



STATE COLLEGE AREA SCHOOL DISTRICT

Office of Finance and Operations

240 VILLA CREST DRIVE • STATE COLLEGE PENNSYLVANIA • 16801

TELEPHONE: 814-231-1021 • FAX: 814-272-8790

To: Robert J. O'Donnell, Superintendent  
From: Randy L. Brown and Donna Watson  
Date: November 28, 2018  
Subject: June 30, 2018 Audited Financial Statements

Administration recommends approval of the 2017-18 audited financial statements for the State College Area School District. The attached audited financial statements and related required board communication are as presented at the November 26, 2018 board meeting.

Board of Directors  
State College Area School District

Thank you for using Baker Tilly Virchow Krause, LLP ("Baker Tilly") as your auditor.

We have completed our audit of the financial statements of State College Area School District (the "District") for the year ended June 30, 2018, and have issued our report thereon dated November 12, 2018. This letter presents communications required by our professional standards.

*Our Responsibilities under Auditing Standards Generally Accepted in the United States of America,  
Government Auditing Standards, and the Uniform Guidance*

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or Board of Directors of their responsibilities.

We considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the effectiveness of the District's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

#### *Other Information in Documents Containing Audited Financial Statements*

Pursuant to professional standards, our responsibility as auditors for other information in document containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have applied certain limited procedures, consisting principally 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 to the Management's Discussion and Analysis, the schedule of changes in total OPEB liability and related ratios, the schedules of the District's proportionate share of the net pension liability and net OPEB liability and the schedules of the District's pension and OPEB contributions, which are considered required supplementary information. However, we did not audit this information and express no opinion on it.

Our responsibility also included communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

The financial statements also include a Schedule of Expenditures of Federal Awards ("SEFA"). The SEFA is not part of the basic financial statements but is additional information required by U.S. Office of Management and Budget Uniform Guidance, Audits of States, Local Governments and Non-Profit Organizations. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.

#### *Planned Scope and Timing of the Audit*

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 22, 2018.

#### **Significant Audit Issues**

##### *Qualitative Aspect of Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements.

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions which replaces the requirements of GASB Statement No. 45, for the year ended June 30, 2018. Statement No. 75 establishes that governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. Additionally, Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures, including a sensitivity analysis of the discount rate and a healthcare cost trend rate assumptions used for the valuation, and required supplementary information about their OPEB liabilities. The effect of this adoption was the restatement of the District's beginning net position and expanded note disclosures and required supplementary information.

The District adopted GASB Statement No. 82, Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73 for the year ended June 30, 2018. Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Statement No. 68, and Statement No. 73. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard did not have any impact on the District's financial statements.

The District adopted GASB Statement No. 85, *Omnibus 2017* for the year ended June 30, 2018. GASB 85 enhances consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of this standard did not have a significant impact on the District's financial statements.

The District adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. The adoption of this standard did not have any impact on the District's financial statements.

Otherwise, no new accounting policies were adopted and the application of existing policies was not changed during 2018.

We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- Allowance for doubtful accounts receivable
- Depreciation expense on capital assets
- Compensated absences liability
- Net other postretirement benefits liability
- Net pension liability

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached management representation letter includes a schedule which summarizes uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements, or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter. Management has indicated that they have forwarded these representations to our primary contact within the governance structure.

### *Significant Issues*

Professional standards require us to communicate any significant issues that were discussed, or were the subject of correspondence with management. There were no additional communications or correspondence with management that have not been disclosed in this letter.

### *Independence*

We are not aware of any relationships between Baker Tilly and the District that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the District for the year ended June 30, 2018, Baker Tilly hereby confirms that we are, in our professional judgment, independent with respect to the District in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. During the year ended June 30, 2018, Baker Tilly provided the following services to the District:

Proposing correcting and adjusting journal entries as considered necessary

Technical assistance with conversion of financial statements from fund basis to government-wide basis

Preparation of the financial statements and related footnotes

Preparation of auditee section of the data collection form

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

*Other Audit Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

*Modification of the Auditors' Report*

We have included an emphasis of a matter paragraph to reflect the adoption of GASB Statement No. 75 and to indicate that our opinion was not modified with respect to this matter.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

*Baker Tilly Virchow Krause, LLP*

State College, Pennsylvania  
November 12, 2018

Baker Tilly Virchow Krause, LLP  
1423 North Atherton Street  
State College, Pennsylvania 16803

We are providing this letter in connection with your audit of the financial statements of State College School District (the "District") as of June 30, 2018 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements 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 District and the respective changes in financial position and cash flows, where applicable, thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
9. The effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A list of uncorrected misstatements is attached to the representation letter.
10. We are not aware of any known actual, possible, pending, or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with accounting principles generally accepted in the United States of America, or which would affect federal or state award programs, that our lawyer has advised us are probable of assertion.
11. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.



16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

*Other*

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
22. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
23. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
  - a. Proposing correcting and adjusting journal entries as considered necessary
  - b. Technical assistance with conversion of financial statements from fund basis to government-wide basis
  - c. Preparation of the financial statements and related footnotes
  - d. Preparation of auditee section of the data collection form

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

24. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
25. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
26. The financial statements properly classify all funds and activities.
27. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
28. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
29. The District has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
30. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
31. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
32. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
33. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
34. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
35. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
37. The entity meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
38. We believe that the estimate made for the pollution remediation liability is in accordance with GASB 49 and reflects all known available facts at the time it was recorded.
39. Tax-exempt bonds issued have retained their tax-exempt status.
40. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.

41. We have accounted for asset retirement obligations in accordance with GASB 49. All legal obligations, including those under the doctrine of promissory estoppels, associated with the retirement of tangible long-lived assets have been recognized. These obligations were recognized when incurred using management's best estimate of fair value.
42. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
43. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
44. With respect to the supplementary information, (SI), we acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
45. We assume responsibility for, and agree with, the findings of specialists in evaluating the net pension liability and net OPEB liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
46. We agree with the restatement presented in the current year's financial statements.
47. We have adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which replaces the requirements of GASB Statement No. 45. The impact of adopting GASB No. 75 was to decrease the District's July 1, 2017 beginning net position by \$12,313,562.
47. With respect to federal and state award programs:
  - a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
  - b. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

- c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal and state awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal and state awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

Baker Tilly Virchow Krause, LLP  
November 12, 2018

z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

aa. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

**State College Area School District**

SUMMARY OF UNCORRECTED MISSTATEMENTS  
June 30, 2018

DESCRIPTION OF UNCORRECTED MISSTATEMENT	INCREASE / (DECREASE)				TYPE OF MISSTATEMENT	
	TOTAL ASSETS	TOTAL LIABILITIES	STOCKHOLDERS EQUITY	NET INCOME	KNOWN	LIKELY
	<small>(check appropriate column)</small>					
UNCORRECTED MISSTATEMENTS - CURRENT YEAR:						
To adjust begin net assets for asbestos removal cost in PPE	\$ -	\$ -	\$ (1,729,468)	\$ 1,729,468		X
TOTALS	-	-	(1,729,468)	1,729,468		
EFFECT OF UNCORRECTED MISSTATEMENTS - PRIOR YEAR	-	-	-	-		
NET UNCORRECTED MISSTATEMENTS	\$ -	\$ -	\$ (1,729,468)	\$ 1,729,468		
FINANCIAL STATEMENT CAPTION TOTALS	426,146,056	514,153,399	(90,142,343)	1,214,717		
NET UNCORRECTED MISSTATEMENTS AS A PERCENTAGE OF FINANCIAL STATEMENT CAPTION TOTALS	0.00%	0.00%	1.92%	142.38%		

The uncorrected misstatements listed above, individually and in the aggregate, do not materially misstate the financial statements taken as a whole.

Signature: \_\_\_\_\_  
*Randy Brown*

Signature: \_\_\_\_\_  
*Donna Watson*

**State College Area School District**

Financial Statements and  
Supplementary Information

June 30, 2018



Candor. Insight. Results.



# State College Area School District

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# State College Area School District

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## Independent Auditors' Report

Board of Education  
State College Area School District

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of State College Area School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of State College Area School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As disclosed in Notes 1 and 18 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018 to conform with accounting principles generally accepted in the United States of America. The District recognized its total other postemployment benefits liability ("OPEB"), restated its beginning net position for this adoption, expanded its note disclosures and included required supplementary information with respect to total OPEB. Our opinion was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 4 through 17, the schedule of District's proportionate share of the net pension liability on page 57, the schedule of District's pension contributions on page 58, the schedule of District's proportionate share of the net OPEB liability on page 59, the schedule of District's OPEB contributions on page 60 and the schedule of changes in total OPEB liability and related ratios on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 62-63) is presented for purposes of additional analysis and is not a required part of the basic financial statements. In addition, the Schedule of Expenditures of Federal Awards (page 64), as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

State College, Pennsylvania  
November 12, 2018

# **State College Area School District**

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## Management's Discussion and Analysis (Unaudited)

June 30, 2018

This Management's Discussion and Analysis ("MD&A") is intended to provide a narrative overview and analysis of the financial activities of the State College Area School District (the "District") for the year ended June 30, 2018. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting. The focus of these statements is long-term.

The statement of net deficit presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The governmental-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities include all of the District's instructional programs and support services except for its food service operation, which is considered a business-type activity.

# **State College Area School District**

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Management's Discussion and Analysis (Unaudited)

June 30, 2018

## **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 District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short term. Fund financial statements are prepared using the modified accrual basis of accounting.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds, which are the General Fund, Capital Reserve Fund, and the Capital Projects Fund. The District's non-major fund, the Debt Service Fund, is reported separately.

### **Proprietary Funds**

The District accounts for its food service operation in a proprietary fund, which reports the same functions presented as the 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.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

## Government-Wide Financial Analysis

Condensed Statement of Net Deficit

June 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current and other assets	\$ 172,745,273	\$ 255,558	\$ 173,000,831
Noncurrent assets	209,334,147	127,301	209,461,448
Deferred outflows of resources	42,824,597	859,180	43,683,777
Total	<u>\$ 424,904,017</u>	<u>\$ 1,242,039</u>	<u>\$ 426,146,056</u>
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>			
Current liabilities	\$ 36,146,431	\$ 148,255	\$ 36,294,686
Long-term liabilities:			
Due within one year	7,335,000	-	7,335,000
Due after one year	465,400,869	5,122,844	470,523,713
Total liabilities	<u>508,882,300</u>	<u>5,271,099</u>	<u>514,153,399</u>
Deferred inflows of resources	<u>2,092,014</u>	<u>42,986</u>	<u>2,135,000</u>
Net deficit:			
Net investment in capital assets	55,776,274	127,301	55,903,575
Restricted	82,908	-	82,908
Unrestricted (deficit)	<u>(141,929,479)</u>	<u>(4,199,347)</u>	<u>(146,128,826)</u>
Total net deficit	<u>(86,070,297)</u>	<u>(4,072,046)</u>	<u>(90,142,343)</u>
Total	<u>\$ 424,904,017</u>	<u>\$ 1,242,039</u>	<u>\$ 426,146,056</u>



