School District's financial statements for the year ended June 30, 2018.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### Pending Pronouncements

GASB has issued several statements that will become effective in future years including Statement Nos. 83 (Certain Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Debt Disclosures), 89 (Interest Costs before the End of a Construction Period), and 90 (Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61). Management has not yet determined the impact of these statements on the School District's 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:

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.

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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 a 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, 2018, \$2,633,851 of the School District's bank balance of \$2,985,419 was exposed to custodial credit risk. Deposits are collateralized in accordance with Act 72 of the Pennsylvania state legislature. These deposits have a carrying amount of \$2,566,414 as of June 30, 2018.

### 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 and PLGIT accounts. The School District's PSDLAF and PLGIT investments have a maturity of less than 90 days, and a fair market value of \$13,844,093 as of June 30, 2018. The carrying amount of the School District's investments in PSDLAF and PLGIT is \$13,824,152 as of June 30, 2018.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### 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 \$225,786 and \$226,211, respectively, for the year ended June 30, 2018. The carrying amount of deposits for the fiduciary funds was \$115,507 and the bank balance was \$118,044. 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.

### **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 31<sup>st</sup> are given a 2% discount. Amounts paid after October 31<sup>st</sup> are assessed a 10% penalty. An outside service collects delinquent real estate taxes and handles the property liens. The lien date for the 2017/2018 levy will be November 1, 2018.

The levy for fiscal year 2018 was based on assessed value on January 1, 2017 of approximately \$1.85 billion. The tax rate assessed for the year ended June 30, 2018 was equal to 18.4009 mills. General Fund property taxes receivables have been reported net of an allowance for doubtful accounts of approximately \$1,221,000 at June 30, 2018.

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, 2018, 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.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

### 4. Capital Assets

A summary of changes in capital assets during fiscal year 2018 is as follows:

	Balance at July 1, 2017	Additions	Deletions/ Transfers	Balance at June 30, 2018
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 801,958	\$ 8,489,239	\$ (436,380)	\$ 8,854,817
Construction in progress	203,702	718,982	-	922,684
Total capital assets, not being depreciated	<u>1,005,660</u>	<u>9,208,221</u>	<u>(436,380)</u>	<u>9,777,501</u>
Capital assets, being depreciated:				
Site improvements	4,996,996	95,640	-	5,092,636
Building and improvements	86,358,403	-	-	86,358,403
Machinery and equipment	4,570,791	315,105	-	4,885,896
Text and library books	2,035,827	166,584	(165,428)	2,036,983
Vehicles	327,547	-	-	327,547
Total capital assets, being depreciated	<u>98,289,564</u>	<u>577,329</u>	<u>(165,428)</u>	<u>98,701,465</u>
Less: accumulated depreciation for:				
Site improvements	(2,828,085)	(347,355)	-	(3,175,440)
Building and improvements	(21,935,279)	(2,232,587)	-	(24,167,866)
Machinery and equipment	(3,275,931)	(297,673)	-	(3,573,604)
Text and library books	(1,638,463)	(148,847)	165,428	(1,621,882)
Vehicles	(185,390)	(37,002)	-	(222,392)
Total accumulated depreciation	<u>(29,863,148)</u>	<u>(3,063,464)</u>	<u>165,428</u>	<u>(32,761,184)</u>
Capital assets being depreciated, net	<u>68,426,416</u>	<u>(2,486,135)</u>	<u>-</u>	<u>65,940,281</u>
Governmental activities capital assets, net	<u>\$ 69,432,076</u>	<u>\$ 6,722,086</u>	<u>\$ (436,380)</u>	<u>\$ 75,717,782</u>

Depreciation expense was not allocated for the year ended June 30, 2018.

