



Business Office
131 West Nittany Avenue
State College, PA 16801
814-231-1021

To: Robert J. O'Donnell
From: Randy L. Brown and Donna Watson
Date: October 5, 2016
Subject: Resolution - Transfer to Capital Reserve Fund and Food Service

The administration recommends that the board of directors approve the attached resolution, authorizing transfers from the general fund to the capital reserve fund and food service fund, and authorizing the PSERS committed fund balance. These recommendations are as presented at the September 26, 2016 board meeting. The information presented at this meeting are included as Attachments 1 and 2, for your reference.

The recommended transfer to the Capital Reserve Fund of \$11,770,000 will maintain an unrestricted general fund balance within the state required 8% of expenses. The budget resolution, approved by the Board at the June 8, 2015 meeting, authorized a transfer from the general fund to the capital reserve fund to close the 2015-16 year within the 8% limit. The recommended transfer is \$5.9 million higher than budget, as a result of better than budget 2015-16 financial results. This recommended additional transfer will fund capital project expenses, due to our significant capital funding needs.

The Food Service proposed transfer of \$127,655 is slightly below the \$130,000 budgeted transfer.

The ending PSERS committed fund balance of \$7,313,719 reflects utilization of approximately \$1.3 million in 2015-16 to fund a portion of the increase in PSERS expense.

NOW, THEREFORE, IT IS HEREBY RESOLVED:

That the Board of School Directors of the State College Area School District, Centre County, Pennsylvania hereby authorizes the transfer of \$11,770,000 from the General Fund to the Capital Reserve Fund to close the 2015-2016 school year in compliance with accounting requirements of the Commonwealth of Pennsylvania to include but not be limited to, bringing the unassigned general fund balance to within the 8% limitation, the transfer of \$127,655 to the food service fund to fund cash shortfalls, and the assigned fund balance for PSERS in the General Fund be set at the amount of \$7,313,719

ENACTED as a Resolution of the State College Area School District at a Regular Meeting of the Board of School Directors held on the 10th day of October 2016.

STATE COLLEGE AREA SCHOOL DISTRICT

By: _____
President

ATTEST:

Secretary

Attachment 1

September 26, 2016 Board Report

2015-2016 Financial Results



Business Office
131 West Nittany Avenue
State College, PA 16801
814-231-1021

VI-C1

To: Robert J. O'Donnell
From: Randy L. Brown and Donna Watson
Date: September 22, 2016
Subject: 2015-2016 Financial Results

The finance team is preparing to finalize the 2015-16 financials and move forward with steps to file the Annual Financial Report (AFR) with the state, and issue the audited financial statements. In preparation for the completion of this work, the results for the 2015-16 fiscal year are presented for review. From a financial perspective, the district ended on a positive note.

The results include revenues exceeding projections in a few key areas, with expenses lower than expected, in general. This led to fund balances in excess of the state maximum allowed, and therefore the total recommended transfer to capital reserve is \$3.0 million in excess of projected and \$5.9 million in excess of budget. The district's total budget was \$136 million for the 2015-16 fiscal year. The administration recommends transferring the additional \$5.9 million above the budget to the capital reserve fund for future capital project expenses, due to our significant capital funding need.

The variances between actual and projected revenue and expense are included in Attachment A. Variances between actual and budgeted revenue and expense are included in Attachment B. These schedules will provide an understanding of the financial results in preparation for the presentation of the proposed Management Discussion and Analysis (MD&A), which will accompany the audited financial statements. The MD&A will be presented for your review at the next board meeting. Attachment C includes a proposed resolution authorizing the total transfer to capital reserve, the ending balance in the PSERS fund balance and the transfer to food service for 2015-16.

Attachment A

2015-16 Revenue and Expense Compared to Projection

**State College Area School District
General Fund Financial Results for the Year Ended June 30, 2016
Compared to Projection**

Footnotes for Attached Financial Statements

Below are variance explanations related to fluctuations in revenue and expense compared to the projection prepared in May of 2016. These explanations are related to line item variances in the attached schedules.

Revenue:

Local Revenue

(1) **Current Real Estate Tax** – The \$96k variance is related to refunds in May resulting from adjustments to assessed values.