**State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Condensed Statement of Activities  
For the Year Ended  
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,614,736	\$ 2,566,886	\$ 4,181,622
Operating grants and contributions	20,559,988	1,409,506	21,969,494
General revenues:			
Taxes levied, net	120,752,937	-	120,752,937
Grants, subsidies and contributions not restricted	9,148,206	-	9,148,206
Other	2,609,288	-	2,609,288
Total revenues	<u>154,685,155</u>	<u>3,976,392</u>	<u>158,661,547</u>
Program expenses:			
Instruction	89,814,795	-	89,814,795
Instructional student support	12,082,049	-	12,082,049
Administration and financial support services	15,645,891	-	15,645,891
Operation and maintenance of plant services	15,447,993	-	15,447,993
Pupil transportation	6,466,839	-	6,466,839
Student activities	2,815,891	-	2,815,891
Community services	86,998	-	86,998
Interest on long-term debt	6,982,183	-	6,982,183
Unallocated depreciation	374,410	-	374,410
Loss on disposal of capital assets	3,560,839	29,527	3,590,366
Food service	-	4,139,415	4,139,415
Total program expenses	<u>153,277,888</u>	<u>4,168,942</u>	<u>157,446,830</u>
Change in net position	<u>1,407,267</u>	<u>(192,550)</u>	<u>1,214,717</u>
Net deficit, beginning, as previously reported	(75,479,221)	(3,564,277)	(79,043,498)
Effect of adoption of GASB No. 75	<u>(11,998,343)</u>	<u>(315,219)</u>	<u>(12,313,562)</u>
As restated	<u>(87,477,564)</u>	<u>(3,879,496)</u>	<u>(91,357,060)</u>
Net deficit, ending	<u>\$ (86,070,297)</u>	<u>\$ (4,072,046)</u>	<u>\$ (90,142,343)</u>

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

## Condensed Statement of Net Deficit (As Previously Reported) June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current and other assets	\$ 115,310,131	\$ 323,131	\$ 115,633,262
Noncurrent assets	158,693,980	157,241	158,851,221
Deferred outflows of resources	<u>46,134,853</u>	<u>920,412</u>	<u>47,055,265</u>
Total	<u>\$ 320,138,964</u>	<u>\$ 1,400,784</u>	<u>\$ 321,539,748</u>
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>			
Current liabilities	\$ 30,769,723	\$ 163,517	\$ 30,933,240
Long-term liabilities:			
Due within one year	5,245,000	-	5,245,000
Due after one year	<u>357,225,202</u>	<u>4,752,804</u>	<u>361,978,006</u>
Total liabilities	<u>393,239,925</u>	<u>4,916,321</u>	<u>398,156,246</u>
Deferred inflows of resources	<u>2,378,260</u>	<u>48,740</u>	<u>2,427,000</u>
Net deficit:			
Net investment in capital assets	54,213,872	157,241	54,371,113
Restricted	80,870	-	80,870
Unrestricted (deficit)	<u>(129,773,963)</u>	<u>(3,721,518)</u>	<u>(133,495,481)</u>
Total net deficit	<u>(75,479,221)</u>	<u>(3,564,277)</u>	<u>(79,043,498)</u>
Total	<u>\$ 320,138,964</u>	<u>\$ 1,400,784</u>	<u>\$ 321,539,748</u>

**State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Condensed Statement of Activities  
(As Previously Reported)  
For the Year Ended  
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,549,545	\$ 2,482,495	\$ 4,032,040
Operating grants and contributions	21,671,576	1,339,428	23,011,004
General revenues:			
Taxes levied, net	116,939,021	-	116,939,021
Grants, subsidies and contributions not restricted	8,967,545	-	8,967,545
Other	875,372	-	875,372
Total revenues	<u>150,003,059</u>	<u>3,821,923</u>	<u>153,824,982</u>
Program expenses:			
Instruction	86,396,661	-	86,396,661
Instructional student support	11,677,081	-	11,677,081
Administration and financial support services	15,027,506	-	15,027,506
Operation and maintenance of plant services	12,651,474	-	12,651,474
Pupil transportation	6,201,135	-	6,201,135
Student activities	2,781,097	-	2,781,097
Community services	102,423	-	102,423
Interest on long-term debt	4,822,039	-	4,822,039
Unallocated depreciation	394,174	-	394,174
Food service	-	4,294,103	4,294,103
Total program expenses	<u>140,053,590</u>	<u>4,294,103</u>	<u>144,347,693</u>
Change in net position before transfers	9,949,469	(472,180)	9,477,289
Transfers	<u>(265,969)</u>	<u>265,969</u>	<u>-</u>
Change in net position	9,683,500	(206,211)	9,477,289
Net deficit, beginning	<u>(85,162,721)</u>	<u>(3,358,066)</u>	<u>(88,520,787)</u>
Net deficit, ending	<u>\$ (75,479,221)</u>	<u>\$ (3,564,277)</u>	<u>\$ (79,043,498)</u>

## State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Total net position of the District increased \$1,214,717 in 2018. Net position of governmental activities increased by \$1,407,267, while net position of the business-type activity decreased \$192,550.

The District had \$153,277,888 in expenses related to governmental activities in 2018; only \$22,174,724 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$132,510,431 also provided for these programs. The \$1,407,267 increase in governmental activities net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$192,550 as a result of the net loss of the food service operation.

The June 30, 2018, government-wide financial statements reflect the District's estimated share of the PSERS liability and related deferred outflows and inflows of resources, as required under GASB 68. GASB 75 was adopted in 2018, as required, replacing GASB 45 to include the liability and deferred outflows and inflows of resources related to postemployment benefits other than pension (OPEB), primarily health insurance. The balance as of June 30, 2017 below has been adjusted to include the impact of GASB 45, as OPEB liability had not previously been included in this table. Below is a schedule showing the impact GASB 45, 68 and 75 on the unrestricted net position as of June 30, 2017 and 2018.

	<b>Total Net Position</b>	<b>GASB 45, 68 and 75 (Pension and OPEB Impact)</b>	<b>Total Excluding GASB 45, 68 and 75 Impact</b>	<b>Unrestricted Net Position Excluding GASB 45, 68 and 75 Impact</b>
<b>Governmental Activities:</b>				
At June 30, 2017	\$ (75,479,221)	\$ (188,751,025)	\$ 113,271,804	\$ 58,977,062
GASB 75 adoption	(11,998,343)	(11,998,343)	-	-
June 30, 2017, restated	(87,477,564)	(200,749,368)	113,271,804	58,977,062
Change in net position	1,407,267	(5,303,253)	6,710,520	5,146,080
Ending at June 30, 2018	<u>\$ (86,070,297)</u>	<u>\$ (206,052,621)</u>	<u>\$ 119,982,324</u>	<u>\$ 64,123,142</u>
<b>Business-Type Activities:</b>				
At June 30, 2017	\$ (3,564,277)	\$ (3,826,531)	\$ 262,254	\$ 105,013
GASB 75 adoption	(315,219)	(315,219)	-	-
June 30, 2017, restated	(3,879,496)	(4,141,750)	262,254	105,013
Change in net position	(192,550)	(121,211)	(71,339)	(41,399)
Ending at June 30, 2018	<u>\$ (4,072,046)</u>	<u>\$ (4,262,961)</u>	<u>\$ 190,915</u>	<u>\$ 63,614</u>

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

As of June 30, 2018, excluding the impact of changes in position recorded based on GASB 68 and 75, \$64,123,142 of unrestricted net position of the \$119,982,324 of total net position was available to meet the District's ongoing obligations to employees and creditors for governmental activities. The remaining net position of \$55,859,182, is invested in capital assets and restricted for capital projects and debt service.

## Financial Analysis of the Governmental Funds

### General Fund

#### Revenues

Revenues for the 2017-2018 fiscal year were \$153,159,772 compared to \$149,444,213 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2017 - 2018</u>	<u>2016 - 2017</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 124,215,479	\$ 119,738,829	\$ 4,476,650	3.7 %
State sources	27,351,253	28,226,039	(874,786)	(3.1) %
Federal sources	<u>1,593,040</u>	<u>1,479,345</u>	<u>113,695</u>	7.7 %
Total	<u>\$ 153,159,772</u>	<u>\$ 149,444,213</u>	<u>\$ 3,715,559</u>	2.5 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$4,476,650 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$3,251,570 with approximately \$1,472,000 related to an increase in the millage rate from 43.473 mills to 44.1468 mills per \$1,000 of assessed value. Rebates totaling \$88,260 offset real estate tax revenue. The District implemented a Supplemental Tax Rebate Program in the 2015-16 fiscal year, which provides property tax rebates to senior citizens, widows, widowers and disabled persons who meet certain income eligibility guidelines and who are homeowners. Earned income tax revenue increased approximately \$730,700 and tuition increased \$170,300 related to expansion of the District's Community Education Extended Learning Program. Revenue also increased \$371,000 related to an increase in the rate of earnings on investments.

## State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

State revenues are derived primarily from state subsidies for basic education, special education and transportation. State revenues also include a 50% reimbursement for social security and retirement costs, as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues decreased \$874,786. Reimbursement for retirement costs increased approximately \$1,216,000 due to an increase in salaries and an increase in the employer contribution rate for the state's retirement plan. Basic Education increased \$180,700 related to an increase in state funding and social security reimbursement increased \$101,600. These increases are offset by a decrease of \$262,800 in principal and interest reimbursement related primarily to a retroactive reimbursement in the prior year resulting from state funding delays. The District also received a \$2,000,000 Alternative and Clean Energy Grant from the Pennsylvania Department of Community & Economic Development ("DCED") in the prior year, which contributed to the decrease in state revenue.

Federal revenues include primarily Title I, II and III grants and the School Based ACCESS program.

### Expenditures

Expenditures for the 2017-2018 fiscal year were \$155,112,430 compared to the 2016-2017 fiscal year of \$151,002,954 or a 2.7% increase. The following table shows the expenditures by object category:

	<u>2017 - 2018</u>	<u>2016 - 2017</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Salaries and benefits	\$ 106,955,676	\$ 101,414,129	\$ 5,541,547	5.5 %
Professional services	3,022,010	3,328,268	(306,258)	(9.2) %
Purchased property services	1,287,090	1,332,485	(45,395)	(3.4) %
Other purchased services	12,671,679	11,707,191	964,488	8.2 %
Supplies	6,261,850	5,894,964	366,886	6.2 %
Property	1,015,525	971,110	44,415	4.6 %
Other objects	333,012	435,847	(102,835)	(23.6) %
Other uses of funds	23,565,588	25,918,960	(2,353,372)	(9.1) %
Total	<u>\$ 155,112,430</u>	<u>\$ 151,002,954</u>	<u>\$ 4,109,476</u>	2.7 %

## **State College Area School District**

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Management's Discussion and Analysis (Unaudited)

June 30, 2018

Salaries and benefits increased \$5,541,547. Salary expense increased approximately \$2,700,000, and benefits increased approximately \$2,840,000, primarily due to a \$2,388,000 increase in retirement expense related to an increase in the employer contribution rate for PSERS from 30.03% to 32.57% (8.5%).

The decrease in professional services and increase in supplies is primarily related to a change in coding of expense based on the state reporting requirements that caused movement of expenses between expense line items. The increase in other purchased services is primarily related to an increase in payments to charter schools which totaled \$824,200. The number of students attending charter schools increased 2% and the required tuition per student increased 6.9%.

Other uses of funds decreased \$2,353,372. Debt service increased \$2,587,800 related primarily to debt service on the Series 2017 bonds, which will primarily fund a portion of the high school project. Capital fund transfers decreased \$2,308,600 primarily due to a \$2,000,000 DCED grant received in the prior year. The transfer to the capital reserve fund decreased \$2,366,600 and the transfer to the Food Service fund to cover cash needs decreased \$266,000 with no transfer being required.