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Machinery and equipment	\$ 1,251,182	\$ -	\$ -	\$ 1,251,182
Less: accumulated depreciation for:				
Machinery and equipment	<u>(622,226)</u>	<u>(67,638)</u>	<u>-</u>	<u>(689,864)</u>
Business-type activities capital assets, net	<u>\$ 628,956</u>	<u>\$ (67,638)</u>	<u>\$ -</u>	<u>\$ 561,318</u>

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### 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 B (Federally Taxable Build America Bonds – Direct Payment) General Obligation Bonds in the amount of \$22,745,000 to be used for renovations and additions to the School District Middle School. 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% (less sequestration reduction rate) 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 B Bonds beginning in October 2020 through October 2036. Interest is due semi-annually in October and April on Series B.

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 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

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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 \$1,645,149 at June 30, 2018.

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.

During November 2017, the School District issued Series 2017 General Obligation Bonds in the amount of \$9,915,000, for the acquisition of property and related site development costs for a new high school and various capital projects within the School District. The Series 2017 General Obligation Bonds bear interest at rates ranging from 2.25% to 4.00%. Payments are due semi-annually on the Series 2017 General Obligation Bonds through April 2037.

Changes in the School District's long-term liabilities for the year ended June 30, 2018 were as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Amounts Due Within One Year
Series of 1997 B	\$ 3,013,250	\$ 174,526	\$ (5,000)	\$ 3,182,776	\$ 10,000
Series of 2008 A	2,170,000	-	(1,060,000)	1,110,000	1,110,000
Series of 2010	22,745,000	-	-	22,745,000	-
Series of 2014	6,880,000	-	(705,000)	6,175,000	720,000
Series of 2015	16,895,000	-	(1,800,000)	15,095,000	1,510,000
Series of 2016	6,510,000	-	(115,000)	6,395,000	155,000
Series of 2017	-	9,915,000	-	9,915,000	375,000
Unamortized discount	(127,555)	-	7,087	(120,468)	-
Unamortized premium	2,269,644	-	(324,234)	1,945,410	-
	<u>60,355,339</u>	<u>10,089,526</u>	<u>(4,002,147)</u>	<u>66,442,718</u>	<u>3,880,000</u>
Net OPEB liability	12,492,187 *	-	(137,760)	12,354,427	-
Net pension liability	72,155,000	-	(344,000)	71,811,000	-
Accumulated employee benefits	<u>1,035,298</u>	<u>70,077</u>	<u>-</u>	<u>1,105,375</u>	<u>-</u>
	<u>\$ 146,037,824</u>	<u>\$ 10,159,603</u>	<u>\$ (4,483,907)</u>	<u>\$ 151,713,520</u>	<u>\$ 3,880,000</u>

\* - restated as of July 1, 2017

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Additions to the General Obligation Bond Series of 1997 B are the increase in accreted value for fiscal year 2018.

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2019	\$ 3,880,000	\$ 2,722,381	\$ 6,602,381
2020	3,970,000	2,582,531	6,552,531
2021	4,100,000	2,452,901	6,552,901
2022	4,220,000	2,333,036	6,553,036
2023	3,935,000	2,180,658	6,115,658
2024-2028	19,830,000	8,491,063	28,321,063
2029-2033	14,290,000	5,011,565	19,301,565
2034-2037	10,840,000	1,163,829	12,003,829
	<u>65,065,000</u>	<u>26,937,964</u>	<u>92,002,964</u>
Unamortized premium	1,945,410	-	1,945,410
Unamortized discount	(120,468)	-	(120,468)
Deferred interest	(447,224)	447,224	-
	<u>\$ 66,442,718</u>	<u>\$ 27,385,188</u>	<u>\$ 93,827,906</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 \$180,884 during fiscal year 2018.