(2) **Earned Income Tax** - Actual growth in earned income tax for 2015-16 was 3.4%, compared to projected growth of 1.8% (\$256k variance). Growth has fluctuated significantly from year to year, with an average growth in the last five years, excluding 2012-13, of 2.7%. In 2012-13 all earned income tax collection moved to Centre Tax Agency. The significant increase in this year is partially due to improved timing of collections.

(3) **Transfer Tax** - Transfer tax in the last four months of 2015-16 was significantly in excess of these same months in prior years, resulting in total transfer tax of \$2.9 million (\$1.1 million in excess of projection). The projection of \$1.8 million was slightly above the \$1.7 average tax collection for the last five years.

(4) **Delinquent Real Estate Tax** – The \$158k variance compared to projection is related to the timing of cash collections.

(5) **Miscellaneous Local Revenue** – The \$94k variance in miscellaneous local revenue is primarily related to higher than projected rents, donations, and prior year insurance recoveries.

State Revenue

(6) **Social Security** – Revenue was \$220k less than projected related to an adjustment for the timing of revenue recognition compared to past years. Prior years included July receipts as current year revenue, which was not in line with the state payment schedule.

(7) **Transportation** – Revenue was \$134k greater than projected. In general, state reimbursement for transportation is based on operating efficiency. As efficiency increases (route condensing and students per bus), reimbursement increases. Actual revenue exceeded projection related to continued efficiencies.

(8) **Bond Reimbursement** – Revenue in 2015-16 reflects only amounts received for

payment of debt service at the end of 2014-15. State funding is not yet available to reimburse districts for 2015-16 debt service payments. The projection also includes \$200k related to high school debt service payments. The total shortfall compared to projection is \$355k.

Expense and Fund Balance Transfers

(9) **Salaries** – Actual salary expense is \$422k lower than the \$61 million of projected salaries (.7%). Professional salaries accounted for \$221k of this variance. This variance is primarily due to the impact of leave of absences, turnover and other changes impacting staffing costs. Other salary variances relate to vacant positions, turnover, and lower than projected temporary staff costs for non-professional positions.

(10) **Health Insurance** – Changes in membership and coverage levels can occur throughout the year due to employee turnover, resulting in lower total expense than projected. Actual health insurance expense is \$289k less than \$12.4 million total projected (2.3%).

(11) **PSERS** – The \$113k variance compared to projection is related to the variance in salaries.

(12) **Other Benefits** – Lower than projected \$196k. Tuition expense is \$31k less than projected and unemployment compensation is \$41k less than projected. Other salary related expenses, such as social security, are lower than projected related to lower than projected salary expense.

(13) **Professional Services** – Lower than projected by \$110k. Refund of commission for Earned Income Tax collection (\$86k) and lower than projected charge from the IU for Kindergarten eligible special education students (\$35k).

(14) **Purchased Property Services** – Lower than projected by \$143k. Lower than projected electricity (\$43k), lower IT Maintenance (\$50k) and other lower property related expense.

(15) **Other Purchased Services** – Higher than projected by \$323k. Actual charter school expense, based on final student count reconciliations, is \$200k (3.3%) higher than projected, offset by lower than projected other tuition of \$70,000. Wide area network expense is higher than projected, primarily related to projected receipt of approximately \$100k from the federal E-Rate program that was not received during 2015-16. Student transportation provided by the IU was also higher than projection. This amount is paid in June each year, and fluctuates based on the number of special education students transported.

(16) **Supplies/equipment** – Lower than projected by \$257k. Lower than anticipated

IT equipment related to vendor availability of items prior to June 30 (\$150k); Lower than projected natural gas expense related to rate reduction and south high school partial demolition (\$240k); other various supply costs lower than projected (\$106k); offset by the \$241k purchase of land that was not projected.

(17) **Athletics/transfers/contingencies** – Lower than projected by \$592k. The projection included \$490k of contingency, variances in refunds of prior year receipts (\$50k), scholarships (\$12k) and other expenses.

(18) **Transfer to Capital Reserve** – \$3.1 million higher than projected. The increase in this transfer is related to the total positive revenue and expense variance compared to projection, adjusted to maintain an unrestricted fund balance within the state required 8%.