### **Capital Reserve Fund**

The Capital Reserve Fund is used to account for transfers from the General Fund that are to be used to fund future capital projects or debt service. The Capital Reserve fund balance as of June 30, 2018 is \$62,683,101.

### **Capital Projects Fund**

The Capital Projects Fund is used to account for capital projects of the District. The District spent \$60,086,113 for such projects in 2017-18. The majority of expenditures in 2017-18 related to the high school and three elementary school building projects. Other projects included renovation and improvements throughout the District. The Capital Projects fund balance is \$60,124,059 at June 30, 2018. Restricted cash of \$71,822,348 at June 30, 2018 represents bond funds available to fund the remaining portion of both the high school and the three elementary building projects.

### **General Fund Budgetary Highlights**

The District prepares a budget each year for its General Fund according to Pennsylvania law. The budget complied with all applicable state laws and financial policies approved by the School Board of Education.

The General Fund's originally-approved budget for 2018 included \$150,229,781 of revenues and \$152,122,249 of expenditures. The budget was amended by \$404,447 for additional grants and related expenditures.

## State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

The actual revenues for 2018 were \$2,525,544 greater than the final budget. Local revenues were \$2,542,782 greater than budget primarily due to favorable variances in real estate tax revenue of \$912,000, earned income tax revenue of \$520,600, real estate transfer tax revenue of \$383,800, interest on investments of \$498,200 and tuition of \$146,200. State revenues were \$86,444 less than budget and Federal revenues were in excess of budget by \$69,206.

Actual expenditures, excluding transfers to the Capital Reserve fund, were \$1,584,235 less than the amended budget. Positive budget variances include salary expense and related benefits, which were lower than budget primarily due to the impact of turnover and vacant positions. Healthcare expense was also lower than budget related to variances in membership and coverage levels. Budgetary reserves of approximately \$600,000 were not utilized and the budgeted transfer to Food Service fund was not required based on better than budgeted financial results. Charter school and other tuition expenses were in excess of budget related to higher than budgeted enrollments. Transfers to the Capital Reserve fund exceeded budget by \$4,169,969 as the result of higher than anticipated revenues, and lower than anticipated expenses.

### Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2018 is summarized below (see details in Note 7 to the financial statements).

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Land, buildings and improvements	\$ 189,266,223	\$ -	\$ 189,266,223
Equipment and other capital assets	47,112,639	1,071,135	48,183,774
Construction in progress	57,158,002	-	57,158,002
Total	293,536,864	1,071,135	294,607,999
Accumulated depreciation	<u>(84,202,717)</u>	<u>(943,834)</u>	<u>(85,146,551)</u>
Net	<u>\$ 209,334,147</u>	<u>\$ 127,301</u>	<u>\$ 209,461,448</u>

### Long-Term Debt

At June 30, 2018, the District had long-term debt of \$206,555,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$71,495,000 related to the District's High School Project. Debt issued based on a voter referendum is excluded when comparing to the legal limit of debt. Debt that is not related to the referendum of \$135,060,000 is significantly below the legal limit of \$331,774,660.



## **State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2018

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### **Factors Expected to Have an Effect on Future Operations**

The assessed value used for the 2019 budget preparation is approximately \$2.32 billion, which is up approximately \$23 million, or 1% from 2018. Amounts available for appropriation in the General Fund budget for 2018-19 are \$158,873,470, an increase of approximately 4.4% over the 2017-18 budget of \$152,122,250. Property tax rate will increase 2.4% to 45.206 mills. The District will use this increase in revenues to finance programs currently offered and to fund staffing, curriculum and transportation related to a change in the student day, a new math curriculum, an elementary counselor to allow for comprehensive elementary curriculum, additional resources to support increased kindergarten registrations, elementary students needing support for writing and math and increased gifted identified students. The budget also includes funds to provide increased security services and a reallocation of funds to provide a Director of Diversity and Inclusivity.

The State College community is dedicated to ensuring that all students acquire the necessary skills and knowledge to enhance and develop their unique capabilities. Education is an investment in the future that requires a partnership between schools and the entire community. The District is committed to using its resources wisely and to delivering quality educational programs.

The District continually strives to enhance the cost-effectiveness of its operations, and of its program delivery, without sacrificing quality. The District's financial planning process includes a multi-year budget that is updated annually and can be found in the budget document. The multi-year budget projects revenues and expenses using historical results and future expectations.

### **Referendum/Property Tax Relief - Special Session Act 1 of 2006**

Act 1 of 2006 limited the ability of School Districts to raise taxes above an inflationary index. It also gave Districts the option of asking voters if they wanted to increase income taxes to decrease property taxes. In the 2007 primary election, 498 school districts were required to propose a referendum question asking voters to authorize an increase in the Earned Income Tax or authorize a Personal Income Tax in order to provide property tax reductions through the homestead and farmstead exclusion. The referendum question proposed for the State College Area School District was to increase the EIT by .7% for a total EIT rate of 1.65%. This referendum was defeated by voters.

School districts are now governed by back-end referendum requirements for increases in property tax rates. School districts are prohibited from increasing their tax rates above the annual inflationary percentage and must place referendum questions before the voters to approve further increases. Exceptions for rate increases above the index without going to referendum exist for special education costs, retirement rate changes, debt issuances, and certain other limited areas. The Act 1 Index for 2017-18 is 2.5%.

## **State College Area School District**

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Management's Discussion and Analysis (Unaudited)

June 30, 2018

Installment payments for real estate tax bills also went into effect beginning in 2007. All school districts, except Philadelphia and Pittsburgh, were required to offer homestead and farmstead property owners the option to pay their property taxes in installments. School districts are required to notify homestead and farmstead property owners of this option as part of their property tax bills. A taxpayer who elects this option and who is delinquent by more than ten days on two or more installment payments will be ineligible for the installment option in the following year.

### **Strategic Plan**

The Pennsylvania Department of Education ("PDE") requires all school districts to develop a plan to prioritize goals, focusing on improving student learning in accordance with its community's experiences and desires. The 2018-2023 strategic plan was created based on input from a broad cross-section of the State College Area School District community and included formation of a steering committee of 72 students, parents, teachers, administrators, district staff, board members, community/higher education partners and community representatives.

The strategic plan and its annual updates are required to be submitted to PDE each year.

### **District Growth**

DecisionInsite, enrollment impact specialists, were engaged to provide enrollment projections for the District. DecisionInsite used historical enrollment data, recent trends and projected new residential development to forecast student enrollment from 2016 to 2025. Both moderate and conservative projections forecast an increase in enrollment of approximately 1% to 2%, respectively, across the forecasted period. Enrollment projections were updated in 2017 and annually thereafter.

### **District Wide Facilities Master Plan**

The District completed a Facilities Master Plan in the spring of 2009. Since that time, the District has completed the first phase of the Master Plan at the elementary level.

In 2012, the District hired an architectural firm and educational planner to begin the design process for a high school project. Planning for this project continued through 2013, leading to a voter referendum in 2014. The estimated project cost at the time of the referendum was \$115 million. The referendum asked voters of the District to pay for \$85 million of the cost of the project through a referendum tax increase. The voters of the State College Area School District approved the referendum by an unprecedented margin of 74% to 26%. This is the second referendum in the Commonwealth of Pennsylvania to be passed by voters.

## **State College Area School District**

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Management's Discussion and Analysis (Unaudited)

June 30, 2018

Design for the high school continued through the summer of 2015. Design changes, primarily the inclusion of the Delta middle level program and increases in program space for both performing arts and physical education/athletics, increased the estimated project cost approximately \$11.9 million. Site work began in the summer of 2015 and the construction project went to bid in the fall of 2015. Base bids were accepted on November 30, 2015, including \$3.5 million for bid alternates, bringing total project cost, when combined with initial site work from the summer of 2015, to \$138 million. To date, the total cost, net of DCED grants, is estimated at \$137.2 million. The District's capital financing plan includes funding for the cost in excess of the \$85 million referendum debt with bonds issued in July 2017, plus the use of \$10 million from the capital reserve fund. Work on the project continued with significant progress through the fiscal year. The District took occupancy of the majority of the new classroom areas in early January 2018, with full occupancy planned for September 2019.

Looking beyond the high school project, the District began a Facilities Master Plan Elementary Update in April of 2016 to ensure access to sizable external funding resources, with application submission deadlines scheduled to expire in spring of 2016. These funding resources included Alternative and Clean Energy Grants secured through DCED and reimbursement of debt service expenses through the PDE PlanCon process. These funds reduce the tax effort for the elementary projects from the local community. The process included facility assessment and design by the architect, Crabtree Rohrbaugh and Associates, and community input through public forums and meetings with the Board of Directors. Project selection occurred during the fall of 2016. Project scope and design continued throughout 2017, with the projects entering the bid document phase in fall of 2017. Bids for the projects were in November 2017, with construction beginning at the Radio Park, Corl Street and Spring Creek elementary schools in January 2018. Phased occupancy at the Radio Park and Corl Street schools is expected to occur in the 2018-2019 year with full occupancy for all schools planned for September 2019.

### **Contact the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office.

**State College Area School District**

## Statement of Net Deficit

June 30, 2018

	<u>Governmental Activities</u>	<u>Business -Type Activity</u>	<u>Total</u>
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 91,927,614	\$ 9,758	\$ 91,937,372
Restricted cash and cash equivalents	71,822,348	-	71,822,348
Taxes receivable, net	2,314,023	-	2,314,023
Due from fiduciary fund	44,837	-	44,837
Internal balances	(42,184)	42,184	-
Due from other governments	6,527,879	126,263	6,654,142
Other receivables	106,673	25,787	132,460
Inventories	17,475	51,566	69,041
Other current assets	26,608	-	26,608
	<u>172,745,273</u>	<u>255,558</u>	<u>173,000,831</u>
<b>Noncurrent Assets</b>			
Land	1,140,457	-	1,140,457
Buildings and improvements	188,125,766	-	188,125,766
Equipment and other capital assets	47,112,639	1,071,135	48,183,774
Construction in progress	57,158,002	-	57,158,002
Accumulated depreciation	(84,202,717)	(943,834)	(85,146,551)
	<u>209,334,147</u>	<u>127,301</u>	<u>209,461,448</u>
Total assets	<u>382,079,420</u>	<u>382,859</u>	<u>382,462,279</u>
<b>Deferred Outflows of Resources</b>			
Pension	40,672,714	835,731	41,508,445
Other postemployment benefits (OPEB)	1,018,519	23,449	1,041,968
Deferred amounts on refunding	1,133,364	-	1,133,364
	<u>42,824,597</u>	<u>859,180</u>	<u>43,683,777</u>
Total	<u>\$ 424,904,017</u>	<u>\$ 1,242,039</u>	<u>\$ 426,146,056</u>
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 12,264,211	\$ 5,649	\$ 12,269,860
Current portion of bonds payable	7,335,000	-	7,335,000
Accrued salaries and benefits	11,749,727	5,200	11,754,927
Payroll deductions and withholdings	8,163,785	-	8,163,785
Unearned revenue	524,580	25,619	550,199
Other current liabilities	3,444,128	111,787	3,555,915
	<u>43,481,431</u>	<u>148,255</u>	<u>43,629,686</u>
<b>Noncurrent Liabilities</b>			
Bonds payable	218,045,221	-	218,045,221
Other postemployment benefits liability (OPEB)	14,328,011	325,984	14,653,995
Net pension liability	231,323,829	4,753,171	236,077,000
Compensated absences	1,703,808	43,689	1,747,497
	<u>465,400,869</u>	<u>5,122,844</u>	<u>470,523,713</u>
Total liabilities	<u>508,882,300</u>	<u>5,271,099</u>	<u>514,153,399</u>
<b>Deferred Inflows of Resources</b>			
Other postemployment benefits (OPEB)	443,879	9,121	453,000
Pension	1,648,135	33,865	1,682,000
	<u>2,092,014</u>	<u>42,986</u>	<u>2,135,000</u>
<b>Net Deficit</b>			
Net investment in capital assets	55,776,274	127,301	55,903,575
Restricted	82,908	-	82,908
Unrestricted (deficit)	(141,929,479)	(4,199,347)	(146,128,826)
	<u>(86,070,297)</u>	<u>(4,072,046)</u>	<u>(90,142,343)</u>
Total	<u>\$ 424,904,017</u>	<u>\$ 1,242,039</u>	<u>\$ 426,146,056</u>