The total minimum future commitments under the leases for the year ended June 30, 2018 are as follows:

2019	\$ 183,204
2020	<u>124,900</u>
	<u>\$ 308,104</u>

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### 7. Health Consortium

The School District is one of fifty-two 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, 2018, the Consortium's net assets available for benefits approximated \$64 million. The School District's share of this amount is approximately \$937,000. 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. Public School Employees' Retirement System (PSERS)

#### Plan Description

PSERS administers a governmental cost-sharing, multi-employer defined benefit pension plan (Pension Plan) and a governmental cost-sharing, multi-employer defined benefit Health Insurance Premium Assistance Program (Premium Assistance), an OPEB plan, to public school employees of the Commonwealth of Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.psers.pa.gov](http://www.psers.pa.gov).

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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Employees eligible for PSERS benefits 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.

Retirees can participate in the Premium Assistance if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the PSERS Health Options Program or an employer-sponsored health insurance program.

### Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions or OPEBs, pension expense, and OPEB 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 fair value. The net pension liability and the net OPEB liability are recorded as governmental activities expected to be paid from the General Fund.

### Benefits Provided – Pension Plan

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

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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.

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.

### Benefits Provided – Premium Assistance

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. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

### 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

YEAR ENDED JUNE 30, 2018

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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 PSERS contribution rate for fiscal year ended June 30, 2018 was 32.57% 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. This rate is composed of a 31.74% rate for the Pension Plan and a 0.83% rate for the Premium Assistance.

The combined rate for the fiscal year ended June 30, 2018 was an increase from the fiscal year ended June 30, 2017 combined rate of 30.03%. The combined contribution rate will increase to 33.43% in fiscal year 2019 and is projected to grow to 36.32% by fiscal year 2023.

The School District remits contributions to PSERS on a quarterly basis. Approximately \$2.45 million is owed to PSERS as of June 30, 2018, which represents the School District's required contribution for the end-of-year payroll. The School District's contributions which were recognized by PSERS for the year ended June 30, 2018 were as follows:

Pension Plan	\$	6,246,000
Premium Assistance		163,332
Total	\$	<u>6,409,332</u>

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 \$3.1 million during the current

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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.

### Proportionate Share

The School District's proportion of PSERS' net pension liability and PSERS' net OPEB liability were calculated utilizing the School District's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. At June 30, 2017 (measurement date), the School District's proportion was .1454%, which was a decrease of .0002% from its proportion measured as of June 30, 2016.

### **9. Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions**

At June 30, 2018, the School District reported a liability of \$71,811,000 for its proportionate share of PSERS' net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of \$7,822,452. At June 30, 2018, 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>
Differences between expected and actual experience	\$ 749,000	\$ 434,000
Changes in assumptions	1,951,000	-
Net difference between projected and actual earnings on pension plan investments	1,664,000	-
Changes in proportion	851,000	378,000
School District contributions subsequent to the measurement date	6,246,000	-
Total	<u>\$ 11,461,000</u>	<u>\$ 812,000</u>

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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\$6,246,000 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	
2019	\$ 1,103,000
2020	2,044,000
2021	1,506,000
2022	<u>(250,000)</u>
Total	<u>\$ 4,403,000</u>

### Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 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%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- 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.

### Changes in Assumptions

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. These changes included:

- The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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- Salary growth changed from an effective average of 5.50%, which was comprised of 3.00% for inflation and 2.50% for real wage growth and for merit or seniority increases, to an effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

### Changes in Benefit Terms

With the passage of Act 5 on June 12, 2017, vested Class T-E and Class T-F members can now withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement. In addition, members hired on or after July 1, 2019 will be required to select one of three new plan design options: either one of two side-by-side hybrid defined benefit/defined contribution plans or a stand-alone defined contribution plan. No changes will be made to retirement benefits for current employees, but they would have the option to choose one of the new plan designs.

### Pension Plan Investments

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the 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.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<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, 2018

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

The following presents the School District's proportionate share of PSERS' net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of PSERS' 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:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
School District's proportionate share of PSERS' net pension liability	<u>\$ 88,393,000</u>	<u>\$ 71,811,000</u>	<u>\$ 57,811,000</u>

### Pension Plan Fiduciary Net Position

Detailed information about PSERS' 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](http://www.psers.pa.gov).