(19) **Fund Balance Use (PSERS/Legal)** – The attached financial statements assume utilization of PSERS fund balance of \$1,258,281 and Legal Liability fund balance of \$550,000.

**State College Area School District
General Fund Activity
Actual vs. Projected 2015-2016**

	<u>Actual</u>	<u>Projected</u>	<u>Variance</u>	<u>% Increase (Decrease)</u>
Revenue	\$139,669,305	\$138,345,164	\$1,324,141	1.0%
Local	114,983,703	113,347,349	1,636,354	1.4%
State	23,174,708	23,564,594	(389,886)	-1.7%
Federal	1,510,894	1,433,220	77,674	5.4%
Expenses and Fund Balance Use	<u>138,833,619</u>	<u>137,608,951</u>	<u>1,224,668</u>	0.9%
Change in Unassigned General Fund Bal	<u>\$835,686</u>	<u>\$736,213</u>	<u>\$99,473</u>	13.5%

**State College Area School District
General Fund Revenue
Actual vs. Projected 2015-16**

	Actual	Projected	Variance	% Increase (Decrease)
LOCAL SERVICES TAX				
CURRENT REAL ESTATE TAX	\$86,100,645	\$86,197,004	(\$96,359)	-0.1% (1)
REAL ESTATE TAX-REFERENDUM DEBT	3,183,420	3,183,420	0	0.0%
EARNED INCOME TAX	16,756,613	16,500,000	256,613	1.6% (2)
REALTY TRANSFER TAX	2,923,942	1,800,000	1,123,942	62.4% (3)
DELINQUENT REAL ESTATE TAX	1,257,788	1,100,000	157,788	14.3% (4)
INTERIM REAL ESTATE TAX	617,178	560,000	57,178	10.2%
IDEA-B	738,020	750,000	(11,980)	-1.6%
PAYMENTS IN LIEU OF TAX	555,011	555,011	(0)	0.0%
LOCAL SERVICES TAX	377,122	370,000	7,122	1.9%
TUITION	1,229,523	1,215,223	14,300	1.2%
MISC LOCAL REVENUE	994,006	900,000	94,006	10.4% (5)
PUBLIC UTILITY REALTY TAX	116,691	116,691	0	0.0%
INTEREST ON INVESTMENTS	133,743	100,000	33,743	33.7%
TOTAL LOCAL	114,983,703	113,347,349	1,636,354	1.4%
STATE				
BASIC ED INSTR SUBSIDY	6,903,016	6,912,348	(9,332)	-0.1%
SPECIAL ED REVENUE-REGULR	3,255,597	3,255,571	26	0.0%
REV. FOR RETIREMENT	7,777,494	7,762,524	14,971	0.2%
REV. FOR SOCIAL SECURITY	2,077,074	2,297,740	(220,666)	-9.6% (6)
PROPERTY TAX REDUCTION	1,422,441	1,422,441	0	0.0%
TRANSPORTATION REVENUE	884,352	750,000	134,352	17.9% (7)
BOND REIMBURSEMENTS	120,931	476,918	(355,987)	-74.6% (8)
HEALTH SERVICES REVENUE	150,906	140,000	10,906	7.8%
READY TO LEARN GRANT	310,013	310,013	0	0.0%
VOCATIONAL EDUCATION	90,891	107,040	(16,149)	-15.1%
OTHER STATE REVENUE	12,064	0	12,064	100.0%
TUITION - 1305/1306	169,929	130,000	39,929	30.7%
TOTAL STATE	23,174,708	23,564,594	(389,887)	-1.7%
FEDERAL				
TITLE I REVENUE	807,776	755,480	52,296	6.9%
TITLE II REVENUE	175,465	187,970	(12,505)	-6.7%
ACCESS FUNDS	390,000	350,000	40,000	11.4%
OTHER FEDERAL REVENUE	78,498	60,000	18,498	30.8%
TITLE III REVENUE	59,156	79,770	(20,614)	-25.8%
TOTAL FEDERAL	1,510,894	1,433,220	77,674	5.4%
TOTAL REVENUE	\$139,669,305	\$138,345,164	\$1,324,141	1.0%