See notes to financial statements

**State College Area School District**

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Deficit		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	
Governmental activities:						
Instruction	\$ (89,814,795)	\$ 1,394,015	\$ 15,591,823	\$ (72,828,957)		\$ (72,828,957)
Instructional student support	(12,082,049)	-	1,448,651	(10,633,398)		(10,633,398)
Administration and financial support services	(15,645,891)	-	1,229,151	(14,416,740)		(14,416,740)
Operation and maintenance of plant services	(15,447,993)	164,195	683,007	(14,600,791)		(14,600,791)
Pupil transportation	(6,466,839)	-	1,201,202	(5,265,637)		(5,265,637)
Student activities	(2,815,891)	56,526	75,600	(2,683,765)		(2,683,765)
Community services	(86,998)	-	9,124	(77,874)		(77,874)
Interest on long-term debt	(6,982,183)	-	321,430	(6,660,753)		(6,660,753)
Loss on disposal of capital assets	(3,560,839)	-	-	(3,560,839)		(3,560,839)
Depreciation - unallocated	(374,410)	-	-	(374,410)		(374,410)
Total governmental activities	(153,277,888)	1,614,736	20,559,988	(131,103,164)		(131,103,164)
<b>Business-Type Activity</b>						
Food service	(4,168,942)	2,566,886	1,409,506	-	(192,550)	(192,550)
Total	<u>\$ (157,446,830)</u>	<u>\$ 4,181,622</u>	<u>\$ 21,969,494</u>	<u>(131,103,164)</u>	<u>(192,550)</u>	<u>(131,295,714)</u>
<b>General Revenues</b>						
Property taxes, levied for general purposes, net				102,496,579	-	102,496,579
Other taxes				18,256,358	-	18,256,358
Grants, subsidies and contributions not restricted				9,148,206	-	9,148,206
Investment earnings,						
Interest				2,175,889	-	2,175,889
Miscellaneous income				433,399	-	433,399
Total general revenues				<u>132,510,431</u>	<u>-</u>	<u>132,510,431</u>
<b>Changes in Net Position</b>				<u>1,407,267</u>	<u>(192,550)</u>	<u>1,214,717</u>
<b>Net Deficit, Beginning</b>						
As previously reported				(75,479,221)	(3,564,277)	(79,043,498)
Effect of adoption of GASB No. 75				(11,998,343)	(315,219)	(12,313,562)
As restated				<u>(87,477,564)</u>	<u>(3,879,496)</u>	<u>(91,357,060)</u>
<b>Net Deficit, Ending</b>				<u>\$ (86,070,297)</u>	<u>\$ (4,072,046)</u>	<u>\$ (90,142,343)</u>

See notes to financial statements

**State College Area School District**

Balance Sheet - Governmental Funds  
June 30, 2018

	<b>Major Funds</b>			<b>Total</b>
	<b>General</b>	<b>Capital Reserve</b>	<b>Capital Projects</b>	
<b>Assets</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 37,212,395	\$ 54,715,219	\$ -	\$ 91,927,614
Restricted cash and cash equivalents	-	-	71,822,348	71,822,348
Taxes receivable, net	2,314,023	-	-	2,314,023
Due from other funds	574,449	7,967,882	-	8,542,331
Due from other governments	6,527,879	-	-	6,527,879
Other receivables	106,673	-	-	106,673
Inventories	1,801,683	-	-	1,801,683
Other current assets	26,608	-	-	26,608
	<u>26,608</u>	<u>-</u>	<u>-</u>	<u>26,608</u>
Total	<u>\$ 48,563,710</u>	<u>\$ 62,683,101</u>	<u>\$ 71,822,348</u>	<u>\$ 183,069,159</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Due to other funds	\$ 8,109,400	\$ -	\$ 548,943	\$ 8,658,343
Accounts payable	1,113,997	-	11,149,346	12,263,343
Accrued salaries and benefits	11,749,727	-	-	11,749,727
Payroll deductions and withholdings	8,163,785	-	-	8,163,785
Unearned revenue	524,580	-	-	524,580
Other liabilities	295,380	-	-	295,380
	<u>295,380</u>	<u>-</u>	<u>-</u>	<u>295,380</u>
Total liabilities	<u>29,956,869</u>	<u>-</u>	<u>11,698,289</u>	<u>41,655,158</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - taxes	704,471	-	-	704,471
	<u>704,471</u>	<u>-</u>	<u>-</u>	<u>704,471</u>
<b>Fund Balances</b>				
Nonspendable	1,801,683	-	-	1,801,683
Restricted	-	82,908	60,124,059	60,206,967
Committed	3,847,987	62,600,193	-	66,448,180
Unassigned	12,252,700	-	-	12,252,700
	<u>12,252,700</u>	<u>-</u>	<u>-</u>	<u>12,252,700</u>
Total fund balances	<u>17,902,370</u>	<u>62,683,101</u>	<u>60,124,059</u>	<u>140,709,530</u>
Total	<u>\$ 48,563,710</u>	<u>\$ 62,683,101</u>	<u>\$ 71,822,348</u>	<u>\$ 183,069,159</u>

See notes to financial statements

## State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Deficit  
June 30, 2018

**Total Fund Balance - Governmental Funds** \$ 140,709,530

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$293,536,864 and the accumulated depreciation is \$84,202,717. 209,334,147

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 704,471

Inventory of books and supplies was reclassified. (1,801,683)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund, with the exception of capital assets and pension-related assets and liabilities which are included elsewhere in this reconciliation, are reported with governmental activities. 120,892

Deferred outflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit. 1,018,519

Deferred inflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit. (443,879)

Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit. 40,672,714

Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit. (1,648,135)

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

Bonds payable	(225,380,221)
Deferred amounts on refunding	1,133,364
Accrued interest on long-term debt	(3,148,748)
Net OPEB liability	(14,328,011)
Net pension liability	(231,323,829)
Compensated absences	(1,689,428)

**Total Net Deficit - Governmental Activities** \$ (86,070,297)

See notes to financial statements

## State College Area School District

### Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2018

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
<b>Revenues</b>					
Local sources	\$ 124,215,479	\$ 763,137	\$ 764,546	\$ -	\$ 125,743,162
State sources	27,351,253	-	-	-	27,351,253
Federal sources	1,593,040	-	-	-	1,593,040
Total revenues	153,159,772	763,137	764,546	-	154,687,455
<b>Expenditures</b>					
Instruction	85,556,635	-	-	-	85,556,635
Support services	43,116,401	-	691,469	-	43,807,870
Noninstructional services	2,803,369	-	-	-	2,803,369
Facilities acquisition, construction and improvement services	5,029	20	59,394,644	-	59,399,693
Debt service	550,000	-	-	12,743,775	13,293,775
Total expenditures	132,031,434	20	60,086,113	12,743,775	204,861,342
<b>Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)</b>	21,128,338	763,117	(59,321,567)	(12,743,775)	(50,173,887)
<b>Other Financing Sources (Uses)</b>					
Transfer in	-	7,963,299	2,308,514	12,743,775	23,015,588
Bond proceeds	-	-	95,125,000	-	95,125,000
Bond premium	-	-	8,103,164	-	8,103,164
Refund of prior year receipts	(65,408)	-	-	-	(65,408)
Transfer out	(23,015,588)	-	-	-	(23,015,588)
Total other financing (uses) sources	(23,080,996)	7,963,299	105,536,678	12,743,775	103,162,756
<b>Changes in Fund Balances</b>	(1,952,658)	8,726,416	46,215,111	-	52,988,869
<b>Fund Balance, Beginning</b>	19,855,028	53,956,685	13,908,948	-	87,720,661
<b>Fund Balance, Ending</b>	\$ 17,902,370	\$ 62,683,101	\$ 60,124,059	\$ -	\$ 140,709,530

See notes to financial statements



**State College Area School District**

Reconciliation of the Governmental Funds - Statement of Revenues,  
Expenditures and Changes in Fund Balance to the Statement of Activities  
Year Ended June 30, 2018

**Total Changes in Fund Balances-Governmental Funds** \$ 52,988,869

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

Some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year. (39,941)

Capital outlays are reported in governmental funds as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in this period:

Depreciation expense	(5,553,357)	
Loss on disposal of capital assets	(3,560,839)	
Capital outlays	<u>59,754,363</u>	50,640,167

The change in inventory is recorded as an increase or decrease as expense in the governmental funds, but it is reclassified and accounted for through capital outlays and depreciation expense in the statement of activities. 131,165

The issuance of long term debt (bonds) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. This transaction, however, does not have an effect on net position. Also, governmental funds report the effect of premiums and discounts, and other similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. Reconciling items related to long-term debt activity for the year ended June 30, 2018 are as follows:

Issuance of bonds payable	(95,125,000)	
Bond premium	(8,103,164)	
Scheduled principal payments on long-term debt	<u>6,350,000</u>	(96,878,164)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include amortization of bond premiums and deferred interest from advanced refunding bonds. The net additional interest accrued in the statement of activities over the amount due is shown here. (588,408)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The revenues and expenses of the internal service fund are reported with governmental activities. (16,562)

Net OPEB liability is considered long-term in nature, and is not reported as a liability within the funds. Such a liability is, however, reported within the statement of net deficit, and changes in the liability is reflected within the statement of net deficit. This represents the change in OPEB liability and the deferred outflows and inflows related to the OPEB. 279,644

Change in the interest rate swap payable:  
Installment payment made on interest rate swap payable 550,000

Net pension liability is considered long-term in nature, and is not reported as a liability within the funds. Such a liability is, however, reported within the statement of net deficit, and changes in the liability are reflected within the statement of net deficit. This represents the change in pension liability and the deferred outflows and inflows related to the pension. (5,582,897)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) 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. (76,606)

**Changes in Net Deficit of Governmental Activities** \$ 1,407,267

**State College Area School District**

 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund  
 Year Ended June 30, 2018