## **10. Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB**

The School District maintains two separate OPEB plans – the Premium Assistance previously described in Note 8 and the School District's retiree plan described below. At June 30, 2018, the School District reported a net OPEB liability composed of the following:

School District's proportionate share of PSERS' net OPEB liability	\$ 2,962,000
School District's total OPEB liability for its retiree plan	<u>9,392,427</u>
Net OPEB liability	<u>\$ 12,354,427</u>

PSERS' net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate PSERS' net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The School District's retiree plan's total OPEB

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the retiree plan's total OPEB liability was determined by rolling forward the retiree plan's total OPEB liability as of July 1, 2016 to June 30, 2017.

For the year ended June 30, 2018, the School District recognized OPEB expense as follows:

OPEB expense related to PSERS		
Premium Assistance	\$	(35,000)
OPEB expense related to School		
District's retiree plan		<u>741,937</u>
Total OPEB expense	\$	<u><u>706,937</u></u>

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	3,000	-	3,000
Changes in proportion	-	-	-
School District contributions subsequent to the measurement date	<u>163,332</u>	<u>512,287</u>	<u>675,619</u>
Total	<u><u>\$ 166,332</u></u>	<u><u>\$ 512,287</u></u>	<u><u>\$ 678,619</u></u>

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Deferred Inflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -
Changes in assumptions	138,000	158,062	296,062
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion	4,000	-	4,000
Total	\$ 142,000	\$ 158,062	\$ 300,062

\$163,332 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 OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	
2019	\$ (42,758)
2020	(42,758)
2021	(42,758)
2022	(42,758)
2023	(42,758)
2024	(83,272)
Total	\$ (297,062)

### Additional Required Disclosures for PSERS Premium Assistance

#### *Actuarial Assumptions*

The total OPEB liability as of June 30, 2017 was determined by rolling forward PSERS' total OPEB liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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- Investment return – 3.13% - S&P 20-year Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year
- 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
- Participation rate –
  - Eligible retirees will elect to participate pre-age 65 at 50%
  - Eligible retirees will elect to participate post-age 65 at 70%.

### *Changes in Assumptions*

The actuarial assumptions used in the June 30, 2015 valuation determined the contribution rate for fiscal year 2017. These assumptions included:

- Actuarial cost method – Amount necessary to assure solvency of the Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method – market value
- Participation rate – 63% of eligible retirees were assumed to elect the Premium Assistance
- Mortality rates for healthy annuitants and dependent beneficiaries were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females. For disabled annuitants, rates were based on the RP-2000 Combined Disabled Table with age set back 7 years for males and 3 years for females.

### *Changes in Benefit Terms*

There were no changes in benefit terms for the Premium Assistance.

### *OPEB Plan Investments*

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Employer contribution rates are established to provide reserves in the Health Insurance Account that are sufficient for the payment of the Premium Assistance for each succeeding year. The target allocation and best estimates of geometric 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>
Cash	76.4%	0.6%
Fixed income	<u>23.6%</u>	1.5%
	<u>100.0%</u>	

### *Discount Rate*

The discount rate used to measure the total OPEB liability was 3.13%. Under the Premium Assistance plan's funding policy, contributions are structured for short-term funding of the Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of the Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of the Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability. This previous discount rate used as of June 30, 2016 was 2.71%.

### *Sensitivity of the School District's Proportionate Share of PSERS' Net OPEB Liability to Changes in the Discount Rate*

The following presents the School District's proportionate share of PSERS' net OPEB liability calculated using the discount rates described above, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease (2.13%)</u>	<u>Current Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
School District's proportionate share of PSERS' net OPEB liability	<u>\$ 3,367,000</u>	<u>\$ 2,962,000</u>	<u>\$ 2,626,000</u>

*Sensitivity of the School District's Proportionate Share of PSERS' Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

Healthcare cost trend rates were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on the healthcare cost trends as depicted below.