State College Area School District
General Fund Expenses and Fund Balance Transfers
Actual vs. Projected 2015-16

	<u>Actual</u>	<u>Projected</u>	<u>Variance</u>	<u>% Increase (Decrease)</u>
Salaries	\$60,577,779	\$60,999,861	(\$422,082)	-0.7% (9)
Health Insurance	12,143,682	12,432,612	(288,930)	-2.3% (10)
PSERS	15,333,640	15,447,117	(113,477)	-0.7% (11)
Other Benefits	6,006,366	6,202,085	(195,719)	-3.2% (12)
Professional Services	2,735,634	2,846,112	(110,478)	-3.9% (13)
Purchased Property Services	1,972,150	2,115,175	(143,025)	-6.8% (14)
Other Purchased Services	11,590,232	11,266,602	323,630	2.9% (15)
Supplies/Equipment	5,868,305	6,125,750	(257,445)	-4.2% (16)
Minor Capital Projects	2,096,831	2,096,831	0	0.0%
Athletics/transfers/contingencies	2,843,894	3,436,067	(592,173)	-17.2% (17)
Debt Service	4,318,895	4,354,927	(36,032)	-0.8%
Debt Service - Referendum Debt	3,384,493	3,384,493	(0)	0.0%
Transfer to Capital Reserve	11,770,000	8,709,600	3,060,400	35.1% (18) **
Fund Balance Use (PSERS/Legal)	(1,808,281)	(1,808,281)	0	0.0% (19)
Total Expenses and Fund Balance Transfers	<u>\$138,833,619</u>	<u>\$137,608,951</u>	<u>\$1,224,668</u>	0.9%

**** The proposed increase in the transfer to capital reserve is related to positive revenue and expense variances compared to projection. The increase in this transfer decreases unrestricted fund balance to within the state required 8% of expenses.**

Attachment B

2015-16 Revenue and Expense Compared to Budget

**State College Area School District
General Fund Activity
Actual vs. Budget 2015-2016**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>% Increase (Decrease)</u>
Revenue	\$139,669,305	\$136,368,756	\$3,300,549	2.4%
Local	114,983,703	112,155,974	2,827,729	2.5%
State	23,174,708	22,867,781	306,926	1.3%
Federal	1,510,894	1,345,000	165,894	12.3%
Expenses and Fund Balance Use	<u>138,833,619</u>	<u>135,761,263</u>	<u>3,072,356</u>	2.3%
Change in Unassigned General Fund Bal	<u>\$835,686</u>	<u>\$607,493</u>	<u>\$228,194</u>	37.6%