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 121,656,837	\$ 121,672,697	\$ 124,215,479	\$ 2,542,782
State sources	27,427,944	27,437,697	27,351,253	(86,444)
Federal sources	1,145,000	1,523,834	1,593,040	69,206
Total revenues	150,229,781	150,634,228	153,159,772	2,525,544
<b>Expenditures</b>				
Instruction:				
Regular programs	61,850,495	62,093,004	61,576,242	516,762
Special programs	17,813,206	17,770,691	18,196,121	(425,430)
Vocational education programs	3,757,755	3,768,782	3,651,579	117,203
Other instructional programs	1,812,016	2,073,881	2,109,229	(35,348)
Adult education programs	9,157	9,117	8,653	464
Nonpublic school programs	28,749	12,884	14,811	(1,927)
Total instruction	85,271,378	85,728,359	85,556,635	171,724
Support services:				
Pupil personnel	4,963,192	4,965,906	5,080,463	(114,557)
Instructional staff	5,302,749	5,345,972	5,158,111	187,861
Administration	8,043,710	7,977,963	7,737,119	240,844
Pupil health	1,548,095	1,552,122	1,529,259	22,863
Business	1,373,462	1,409,092	1,417,944	(8,852)
Operation and maintenance of plant services	9,817,063	9,825,631	9,935,707	(110,076)
Student transportation services	6,226,139	6,271,248	6,399,828	(128,580)
Central	6,072,563	6,074,978	5,857,970	217,008
Total support services	43,346,973	43,422,912	43,116,401	306,511
Noninstructional services:				
Student activities	2,648,660	2,772,089	2,716,371	55,718
Community services	105,325	113,611	86,803	26,808
Scholarships and awards	50,000	50,000	195	49,805
Total noninstructional services	2,803,985	2,935,700	2,803,369	132,331
Facilities acquisition, construction and improvement services				
	40,000	35,000	5,029	29,971
Debt service				
	615,000	550,000	550,000	-
Total expenditures	132,077,336	132,671,971	132,031,434	640,537
<b>Excess of Revenues Over Expenditures Before Other Financing Uses</b>				
	18,152,445	17,962,257	21,128,338	3,166,081
<b>Other Financing Uses</b>				
Budgetary reserve	(1,036,930)	(601,996)	-	601,996
Refund of prior year receipts	-	(75,000)	(65,408)	9,592
Transfer out	(19,007,983)	(19,177,729)	(23,015,588)	(3,837,859)
Total other financing uses	(20,044,913)	(19,854,725)	(23,080,996)	(3,226,271)
<b>Changes in Fund Balance</b>	<b>\$ (1,892,468)</b>	<b>\$ (1,892,468)</b>	<b>(1,952,658)</b>	<b>\$ (60,190)</b>
<b>Fund Balance, Beginning</b>			19,855,028	
<b>Fund Balance, Ending</b>			<b>\$ 17,902,370</b>	

See notes to financial statements

**State College Area School District**

## Statement of Net Deficit - Proprietary Funds

June 30, 2018

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,758	\$ -
Due from other funds	42,184	118,665
Due from other governments	126,263	-
Other receivables	25,787	-
Inventories	51,566	17,475
Total current assets	<u>255,558</u>	<u>136,140</u>
<b>Noncurrent Assets</b>		
Equipment	1,071,135	295,882
Accumulated depreciation	<u>(943,834)</u>	<u>(288,307)</u>
Total noncurrent assets	<u>127,301</u>	<u>7,575</u>
<b>Deferred Outflows of Resources</b>		
OPEB	23,449	2,731
Pension	<u>835,731</u>	<u>108,291</u>
Total deferred outflows of resources	<u>859,180</u>	<u>111,022</u>
Total	<u>\$ 1,242,039</u>	<u>\$ 254,737</u>
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,649	\$ 868
Accrued salaries and benefits	5,200	-
Other liabilities	111,787	-
Unearned revenue	<u>25,619</u>	<u>-</u>
Total current liabilities	<u>148,255</u>	<u>868</u>
<b>Noncurrent Liabilities</b>		
Net pension liability	4,753,171	615,898
Net OPEB liability	325,984	38,399
Compensated absences	<u>43,689</u>	<u>14,380</u>
Total noncurrent liabilities	<u>5,122,844</u>	<u>668,677</u>
Total liabilities	<u>5,271,099</u>	<u>669,545</u>
<b>Deferred Inflows of Resources</b>		
OPEB	9,121	1,182
Pension	<u>33,865</u>	<u>4,388</u>
Total deferred inflows of resources	<u>42,986</u>	<u>5,570</u>
<b>Net Deficit</b>		
Net investment in capital assets	127,301	7,575
Unrestricted deficit	<u>(4,199,347)</u>	<u>(427,953)</u>
Total net deficit	<u>(4,072,046)</u>	<u>(420,378)</u>
Total	<u>\$ 1,242,039</u>	<u>\$ 254,737</u>

See notes to financial statements

**State College Area School District****Statement of Revenues, Expenses and Changes in Net Deficit - Proprietary Funds**  
Year Ended June 30, 2018

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Operating Revenues</b>		
Food service revenue	\$ 2,566,886	\$ -
Charges for services	-	560,379
Total operating revenues	<u>2,566,886</u>	<u>560,379</u>
<b>Operating Expenses</b>		
Salaries and employee benefits	2,391,199	319,636
Food, milk and supplies	1,683,608	93,045
Depreciation	25,572	1,683
Other purchased services	13,558	545
Purchased property services	17,041	175,342
Other objects	1,044	1,639
Professional and technical services	7,393	5,818
Total operating expenses	<u>4,139,415</u>	<u>597,708</u>
Operating loss	<u>(1,572,529)</u>	<u>(37,329)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Loss on disposal of equipment	(29,527)	-
State sources	368,293	-
Federal sources	1,041,213	-
Total nonoperating revenues	<u>1,379,979</u>	<u>-</u>
Changes in net deficit	<u>(192,550)</u>	<u>(37,329)</u>
<b>Net Deficit, Beginning</b>		
As previously reported	(3,564,277)	(345,473)
Effect of adoption of GASB No. 75	(315,219)	(37,576)
As restated	<u>(3,879,496)</u>	<u>(383,049)</u>
<b>Net Deficit, Ending</b>	<u><u>\$ (4,072,046)</u></u>	<u><u>\$ (420,378)</u></u>

*See notes to financial statements*

**State College Area School District**

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2018

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,515,180	\$ 577,091
Cash paid to employees	(2,281,918)	(299,529)
Cash paid to vendors	(1,710,275)	(277,562)
	<u>(1,477,013)</u>	<u>-</u>
Net cash used in operating activities		
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of equipment	211	-
Purchase of equipment	(25,370)	-
	<u>(25,159)</u>	<u>-</u>
Net cash used in investing activities		
<b>Cash Flows from Noncapital Financing Activities</b>		
State sources	369,097	-
Federal sources	1,129,054	-
	<u>1,498,151</u>	<u>-</u>
Net cash provided by noncapital financing activities		
Decrease in cash and cash equivalents	(4,021)	-
<b>Cash and Cash Equivalents, Beginning</b>	<u>13,779</u>	<u>-</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 9,758</u>	<u>\$ -</u>
<b>Reconciliation of Operating Loss to Net Cash used in Operating Activities</b>		
Operating loss	\$ (1,572,529)	\$ (37,329)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	25,572	1,683
Pension changes	124,774	19,810
OPEB changes	(3,563)	(726)
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	11,280	1,550
Other receivables	15,280	-
Due to/from other funds	(64,334)	16,714
Accounts payable	1,089	(2,724)
Accrued salaries and benefits	(1,018)	1,022
Other liabilities	(2,652)	-
Compensated absences	(10,912)	-
	<u>(1,477,013)</u>	<u>-</u>
<b>Net Cash Used in Operating Activities</b>		
<b>Noncash Investing and Noncapital Financing Activities</b>		
Loss on disposal of equipment	<u>\$ (29,527)</u>	<u>\$ -</u>

See notes to financial statements

# State College Area School District

## Statement of Net Position - Fiduciary Fund - Agency

June 30, 2018

### Assets

#### Current Assets

Cash	\$ 538,542
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### Liabilities

#### Current Liabilities

Due to other funds	\$ 44,837
Accounts payable	15,889
Other current liabilities	477,816

Total	\$ 538,542
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# State College Area School District

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Notes to Financial Statements

June 30, 2018

## 1. Nature of Operations and Summary of Significant Accounting Policies

The financial statements of the State College Area School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to local government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

### Nature of Operations

The District is a class 2 school district that provides education from kindergarten through the twelfth grade in State College, Pennsylvania. The District operates with an elected nine-member Board of Education that is responsible for the District's activities. The financial statements include all of the District's operations controlled by the Board.

The District is comprised of the Townships of Ferguson, Patton, Halfmoon, College and Harris and the Borough of State College.

### Reporting Entity

The reporting entity has been defined in accordance with the criteria established in GASB Statement No. 14 as amended by GASB Nos. 39, 61 and 80. The specific criteria used in determining whether other organizations should be included in the District's financial reporting entity are financial accountability, fiscal dependency and legal separation.

As defined above, there are no other related organizations that should be included in the District's financial statements, nor is the District considered to be a component unit of any other government.

### Basic Financial Statements - Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's General, Capital Reserve, Capital Projects and Debt Service Fund are classified as governmental activities. The District's Food Service Fund is classified as a business-type activity.

In the government-wide Statement of Net Deficit, both the governmental activities and business-type activity columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources, as well as long-term debt and obligations and deferred inflows of resources. The District's net position is reported in three parts-net investment in capital assets; restricted net position; and unrestricted net position (deficit). The District first utilizes restricted resources to finance qualifying activities.

# State College Area School District

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Notes to Financial Statements

June 30, 2018

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activity. The functions/programs are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function/program, or business-type activity) are normally covered by general revenue.

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

## **Basic Financial Statements - Fund Financial Statements**

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

### **Governmental Funds**

The focus of the governmental funds measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the District:

#### **General Fund**

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property, per capita and occupation taxes, and state and federal appropriations. Many of the more significant activities of the District, including instruction, administration of the District, and certain noninstructional services (including athletics) are accounted for in this fund. The General Fund is reported as a major fund.

#### **Capital Reserve Fund**

The Capital Reserve Fund accounts for transfers from the General Fund that are to be used to fund future capital projects or debt service. The Capital Reserve Fund is a major fund.



# State College Area School District

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Notes to Financial Statements

June 30, 2018

## Capital Projects Fund

The Capital Project Fund accounts for the financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets and debt service payments. The Capital Projects Fund is a major fund.

## Debt Service Fund

The Debt Service Fund accounts for resources that are restricted, committed or assigned to expenditure for principal and interest on outstanding general long-term debt obligations. The Debt Service Fund is a non-major fund.

## Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The applicable accounting principles generally accepted in the United States of America are those similar to businesses in the private sector.

## Food Service Fund

The Food Service Fund accounts for all revenues and expenditures pertaining to cafeteria operations since such operations are financed and operated in a manner similar to private business enterprises. It is the intent of the government body that the cost of providing such goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans. Cash shortfalls were funded through a transfer from the General Fund in the current year.

## Internal Service Fund

This fund accounts for the revenues and expenses associated with providing printing services by the District's printing services department to schools and other departments of the District on a cost reimbursement basis. As the internal service fund primarily serves the needs of the District, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses are included in the governmental funds in the government-wide statements.

## Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or funds. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

## Activity Fund

The Activity Fund accounts for the monies authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. Activity funds are Agency Funds but are separated from other Agency Funds because of legal requirements.

# State College Area School District

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Notes to Financial Statements

June 30, 2018

## Measurement Focus

### Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the district are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the District's total net position.

### Fund Financial Statements

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

## Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

### Accrual Basis

Both governmental activities and business-type activity in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Inventories are valued on a first-in, first-out basis.

### Modified Accrual Basis

The governmental funds' financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

# State College Area School District

Notes to Financial Statements

June 30, 2018

## Budgets and Budgetary Accounting

The District adopts an annual budget for the General Fund in accordance with law.