The following presents the School District's proportionate share of PSERS' net OPEB liability calculated using current healthcare cost trend rates as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
School District's proportionate share of PSERS' net OPEB liability	<u>\$ 2,962,000</u>	<u>\$ 2,962,000</u>	<u>\$ 2,963,000</u>

*OPEB Plan Fiduciary Net Position*

Detailed information about PSERS' 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](http://www.psers.pa.gov).

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### Additional Required Disclosures for the School District's Retiree Plan

#### *Plan Description*

The School District administers a single-employer defined benefit healthcare plan to provide additional postemployment benefits to eligible retirees (retiree plan). The School District has not accumulated assets for the retiree plan in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; benefits are paid on a pay-as-you-go basis.

#### *Benefits Provided*

The benefit limits and employee and employer contributions are established through employee contracts and past practices. 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 retired between July 1, 1976 and June 30, 1991 receive \$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 School 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 School District service exceeds 35 years. If the member has reached 15 years with the School 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 School 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 School District, the member may elect the ACT 110/43 Benefit if eligible. In the event of

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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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 School 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 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.

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.

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 receive the same benefits as described above for Administrator who retired prior to July 1, 2009.

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 School 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 School District. If the member has not reached 15 years with

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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the School 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.

Teachers who retire after July 1, 2015 receive the same as the teachers in the paragraph 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

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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 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

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# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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.

### 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.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	179
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>262</u>
	<u>441</u>

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. For the year ended June 30, 2018, the School District recognized \$547,635 for current premiums.

### *Actuarial Assumptions*

The total OPEB liability was determined as of the June 30, 2016 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal
- Investment return – 3.13% - S&P 20-year Municipal Bond Rate
- Salary increases – comprised of 2.5% cost of living and 1.0% for real wage growth and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Assumed healthcare cost trends - 6.0% in 2017 and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend.
- Mortality rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected by the Buck Modified 2016 Projection scale to reflect mortality improvement.

### *Changes in Assumptions*

For the June 30, 2016 actuarial valuation, the discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary mortality, withdrawal and retirement were updated based on new PSERS assumptions.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### *Changes in Benefit Terms*

No changes noted.

### *Changes in the Total OPEB Liability*

The changes in the total OPEB liability for the School District's retiree plan for the year ended June 30, 2018 were as follows:

Total OPEB liability, July 1, 2017	\$	9,356,187
Changes for the year:		
Service cost		523,088
Interest on the total OPEB liability		238,607
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		(177,820)
Benefit payments		<u>(547,635)</u>
Total OPEB liability, June 30, 2018	\$	<u><u>9,392,427</u></u>

### *Sensitivity of the School District's Total OPEB Liability to Changes in the Discount Rate*

The following presents the School District's total OPEB liability calculated using the discount rate described above, as well as what the School District's total OPEB 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:

	<u>1% Decrease (4.13%)</u>	<u>Current Discount Rate (3.13%)</u>	<u>1% Increase (2.13%)</u>
School District's total OPEB liability	<u>\$ 8,621,272</u>	<u>\$ 9,392,427</u>	<u>\$ 10,247,567</u>

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### *Sensitivity of the School District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the School District's total OPEB liability calculated using current healthcare cost trend rates as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
School District's total OPEB liability	<u>\$ 8,320,001</u>	<u>\$ 9,392,427</u>	<u>\$ 10,684,346</u>

### **11. 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 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 \$202,000. The net current assets of Parkway at June 30, 2018 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.