**State College Area School District
General Fund Revenue
Actual vs. Budget 2015-16**

	Actual	Budget	Variance	% Increase (Decrease)
LOCAL SERVICES TAX				
CURRENT REAL ESTATE TAX	\$86,100,645	\$86,303,894	(\$203,249)	-0.2%
REAL ESTATE TAX-REFERENDUM DEBT	3,183,420	3,183,420	0	0.0%
EARNED INCOME TAX	16,756,613	16,270,000	486,613	3.0%
REALTY TRANSFER TAX	2,923,942	1,500,000	1,423,942	94.9%
DELINQUENT REAL ESTATE TAX	1,257,788	1,100,000	157,788	14.3%
INTERIM REAL ESTATE TAX	617,178	310,254	306,924	98.9%
IDEA-B	738,020	750,000	(11,980)	-1.6%
PAYMENTS IN LIEU OF TAX	555,011	514,670	40,341	7.8%
LOCAL SERVICES TAX	377,122	370,000	7,122	1.9%
TUITION	1,229,523	1,196,010	33,513	2.8%
MISC LOCAL REVENUE	994,006	384,918	609,088	158.2%
PUBLIC UTILITY REALTY TAX	116,691	122,808	(6,117)	-5.0%
INTEREST ON INVESTMENTS	133,743	150,000	(16,257)	-10.8%
TOTAL LOCAL	114,983,703	112,155,974	2,827,729	2.5%
STATE				
BASIC ED INSTR SUBSIDY	6,903,016	6,440,460	462,556	7.2%
SPECIAL ED REVENUE-REGULR	3,255,597	3,221,640	33,957	1.1%
REV. FOR RETIREMENT	7,777,494	7,762,524	14,971	0.2%
REV. FOR SOCIAL SECURITY	2,077,074	2,297,740	(220,666)	-9.6%
PROPERTY TAX REDUCTION	1,422,441	1,422,441	0	0.0%
TRANSPORTATION REVENUE	884,352	750,000	134,352	17.9%
BOND REIMBURSEMENTS	120,931	517,497	(396,566)	-76.6%
HEALTH SERVICES REVENUE	150,906	140,000	10,906	7.8%
READY TO LEARN GRANT	310,013	128,440	181,573	141.4%
VOCATIONAL EDUCATION	90,891	107,040	(16,149)	-15.1%
OTHER STATE REVENUE	12,064	0	12,064	100.0%
TUITION - 1305/1306	169,929	80,000	89,929	112.4%
TOTAL STATE	23,174,708	22,867,781	306,926	1.3%
FEDERAL				
TITLE I REVENUE	807,776	700,000	107,776	15.4%
TITLE II REVENUE	175,465	200,000	(24,535)	-12.3%
ACCESS FUNDS	390,000	350,000	40,000	11.4%
OTHER FEDERAL REVENUE	78,498	60,000	18,498	30.8%
TITLE III REVENUE	59,156	35,000	24,156	69.0%
TOTAL FEDERAL	1,510,894	1,345,000	165,894	12.3%
TOTAL REVENUE	\$139,669,305	\$136,368,756	\$3,300,549	2.4%

State College Area School District
General Fund Expenses and Fund Balance Transfers
Actual vs. Budget 2015-16

	Actual	Budget	Variance	% Increase (Decrease)
Salaries	\$60,577,779	\$61,269,218	(\$691,439)	-1.1%
Health Insurance	12,143,682	12,432,612	(288,930)	-2.3%
PSERS	15,333,640	15,525,047	(191,407)	-1.2%
Other Benefits	6,006,366	6,323,751	(317,385)	-5.0%
Professional Services	2,735,634	2,688,525	47,109	1.8%
Purchased Property Services	1,972,150	2,090,571	(118,421)	-5.7%
Other Purchased Services	11,590,232	10,885,651	704,581	6.5%
Supplies/Equipment	5,868,305	6,252,598	(384,293)	-6.1%
Minor Capital Projects	2,096,831	2,096,831	(0)	0.0%
Athletics/transfers/contingencies	2,843,894	3,662,310	(818,416)	-22.3%
Debt Service	4,318,895	5,165,109	(846,214)	-16.4%
Debt Service - Referendum Debt	3,384,493	3,384,493	(0)	0.0%
Transfer to Capital Reserve	11,770,000	5,775,600	5,994,400	103.8% **
Fund Balance Use (PSERS/Legal)	(1,808,281)	(1,791,053)	(17,228)	1.0%
Total Expenses and Fund Balance Transfers	\$138,833,619	\$135,761,263	\$3,072,356	2.3%

**** The proposed increase in the transfer to capital reserve is related to positive revenue and expense variances compared to budget. The increase in this transfer decreases unrestricted fund balance to within the state required 8% of expenses.**

Attachment 2

September 26, 2016 Board Report

2015-2016 Financial Results Presentation

State College Area School District



2015-16
Financial Results

**State College
Area School District
September 26, 2016**

2015-16 General Fund Results Compared to Projected

	Actual	Projected	Variance	% Increase (Decrease)
Revenue	\$139,669,305	\$138,345,164	\$1,324,141	1.0%
Expense (Excl Trans to Capital Reserve)	128,871,900	130,707,632	(1,835,732)	-1.4%
Proposed Capital Reserve Transfer (1)	11,770,000	8,709,600	3,060,400	35.1%
Total Expense	140,641,900	139,417,232	1,224,668	0.9%
Fund Balance Use (2)	(1,808,281)	(1,808,281)	-	0.0%
Change in Unassigned General Fund Bal	\$835,686	\$736,213	\$99,474	13.5%