The budget is maintained on a modified accrual basis by fund, function and object, with expenditures controlled by line item. Appropriations lapse at the end of each year and must be reappropriated.

The School Board approves budget transfers between departments within District funds. Budgeted amounts are reported as most recently adopted by the School Board.

## Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20 - 50
Equipment and other capital assets	5 - 20

The District does not have any infrastructure capital assets.

## Inventories

Inventories consist of books and supplies held by the District and used for a period of more than one year. Inventories are recorded at original cost less an allowance for wear and tear. The estimated useful life of inventories is five years.

## Compensated Absences

The District accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

# State College Area School District

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Notes to Financial Statements

June 30, 2018

## Governmental Fund Balances

The District classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the School Board which do not lapse at year-end
  - The School Board of the District is its highest level of decision-making authority, and
  - The School Board commits funds through a formal board motion.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District, but not through a formal action of the School Board
  - The School Board of the District authorized the District Business Administrator to assign funds to specific purposes, and
  - The School Board passed a board motion authorizing assignments for activities as contemplated by the Board.
- *Unassigned* - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

## Restricted Net Position/Fund Balances

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed, assigned, and then unassigned fund balances.

## Deferred Outflows/Inflows of Resources

In addition to assets, the District reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

# State College Area School District

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Notes to Financial Statements

June 30, 2018

## **Pension**

The District provides eligible employees with retirement benefits through PSERS, a governmental cost-sharing multiple-employer defined benefit pension plan. PSERS was established as of July 18, 1917, under the provisions of Public Law 1043, No. 343.

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

## **Other Postemployment Benefits**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of PSERS and the State College Area School District Postemployment Benefits Plan (the "State College OPEB Plan") and additions to/deductions from PSERS and the State College OPEB plans' fiduciary net position have been determined on the same basis as they are reported by PSERS and the State College OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **Use of Estimates**

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

## **Adoption of New Accounting Standards**

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which replaces the requirements of GASB Statement No. 45, for the year ended June 30, 2018. Statement No. 75 establishes that governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. Additionally, Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures, including a sensitivity analysis of the discount rate and a healthcare cost trend rate assumptions used for the valuation, and required supplementary information about their OPEB liabilities. The effect of this adoption decreased the District's governmental activities net position at July 1, 2017 by \$11,998,343, decreased the District's business-type activities by \$315,219 and expanded note disclosures and required supplementary information.

# State College Area School District

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## Notes to Financial Statements

June 30, 2018

The District adopted GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* for the year ended June 30, 2018. Statement No. 82 addresses certain issues that have been raised with respect to Statement No. 67, Statement No. 68, and Statement No. 73. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard did not have any impact on the District's financial statements.

The District adopted GASB Statement No. 85, *Omnibus 2017* for the year ended June 30, 2018. GASB 85 enhances consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of this standard did not have a significant impact on the District's financial statements.

The District adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. The adoption of this standard did not have any impact on the District's financial statements.

## 2. Cash and Cash Equivalents

The District's cash and cash equivalents and restricted cash include deposits with local institutions, and the Pennsylvania School District Liquid Asset Fund ("PSDLAF").

### Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. Custodial credit risk is addressed in the District's policy number 608, Bank Accounts. At June 30, 2018, \$144,426,717 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance, but rather were collateralized with securities held by the pledging financial institution, but not in the District's name.

### Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Such assets are not considered deposits pursuant to GASB Nos. 3 and 40, and as such are not subject to custodial credit risk. At June 30, 2018, the carrying amount and bank balances of the District's investment in PSDLAF were \$19,546,491. Due to the short-term nature and liquidity of the investments held within the pool, the fair value of the underlying investments approximates amortized cost.

# State College Area School District

## Notes to Financial Statements

June 30, 2018

### 3. Property Taxes

Property taxes are levied on July 1. Taxes were collected at a 2% discount until September 1, at their face amount from September 2 until November 1, and include a 10% penalty thereafter. The tax rolls are maintained by Centre County, Pennsylvania, and are collected by elected tax collectors. Centre County also collects delinquent real estate taxes for the District.

### 4. Interfund Receivables, Payables and Transfers

At June 30, 2018, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 574,449
Capital Reserve Fund	7,967,882
Food Service Fund	42,184
Internal Service Fund	118,665
Total	<u>\$ 8,703,180</u>

Amounts due to other funds:

General Fund	\$ 8,109,400
Capital Projects Fund	548,943
Food Service Fund	-
Agency Fund	44,837
Total	<u>\$ 8,703,180</u>

Interfund balances primarily arise between the General Fund and other funds due to operating expenses paid out of the General Fund and reimbursed by the applicable fund on a monthly basis. The District determines the amount available to transfer to the Capital Reserve Fund at the end of each fiscal year from the General Fund.

The composition of interfund transfers, used to move cash between funds at June 30, 2018 is as follows:

Transfers in:

Capital Reserve Fund	\$ 7,963,299
Capital Projects Fund	2,308,514
Debt Service Fund	12,743,775
Total	<u>\$ 23,015,588</u>

Transfers out,

General Fund	<u>\$ 23,015,588</u>
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The General Fund transferred \$7,963,299 to the Capital Reserve Fund to provide funding for planned major capital projects. The General Fund also transferred \$2,308,514 to the Capital Projects Fund to cover current year building projects and \$12,743,775 to the Debt Service Fund to cover required debt service payments.

## State College Area School District

### Notes to Financial Statements

June 30, 2018

#### 5. Due from Other Governments

The amount reported in the funds at June 30, 2018 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 504,070	\$ 5,285,015	\$ 738,794	\$ 6,527,879
Food Service Fund	34,299	91,964	-	126,263
Total	<u>\$ 538,369</u>	<u>\$ 5,376,979</u>	<u>\$ 738,794</u>	<u>\$ 6,654,142</u>

Amounts due from the federal and state government are primarily federal grants and state subsidies receivable from the Commonwealth of Pennsylvania, Department of Education at June 30, 2018. The amount due from local governments represents receivables earned by the District for special education, but not yet remitted to the District as of June 30, 2018.

#### 6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2018 follows:

Delinquent real estate taxes receivable	\$ 1,181,539
Earned income taxes receivable	980,563
Real estate transfer tax receivable	417,016
Interim real estate tax	15,010
Local service	<u>9,849</u>
Total	2,603,977
Estimated uncollectible taxes at June 30, 2018	<u>289,954</u>
Total	<u>\$ 2,314,023</u>



# State College Area School District

## Notes to Financial Statements

June 30, 2018

### 7. Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Increases	Transfers/ Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,140,457	\$ -	\$ -	\$ 1,140,457
Construction in progress	75,514,601	58,097,469	(76,454,068)	57,158,002
Total capital assets, not being depreciated	76,655,058	58,097,469	(76,454,068)	58,298,459
Capital assets being depreciated:				
Buildings and improvements	125,156,603	144,868	62,824,295	188,125,766
Equipment and other capital assets	43,553,112	1,512,026	1,751,619	46,816,757
Equipment-internal service	295,882	-	-	295,882
Total capital assets, being depreciated	169,005,597	1,656,894	64,575,914	235,238,405
Accumulated depreciation for:				
Buildings and improvements	(50,518,991)	(4,005,991)	8,136,790	(46,388,192)
Equipment and other capital assets	(36,161,061)	(1,545,682)	180,525	(37,526,218)
Equipment, internal service	(286,623)	(1,684)	-	(288,307)
Total accumulated depreciation	(86,966,675)	(5,553,357)	8,317,315	(84,202,717)
Total capital assets being depreciated, net	82,038,922	(3,896,463)	72,893,229	151,035,688
Governmental activities capital assets, net	\$ 158,693,980	\$ 54,201,006	\$ (3,560,839)	\$ 209,334,147
Business-type activity:				
Capital assets being depreciated, Equipment and other capital assets	\$ 1,105,751	\$ 25,370	\$ (59,986)	\$ 1,071,135
Accumulated depreciation, Equipment and other capital assets	(948,510)	(25,572)	30,248	(943,834)
Business-type activity capital assets, net	\$ 157,241	\$ (202)	\$ (29,738)	\$ 127,301

# State College Area School District

## Notes to Financial Statements

June 30, 2018

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

Government activities:	
Unallocated	\$ 374,410
Instruction	1,114,227
Instructional support services	5,664
Administrative and financial support services	6,600
Operation and maintenance of plant services	<u>4,052,456</u>
 Total depreciation expenses for governmental activities	 <u>\$ 5,553,357</u>
 Business-type activities, Food service	 <u>\$ 25,572</u>

### 8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$11,749,727 represent salaries of \$8,337,870, the District's share of Social Security taxes of \$637,847 for employees' services during the 2017-2018 school term, which are paid during July and August 2018, and retirement plan expense of \$2,715,645 applicable to the accrued salaries at June 30, 2018, and accrued workers' compensation of \$58,365.

### 9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amounts due within one year
Bond Series - 2012	\$ 13,230,000	\$ -	\$ 905,000	\$ 12,325,000	\$ 930,000
Bond Series - 2013	2,970,000	-	740,000	2,230,000	760,000
Bond Series - 2014A	1,990,000	-	490,000	1,500,000	500,000
Bond Series - 2014B	5,730,000	-	-	5,730,000	-
Bond Series - 2015	73,335,000	-	1,840,000	71,495,000	1,910,000
Bond Series - 2015B	20,525,000	-	1,270,000	19,255,000	1,325,000
Bond Series - 2017	-	43,840,000	1,105,000	42,735,000	975,000
Bond Series - 2018	-	51,285,000	-	51,285,000	935,000
 Total bonds payable	 117,780,000	 95,125,000	 6,350,000	 206,555,000	 <u>\$ 7,335,000</u>
 Bond premium	 <u>11,779,553</u>	 <u>8,103,164</u>	 <u>1,057,496</u>	 <u>18,825,221</u>	
 Total long-term debt	 <u>\$ 129,559,553</u>	 <u>\$ 103,228,164</u>	 <u>\$ 7,407,496</u>	 <u>\$ 225,380,221</u>	

# State College Area School District

## Notes to Financial Statements

June 30, 2018

Long-term debt at June 30, 2018 consists of the following:

\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	\$ 12,325,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	2,230,000
\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	1,500,000
\$5,730,000 General Obligation Bonds, Series B of 2014, due in varying annual installments beginning March 2021 through March 2028, interest rates of 2% to 2.5%	5,730,000
\$75,120,000 General Obligation Bonds, Series of 2015, due in varying annual installments beginning March 2017 through March 2040, interest rates of 3% to 5%	71,495,000
\$21,590,000 General Obligation Bonds, Series B of 2015, due in varying annual installments beginning May 2016 through May 2028, interest rates of 3% to 5%	19,255,000
\$43,840,000 General Obligation Bonds, Series of 2017, due in varying annual installments beginning May 2018 through May 2037, interest rates of 3% to 5%	42,735,000
\$51,285,000 General Obligation Bonds, Series of 2018, due in varying annual installments beginning May 2019 through May 2044, interest rates of 3% to 5%	51,285,000
Unamortized bond premium	<u>18,825,221</u>
Total	225,380,221
Current portion	<u>7,335,000</u>
Long-term debt	<u><u>\$ 218,045,221</u></u>

# State College Area School District

## Notes to Financial Statements

June 30, 2018

Debt service requirements at June 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2019	\$ 7,335,000	\$ 8,976,978	\$ 16,311,978
2020	8,783,596	8,510,607	17,294,203
2021	9,148,596	8,187,251	17,335,847
2022	9,483,596	7,823,949	17,307,545
2023	9,733,596	7,499,000	17,232,596
2024 - 2028	52,806,000	31,165,032	83,971,032
2029 - 2033	41,752,874	21,871,176	63,624,050
2034 - 2038	46,201,287	14,432,824	60,634,111
2039 - 2043	36,762,133	4,941,686	41,703,819
2044	3,373,543	164,000	3,537,543
	<u>\$ 225,380,221</u>	<u>\$ 113,572,503</u>	<u>\$ 338,952,724</u>
Total			

### 10. Fund Balance Classifications

The District presents its governmental fund balances by level of constraint in the aggregate on its balance sheet - governmental funds. The individual specific purposes of each constraint are presented below:

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Non-spendable for, inventories	<u>\$ 1,801,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,801,683</u>
Restricted for, Capital projects	<u>\$ -</u>	<u>\$ 82,908</u>	<u>\$ 60,124,059</u>	<u>\$ 60,206,967</u>
Committed for:				
PSERS	\$ 3,847,987	\$ -	\$ -	\$ 3,847,987
Capital projects	<u>-</u>	<u>62,600,193</u>	<u>-</u>	<u>62,600,193</u>
Total	<u>\$ 3,847,987</u>	<u>\$ 62,600,193</u>	<u>\$ -</u>	<u>\$ 66,448,180</u>

### 11. Construction Commitments

The District had several active construction projects as of June 30, 2018. Outstanding construction commitments on these projects amounted to approximately \$70,359,000 at June 30, 2018.