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

### 12. Advances and Interfunds Receivable, Payable, and Interfund Transfers

Interfund receivables and payables and transfers at June 30, 2018 are summarized below:

Fund	Due From Other Funds	Due to Other Funds
Major Funds:		
General	\$ 622	\$ 1,135,392
Capital Projects	1,128,500	-
Enterprise	6,716	-
Other governmental funds	-	446
Total	\$ 1,135,838	\$ 1,135,838

Fund	Advances Receivable	Advances Payable
Major Funds:		
General	\$ 82,090	\$ -
Enterprise	-	82,090
Total	\$ 82,090	\$ 82,090

Fund	Transfer In	Transfer Out
Major Funds:		
General	\$ -	\$ 1,203,500
Capital Projects	1,128,500	-
Enterprise	60,000	-
Other governmental funds	15,000	-
Total	\$ 1,203,500	\$ 1,203,500

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, 2018

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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 Capital Projects Fund represents a contribution from the General Fund for future capital projects.

The transfer into the other governmental funds represents a contribution from the General Fund to cover expenditures in excess of revenues.

### **13. 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.

## **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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues and Other Financing Sources:</b>				
Revenues:				
Local sources:				
Current real estate taxes	\$ 32,300,896	\$ 32,300,896	\$ 32,568,141	\$ 267,245
Public utility realty tax	40,000	40,000	36,745	(3,255)
Per capita taxes	71,900	71,900	70,430	(1,470)
Earned income tax	4,200,000	4,200,000	4,237,396	37,396
Real estate transfer tax	670,000	670,000	781,861	111,861
Delinquent taxes	1,370,000	1,370,000	1,552,431	182,431
Interest	60,000	60,000	176,003	116,003
Rentals	137,500	137,500	130,785	(6,715)
Tuition	94,690	94,690	115,298	20,608
Contributions	18,000	18,000	17,212	(788)
Federal revenue from intermediary sources	275,000	275,000	281,322	6,322
Miscellaneous	500	500	1,781	1,281
<b>Total local sources</b>	<b>39,238,486</b>	<b>39,238,486</b>	<b>39,969,405</b>	<b>730,919</b>
State sources:				
Basic instructional subsidy	1,449,261	1,449,261	1,430,927	(18,334)
Special education	825,666	825,666	825,157	(509)
Transportation	315,000	315,000	329,250	14,250
Other state grants	6,000	6,000	-	(6,000)
Rentals and sinking fund	110,000	110,000	262,579	152,579
Medical and dental services	54,000	54,000	50,419	(3,581)
State Property Tax Reduction Allocation	669,472	669,472	669,472	-
Safe schools grant	24,500	24,500	40,000	15,500
Ready to learn block grant	66,366	66,366	66,366	-
Social Security payments	780,588	780,588	750,629	(29,959)
Retirement contributions	3,274,942	3,274,942	3,097,358	(177,584)
<b>Total state sources</b>	<b>7,575,795</b>	<b>7,575,795</b>	<b>7,522,157</b>	<b>(53,638)</b>
Federal sources:				
Title I Grants to Local Educational Agencies	183,217	183,217	164,230	(18,987)
Improving Teacher Quality	47,902	47,902	44,570	(3,332)
Safe and Drug Free Schools and Communities	-	-	10,000	10,000
ARRA - Build America Bonds	442,660	442,660	442,898	238
School Based Access Medicaid Reimbursement Program	275,000	275,000	312,000	37,000
Medical Assistance Reimbursement for Administrative Claims	6,000	6,000	5,272	(728)
Title III English as a Second Language	1,250	1,250	1,295	45
<b>Total federal sources</b>	<b>956,029</b>	<b>956,029</b>	<b>980,265</b>	<b>24,236</b>
Other financing sources:				
Refund of prior year's expenditures	-	-	18,179	18,179
Transfers in	250,000	250,000	-	(250,000)
<b>Total revenues and other financing sources</b>	<b>48,020,310</b>	<b>48,020,310</b>	<b>48,490,006</b>	<b>469,696</b>

(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, 2018  
(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>Expenditures and Other Financing Uses:</b>				
Instruction:				
Regular programs	19,966,622	19,674,657	18,925,397	749,260
Special programs	5,123,421	5,375,852	5,059,717	316,135
Vocational education programs	195,705	198,805	198,805	-
Other instructional programs	5,609	5,609	1,796	3,813
Nonpublic school programs	7,000	6,500	1,020	5,480
<b>Total instruction</b>	<b>25,298,357</b>	<b>25,261,423</b>	<b>24,186,735</b>	<b>1,074,688</b>
Support services:				
Pupil personnel	1,659,174	1,625,743	1,555,115	70,628
Instructional staff	2,804,677	2,775,797	2,612,226	163,571
Administration	2,493,328	2,515,653	2,403,494	112,159
Pupil health	388,051	391,151	341,285	49,866
Business	701,998	703,998	694,596	9,402
Operation and maintenance of plant services	4,217,240	4,219,740	4,131,995	87,745
Student transportation services	2,235,678	2,193,388	2,069,740	123,648
Central services	816,217	921,642	795,202	126,440
Other support services	196,346	187,246	172,291	14,955
<b>Total support services</b>	<b>15,512,709</b>	<b>15,534,358</b>	<b>14,775,944</b>	<b>758,414</b>
Operation of non-instructional services:				
Student activities	1,222,146	1,235,756	1,105,695	130,061
Community services	539,300	539,300	537,975	1,325
<b>Total operation of non-instructional services</b>	<b>1,761,446</b>	<b>1,775,056</b>	<b>1,643,670</b>	<b>131,386</b>
Debt service	6,272,814	6,272,814	6,272,801	13
Other financing uses:				
Interfund transfer out	95,000	95,000	1,203,500	(1,108,500)
Refund of prior year's revenues	69,000	70,675	70,670	5
Budgetary reserve	250,000	250,000	-	250,000
<b>Total expenditures and other financing sources (uses)</b>	<b>49,259,326</b>	<b>49,259,326</b>	<b>48,153,320</b>	<b>1,106,006</b>
<b>Net Change in Fund Balance</b>	<b>\$ (1,239,016)</b>	<b>\$ (1,239,016)</b>	<b>336,686</b>	<b>\$ 1,575,702</b>
<b>Fund Balance:</b>				
Beginning of year			7,017,291	
End of year			<u>\$ 7,353,977</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 Years<sup>1</sup>

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability	0.1454%	0.1456%	0.1428%	0.1446%
School District's proportionate share of the net pension liability	\$ 71,811,000	\$ 72,155,000	\$ 61,854,000	\$ 57,234,000
School District's covered payroll	\$ 19,359,728	\$ 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 payroll	370.9298%	382.6320%	336.6076%	310.2521%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	51.84%	50.14%	54.36%	57.24%

<sup>1</sup> 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 Years<sup>2</sup>

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 6,246,000	\$ 5,645,835	\$ 4,680,608	\$ 3,660,073
Contributions recognized by PSERS	<u>6,246,000</u>	<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>	<u>\$ -</u>
School District's covered payroll	\$ 19,099,501	\$ 19,298,717	\$ 18,908,109	\$ 18,311,205
Contributions as a percentage of covered payroll	32.70%	29.25%	24.75%	19.99%

<sup>2</sup> 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

## SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF PSERS' NET OPEB LIABILITY

Last 10 Fiscal Years<sup>1</sup>

	<b>2018</b>
School District's proportion of PSERS' net OPEB liability	0.1454%
School District's proportionate share of PSERS' net OPEB liability	\$ 2,962,000
School District's covered payroll	\$ 19,359,728
School District's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll	15.2998%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability	5.73%

<sup>1</sup> 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 TO THE PSERS PREMIUM ASSISTANCE

Last 10 Fiscal Years<sup>2</sup>

	<b>2018</b>
Contractually required employer contribution	\$ 163,332
Contributions recognized by PSERS	163,332
Difference between contractually required employer contribution and contributions recognized by PSERS	\$ -
School District's covered payroll	\$ 19,099,501
Contributions as a percentage of covered payroll	0.8552%