## 12. Retirement Plan

### Plan Description

The Public School Employees' Retirement System ("PSERS") is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

### Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 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 3 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 on membership class, of the member's final average salary (as defined in the Code) multiplied times the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For class T-E and Class T-F members, the right to benefits is vested after 10 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 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.

# State College Area School District

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## Notes to Financial Statements

June 30, 2018

### Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

### Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% 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. Contributions to PSERS from the District were \$20,220,445 for the year ended June 30, 2018.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the District reported a liability of \$236,077,000 for its proportionate share of the PSERS net pension liability. The PSERS 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 the PSERS total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was .4780%, which was an increase of .006% from its proportion measured as of June 30, 2017.

# State College Area School District

## Notes to Financial Statements

June 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$26,325,000. At June 30, 2018, the 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	\$ 2,464,000	\$ 1,426,000
Changes in assumptions	6,413,000	-
Net difference between projected and actual earnings on pension plan investments	5,470,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	6,941,000	256,000
District contributions subsequent to the measurement date	<u>20,220,445</u>	<u>-</u>
Total	<u>\$ 41,508,445</u>	<u>\$ 1,682,000</u>

\$20,220,445 reported as deferred outflows of resources, related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended 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:

Years ending June 30:	
2019	\$ 4,995,000
2020	8,566,000
2021	6,263,000
2022	<u>(218,000)</u>
Total	<u>\$ 19,606,000</u>

### Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the District's 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 growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for 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

## State College Area School District

### Notes to Financial Statements

June 30, 2018

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	.6
Financing (LIBOR)	(20.0)	1.1
	<u>100.00 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

#### 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 contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



# State College Area School District

Notes to Financial Statements

June 30, 2018

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
District's proportionate share of the net pension liability	\$ 290,590,000	\$ 236,077,000	\$ 190,052,000

## Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.pa.gov](http://www.psers.pa.gov).

## 13. Defined Contribution Plan

The District provides a 403(b) defined contribution plan for its employees, administered by the District. The plan is defined within the teachers' contract (State College Area Education Association); however, all employees are eligible to participate. With the exception of retiring teachers and certain contracted employees, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2018, total contributions (including retirement bonus and sick payouts) were \$1,224,690.

## 14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government and used by the District for fiscal year 2018 totaled \$251,846.

# State College Area School District

Notes to Financial Statements

June 30, 2018

## 15. Operating Leases

The District leased copiers for its schools, administrative offices, and print shop under operating leases expiring at various dates through June 2022.

Rent expense for 2018 was approximately \$152,000. Future minimum rental payments required under these operating leases are as follows for the years ended June 30:

2019	\$	152,484
2020		58,644
2021		58,644
2022		58,644
		<hr/>
Total	\$	<u>328,416</u>

## 16. Transactions with Other LEAs

The District is a member of Central Intermediate Unit 10. Through the membership, the District is able to secure various special services, including special education.

## 17. Postemployment Benefits Other Than Pensions (OPEB)

### State College Area School District Postemployment Benefits Plan

#### General Information about the OPEB Plan

##### Plan Description and Benefits Provided

The District's defined benefit OPEB plan provides postemployment benefits and health insurance benefits upon retirement with 30 years of PSERS service or age 60 with 30 years of service, age 62 with 1 year of service or 35 years of service regardless of age. Retired employees are allowed to continue coverage for themselves and their dependents in the group health care plan until the retired employee reaches Medicare age, generally 65. The minimum requirements of the State College OPEB Plan are established by Pennsylvania Act 110 of 1988 and Act 43 of 1989. The School Board could choose to improve upon the minimum requirements in the future. The State College OPEB Plan is unfunded and no financial report is prepared. The State College OPEB Plan is a single employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meet the criteria in paragraph 4 of Statement 75.

# State College Area School District

Notes to Financial Statements

June 30, 2018

## Employees Covered by Benefit Terms

At July 1, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	45
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>1,184</u>
Total	<u><u>1,229</u></u>

## Total OPEB Liability

The District's total OPEB liability as of June 30, 2018 was \$4,912,995, which was measured as of July 1, 2016, and was determined by an actuarial valuation as of that date.

## Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Interest rate	3.13%
Salary increases	2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%
Discount rate	3.13%
Healthcare cost trend rates	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 Model
Retirees' share of benefit-related costs	Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate. However, the first year trend assumption was adjusted to account for short-term rate caps

The discount rate was based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017.

For mortality rates, separate 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 generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period May 2017.

# State College Area School District

Notes to Financial Statements

June 30, 2018

## Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2017	\$ 4,401,748
Changes for the year:	
Service cost	333,833
Interest	115,773
Changes in assumptions or other inputs	220,514
Benefit payments	<u>(158,873)</u>
Net changes	<u>511,247</u>
Balance at June 30, 2018	<u>\$ 4,912,995</u>

Changes in assumptions or other inputs reflect a change in the discount rate from 2.49% in 2016 to 3.13% in 2017.

## Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13%) or 1-percentage-point higher (4.13%) than the current discount rate:

	<u>1% Decrease (2.13%)</u>	<u>Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
Total OPEB Liability	\$ 5,289,535	\$ 4,912,995	\$ 4,558,416

## Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 4,306,875	\$ 4,912,995	\$ 5,638,160

## State College Area School District

Notes to Financial Statements

June 30, 2018

### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$467,982. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Benefit payments subsequent to the measurement date (July 1, 2017)	\$ 190,066	\$ -
Changes of assumptions or other inputs	<u>202,138</u>	<u>-</u>
Total	<u>\$ 392,204</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:	
2019	\$ 18,376
2020	18,376
2021	18,376
2022	18,376
2023	18,376
Thereafter	<u>110,258</u>
Total	<u>\$ 202,138</u>

### PSERS Health Insurance Premium Assistance Program

#### General Information about the PSERS Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program ("HOP"). As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

# State College Area School District

Notes to Financial Statements

June 30, 2018

## Premium Assistance Eligibility Criteria

Retirees of PSERS can participate in the Premium Assistance program 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 HOP or employer-sponsored health insurance program.

## Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% 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. Contributions to PSERS from the District were \$528,764 for the year ended June 30, 2018.

## OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$9,741,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was .4780%, which was an increase of .006% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expense of \$435,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 453,000
Net differences between projected and actual investment earnings	10,000	-
District contributions subsequent to the measurement date	528,764	-
Changes in proportion	111,000	-
	<u>\$ 649,764</u>	<u>\$ 453,000</u>

# State College Area School District

## Notes to Financial Statements

June 30, 2018

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:	
2019	\$ (54,000)
2020	(54,000)
2021	(54,000)
2022	(54,000)
2023	(57,000)
Thereafter	<u>(59,000)</u>
Total	<u>\$ (332,000)</u>

### Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2016 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 - 3.13% - S&P 20 Year Municipal Bond Rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for 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%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method: Market Value
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits).

## State College Area School District

### Notes to Financial Statements

June 30, 2018

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 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. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4 %	0.6 %
Fixed income	23.6 %	1.5 %
	100.0 %	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

#### Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of 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 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.



## State College Area School District

Notes to Financial Statements

June 30, 2018

### Sensitivity of PSERS Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends 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 Healthcare Cost Trends as depicted below.

The following presents PSERS' net OPEB liability for June 30, 2017 calculated using current Healthcare cost trends as well as what PSERS' net OPEB liability would be if its health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Healthcare Trends Cost</u>	<u>1% Increase</u>
PSERS Net OPEB Liability	\$ 9,736,000	\$ 9,741,000	\$ 9,743,000

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	<u>1% Decrease 2.13%</u>	<u>Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
District's proportionate share of the net OPEB liability	\$ 11,070,000	\$ 9,741,000	\$ 8,633,000

### OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.pa.gov](http://www.psers.pa.gov).

## State College Area School District

Notes to Financial Statements

June 30, 2018

### 18. Effect of Adoption of GASB Statement No. 75

The District adopted GASB Statement No. 75 for its fiscal year ended June 30, 2018 which requires that the effects be applied to the earliest period presented. The changes within the District's June 30, 2018 governmental and business-type activities net deficit are as follows:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Net deficit, as previously reported, at July 1, 2017	\$ (75,479,221)	\$ (3,564,277)	\$ (79,043,498)
Effect of adoption of GASB No. 75	<u>(11,998,343)</u>	<u>(315,219)</u>	<u>(12,313,562)</u>
Restated net deficit at July 1, 2017	<u>\$ (87,477,564)</u>	<u>\$ (3,879,496)</u>	<u>\$ (91,357,060)</u>

### 19. Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The District is required to adopt Statement No. 84 for its 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. Statement No. 87 improves recognition of certain lease assets and liabilities for leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. To the extent applicable, the District is required to adopt Statement No. 87 for its 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District required to adopt Statement No. 88 for its 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The District is required to adopt Statement No. 89 for its 2021 financial statements.

District management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

**State College Area School District**Schedule of the District's Proportionate Share of the Net Pension Liability (Unaudited)  
Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.4780%	0.4720%	0.4547%	0.4533%	0.4561%
District's proportionate share of the net pension liability	\$ 236,077,000	\$ 233,948,000	\$ 197,020,000	\$ 179,419,000	\$ 186,710,000
District's covered-employee payroll	63,641,184	61,126,703	58,505,811	57,843,267	58,535,370
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371.0%	382.7%	336.8%	310.2%	319.0%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Data is not available for years prior to June 30, 2014

Note: Covered-employee payroll above represents the amount for the year coinciding with the measurement date

**State College Area School District**

Schedule of District's Pension Contributions (Unaudited)

Year Ended June 30, 2018

	Last 10 Fiscal Years									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 20,220,445	\$ 17,424,223	\$ 14,234,693	\$ 12,097,807	\$ 9,336,223	\$ 6,738,537	\$ 4,386,801	\$ 2,936,351	\$ 2,414,074	\$ 2,135,725
Contributions in relation to the contractually required contribution	<u>(20,220,445)</u>	<u>(17,424,223)</u>	<u>(14,234,693)</u>	<u>(12,097,807)</u>	<u>(9,336,223)</u>	<u>(6,738,537)</u>	<u>(4,386,801)</u>	<u>(2,936,351)</u>	<u>(2,414,074)</u>	<u>(2,135,725)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 66,167,204	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626
Contributions as a percentage of covered-employee payroll	30.56%	27.35%	23.28%	20.68%	16.14%	11.53%	7.61%	4.89%	4.09%	3.79%

## State College Area School District

### Schedule of the District's Proportionate Share of the OPEB Liability (Unaudited)

Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.4780%	0.4720%
District's proportionate share of the net OPEB liability	\$ 9,741,000	\$ 10,167,000
District's covered-employee payroll	63,641,184	61,126,703
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.3%	16.6%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%

Note: Data is not available for years prior to June 30, 2017

Note: Covered-employee payroll above represents the amount for the year coinciding with the measurement date

**State College Area School District**

Schedule of District's OPEB Contributions (Unaudited)

Year Ended June 30, 2018

	Last 10 Fiscal Years									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 528,764	\$ 538,893	\$ 440,248	\$ 504,075	\$ 491,380	\$ 507,202	\$ 381,461	\$ 601,421	\$ 459,824	\$ 406,805
Contributions in relation to the contractually required contribution	<u>(528,764)</u>	<u>(538,893)</u>	<u>(440,248)</u>	<u>(504,075)</u>	<u>(491,380)</u>	<u>(507,202)</u>	<u>(381,461)</u>	<u>(601,421)</u>	<u>(459,824)</u>	<u>(406,805)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 66,167,204	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626
Contributions as a percentage of covered-employee payroll	0.80%	0.85%	0.72%	0.86%	0.85%	0.87%	0.66%	1.00%	0.78%	0.72%

## State College Area School District

Required Supplementary Information  
Schedule of Changes in Total OPEB Liability and Related Ratios  
Year Ended June 30, 2018  
(Unaudited)

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 333,833
Interest cost	115,773
Changes of assumptions	220,514
Benefit payments, including refunds of member contributions	<u>(158,873)</u>
Net change in total OPEB liability	511,247
<b>Total OPEB Liability, Beginning</b>	<u>4,401,748</u>
<b>Total OPEB Liability, Ending</b>	<u>\$ 4,912,995</u>
<b>Covered-employee Payroll</b>	<u>\$ 59,749,056</u>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<u>8.22%</u>

The District implemented GASB Statement No. 75 during its year ended June 30, 2018. Information prior to 2018 year is not available.

### Notes:

#### Changes of Assumptions

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.

#### Changes in Benefit Terms

Each year's loss (or gain) is recognized over a closed period, using the average of the expected remaining service lives of all active and inactive employees that are currently receiving a benefit or may be eligible to receive a benefit in the future.

These figures are based on estimated benefit payments. These amounts may be adjusted for actual benefit payments made during the year.

# State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund  
Year Ended June 30, 2018

## Revenues

### Local sources:

#### Current taxation:

Real estate	\$ 98,229,940
Earned income tax	17,870,618
Local service tax	385,740
Real estate transfers	2,465,823
Payments in lieu of taxes	648,561
Public utility realty tax	114,543

Total current taxation 119,715,225

Delinquent taxation 1,077,653

Total from taxation 120,792,878

Earnings from temporary investments and deposits 648,206

Receipts from other LEA's 82,264

Tuition 1,296,494

IDEA 742,380

Miscellaneous revenue 653,257

Total local sources 124,215,479

### State sources:

Basic instructional subsidy 7,724,156

Private placement tuition 89,912

Vocational education 87,619

Special education 3,302,372

Transportation 905,320

Rental and sinking fund payments 321,430

Medical and dental services 141,930

Property tax reduction 1,424,050

Social Security subsidy 2,429,926

Retirement subsidy 10,604,553

Other state grants 319,985

Total state sources 27,351,253

### Federal sources:

Title I 768,721

Title II A 216,347

Title II C 68,524

Title III 59,323

Title IV 9,412

Medical Assistance 2,713

ACCESS 468,000

Total federal sources 1,593,040

Total revenues 153,159,772



## State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund  
Year Ended June 30, 2018

### Expenditures

Instruction:	
Regular programs	\$ 61,576,242
Special programs	18,196,121
Vocational education programs	3,651,579
Other instructional programs	2,109,229
Adult education programs	8,653
Nonpublic school programs	14,811
	<hr/>
Total instruction	85,556,635
	<hr/>
Support services:	
Pupil personnel	5,080,463
Instructional staff	5,158,111
Administration	7,737,119
Pupil health	1,529,259
Business	1,417,944
Operation and maintenance of plant services	9,935,707
Student transportation services	6,399,828
Central	5,857,970
	<hr/>
Total support services	43,116,401
	<hr/>
Noninstructional services:	
Student activities	2,716,371
Community services	86,998
	<hr/>
Total noninstructional services	2,803,369
	<hr/>
Facilities acquisition, construction and improvement services	5,029
	<hr/>
Debt service	550,000
	<hr/>
Total expenditures	132,031,434
	<hr/>
Excess of revenues over expenditures before other before other financing uses	21,128,338
	<hr/>
<b>Other Financing Uses</b>	
Refund of prior year receipts	(65,408)
Transfer out	(23,015,588)
	<hr/>
Total other financing uses	(23,080,996)
	<hr/>
Change in fund balance	(1,952,658)
	<hr/>
<b>Fund Balance, Beginning</b>	19,855,028
	<hr/>
<b>Fund Balance, Ending</b>	\$ 17,902,370
	<hr/>

**State College Area School District**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Passed Through Grantor's Number	Grant Period Code	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2018	Expenditures to Subrecipients
<b>U.S. Department of Education</b>											
Passed through the PA Department of Education:											
Title I, Part A:											
Title I	I	84.010	013-180418	C	\$ 765,537	\$ 565,293	\$ -	\$ 686,796	\$ 686,796	\$ 121,503	\$ -
Title I	I	84.010	013-170418	B	760,967	200,370	121,936	66,449	66,449	(11,985)	-
Title I	I	84.010	013-160418	A	758,570	-	(15,476)	15,476	15,476	-	-
Total Title I, Part A						765,663	106,460	768,721	768,721	109,518	-
Secondary Allocation	I	84.048	380-180095	C	68,524	62,295	-	68,524	68,524	6,229	-
Title III - Language	I	84.365	010-180418	C	53,860	25,135	-	25,952	25,952	817	-
Title III - Language	I	84.365	010-170418	B	97,220	64,813	31,442	33,371	33,371	-	-
Total Title III						89,948	31,442	59,323	59,323	817	-
Title II	I	84.367	020-180418	C	181,899	146,186	-	165,684	165,684	19,498	-
Title II	I	84.367	020-170418	B	183,673	60,809	10,146	50,663	50,663	-	-
Title II	I	84.367	020-160418	A	187,556	12,428	12,428	-	-	-	-
Total Title II						219,423	22,574	216,347	216,347	19,498	-
Title IV	I	84.424	144-180418	C	17,632	9,404	-	9,412	9,412	8	-
Total PA Department of Education						1,146,733	160,476	1,122,327	1,122,327	136,070	-
Passed through Central Intermediate Unit #10:											
Special Education Cluster (IDEA):											
Special Education - Grants to States	I	84.027	062-17-0-010	B	743,576	743,576	743,576	-	-	-	-
Special Education - Grants to States	I	84.027	062-18-0-010	C	738,794	-	-	738,794	738,794	738,794	-
Preschool/Early Intervention Funds (619)	I	84.173	131-18-0-010	C	3,586	3,586	-	3,586	3,586	-	-
Total Special Education Cluster (IDEA)						747,162	743,576	742,380	742,380	738,794	-
Total U.S. Department of Education						1,893,895	904,052	1,864,707	1,864,707	874,864	-
<b>U.S. Department of Health and Human Services, Medicaid Cluster</b>											
Passed through Pennsylvania Department of Public Welfare											
Administrative Claiming Quarterly Program	I	93.778	044-007418	C	5,499	5,499	2,786	2,713	2,713	-	-
<b>U.S. Department of Agriculture</b>											
<b>Child Nutrition Cluster:</b>											
Passed through PA Department of Education:											
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 5	625,183	-	653,786	653,786	28,603	-
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 5	111,294	111,294	-	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 5	127,180	-	132,876	132,876	5,696	-
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 5	22,443	22,443	-	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 5	2,706	-	2,706	2,706	-	-
National School Lunch Program	I (F)	10.559	264-0000	B	NOTE 5	1,084	1,084	-	-	-	-
Passed through the PA Department of Agriculture,											
National School Lunch Program	I	10.555	110-14-800-2	C	NOTE 5	239,164	(38,300)	251,846	251,846	(25,618)	-
Total Child Nutrition Cluster and Total U.S. Department of Agriculture						1,129,054	96,521	1,041,214	1,041,214	8,681	-
Total						\$ 3,028,448	\$ 1,003,359	\$ 2,908,634	\$ 2,908,634	\$ 883,545	\$ -

# **State College Area School District**

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

## **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the federal award activity of State College Area School District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a select portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

## **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

## **3. Access Reimbursements**

Access reimbursements for direct medical services are classified as fee-for-service revenues and are not considered federal awards. The General Fund federal revenues include \$468,000 of Access reimbursements for direct medical services.

## **4. Relationship to Federal Financial Reports**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

## **5. National School Lunch Program**

The program amount for the National School Lunch Program is based on a set per meal reimbursement rate.

## **State College Area School District**

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

### **6. Source Code and Grant Period Code**

Source codes used in the schedule of expenditures of federal awards are as follows:

I = Indirect funding  
F = Federal share

Grant period codes used in the schedule of expenditures of federal awards are as follows:

A = 07/01/15 - 06/30/16  
B = 07/01/16 - 06/30/17  
C = 07/01/17 - 06/30/18

### **7. Indirect Cost Rate**

The District has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance, even though it does not have a federally negotiated indirect cost rate.

**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
with *Government Auditing Standards***

Board of Education  
State College Area School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the State College Area School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2018. In our report, an emphasis of a matter paragraph was included, as more fully disclosed in Notes 1 and 18 to the financial statements, to address the District's adoption of a new accounting principle. Our opinion was not modified with respect to this matter.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Baker Tilly Virchow Krause, LLP*

State College, Pennsylvania  
November 12, 2018

**Independent Auditors' Report on Compliance  
for the Major Federal Program and Report  
on Internal Control Over Compliance  
Required by the Uniform Guidance**

Board of Education  
State College Area School District

**Report on Compliance for the Major Federal Program**

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

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

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

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

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

*Baker Tilly Virchow Krause, LLP*

State College, Pennsylvania  
November 12, 2018



# State College Area School District

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018

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## Section I - Summary of Auditors' Results

### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes     X  no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes     X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes     X  no

### Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? \_\_\_\_\_ yes     X  no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes     X  none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes     X  no

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  X  yes    \_\_\_\_\_ no

## **State College Area School District**

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Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018

### **Section II - Financial Statement Findings**

None.

### **Section III - Federal Award Findings and Questioned Costs**

None.

### **Section IV - Summary Schedule of Prior Year Audit Findings**

There were no findings related to the financial statement audit or major federal award programs noted in the June 30, 2017 Single Audit.