<sup>2</sup> 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

## SCHEDULE OF THE SCHOOL DISTRICT'S TOTAL OPEB LIABILITY FOR ITS RETIREE PLAN

Last 10 Fiscal Years<sup>1</sup>

	<u>2018</u>
<b>Total OPEB Liability:</b>	
Service cost	\$ 523,088
Interest	238,607
Changes of benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	(177,820)
Benefit payments	<u>(547,635)</u>
<b>Net Changes in Total OPEB Liability</b>	36,240
<b>Total OPEB Liability - Beginning</b>	<u>9,356,187</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 9,392,427</u>
<b>Covered Payroll</b>	<u>\$ 18,041,625</u>
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	52.06%

<sup>1</sup> 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

## NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

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### 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, 2018

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

#### Changes in Benefit Terms

With the passage of Act 5, Class T-E and T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

#### Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2017

None.

#### Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2016

The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

#### Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

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, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

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- Benefit payments – no postretirement benefit increases assumed in the future
- 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.

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

#### Changes in Benefit Terms

None.

#### Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2017

The discount rate increased from 2.71% to 3.13%.

#### Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2016

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

#### Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

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, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedules:

# QUAKER VALLEY SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

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- Investment return – 3.13% - 20-year S&P Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future
- 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
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.

#### 4. **Factors and Trends Used in the Actuarial Valuation for the Retiree OPEB Plan**

##### Changes in Benefit Terms

None.

##### Changes in Assumptions

For the June 30, 2016 actuarial valuation, the discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary mortality, withdrawal and retirement were updated based on new PSERS assumptions.

## **SUPPLEMENTARY INFORMATION**

# QUAKER VALLEY SCHOOL DISTRICT

## COMBINING BALANCE SHEET OTHER GOVERNMENTAL FUNDS

JUNE 30, 2018

	Athletics Fund	Grant Fund	Total Other Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 80,304	\$ 49,229	\$ 129,533
<b>Total Assets</b>	<b>\$ 80,304</b>	<b>\$ 49,229</b>	<b>\$ 129,533</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,328	\$ -	\$ 1,328
Due to other funds	-	446	446
Total Liabilities	1,328	446	1,774
<b>Fund Balance:</b>			
Restricted	-	48,783	48,783
Assigned	78,976	-	78,976
Total Fund Balance	78,976	48,783	127,759
<b>Total Liabilities and Fund Balance</b>	<b>\$ 80,304</b>	<b>\$ 49,229</b>	<b>\$ 129,533</b>

# QUAKER VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Athletics Fund	Grant Fund	Total Other Governmental Funds
<b>Revenues:</b>			
Local sources	\$ 52,728	\$ 103,294	\$ 156,022
<b>Expenditures:</b>			
Current:			
Support services	-	64,670	64,670
Operation of non-instructional services	36,441	20,000	56,441
Total expenditures	36,441	84,670	121,111
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	16,287	18,624	34,911
<b>Other Financing Sources (Uses):</b>			
Transfers in (out)	15,000	-	15,000
Total other financing sources (uses)	15,000	-	15,000
<b>Net Change in Fund Balance</b>	31,287	18,624	49,911
<b>Fund Balance:</b>			
Beginning of year	47,689	30,159	77,848
End of year	\$ 78,976	\$ 48,783	\$ 127,759

# QUAKER VALLEY SCHOOL DISTRICT

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

JUNE 30, 2018

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>
<hr/> <b>Assets</b> <hr/>				
Cash and cash equivalents	<u>\$ 115,932</u>	<u>\$ 225,786</u>	<u>\$ 226,211</u>	<u>\$ 115,507</u>
<hr/> <b>Liabilities</b> <hr/>				
Other current liabilities	<u>\$ 115,932</u>	<u>\$ 225,786</u>	<u>\$ 226,211</u>	<u>\$ 115,507</u>