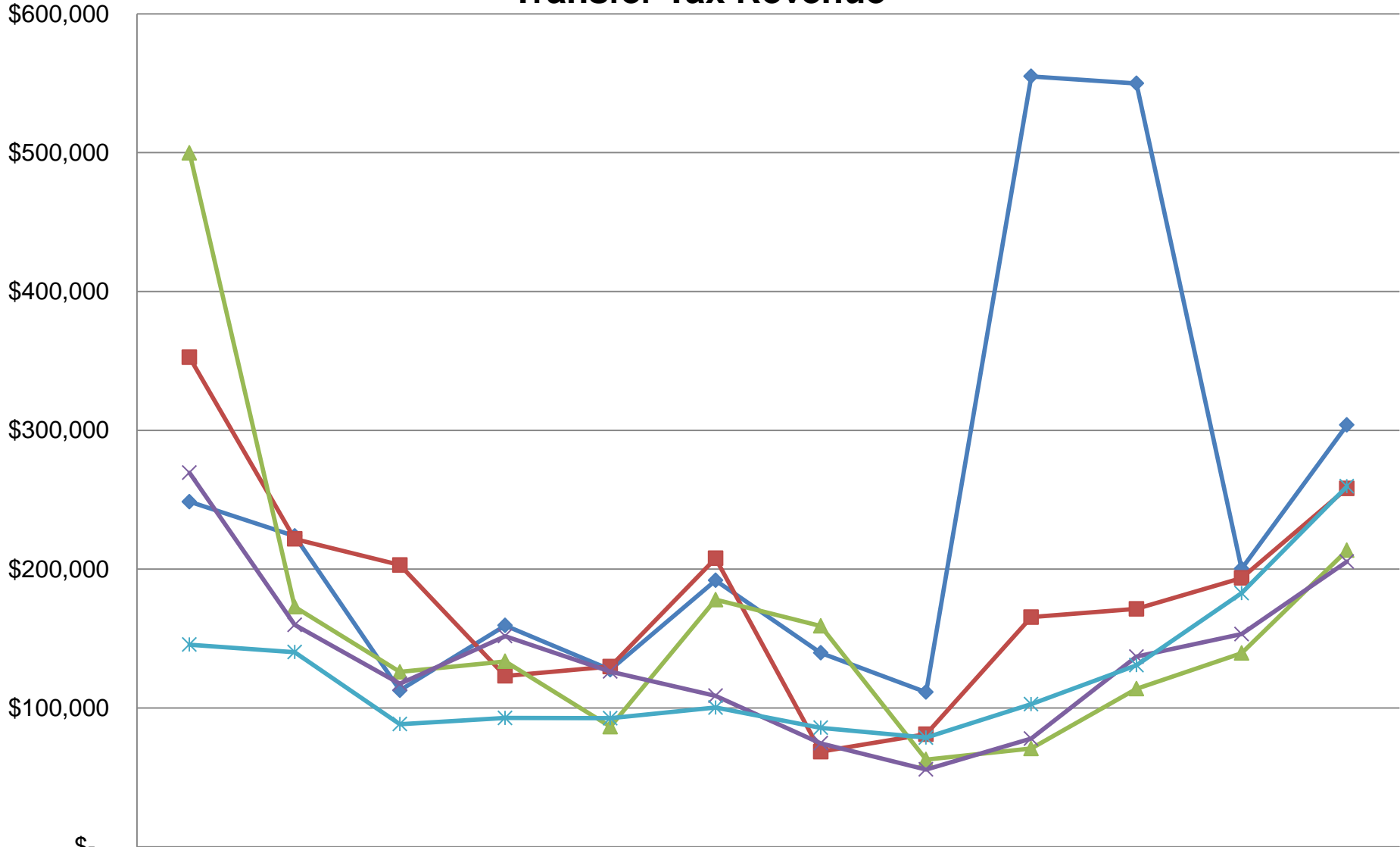
(1) Maintains general fund unassigned fund balance within 8% maximum.

(2) Use of PSERS fund balance \$1,258,281; Use of Legal Liability fund balance \$550,000.

Revenue

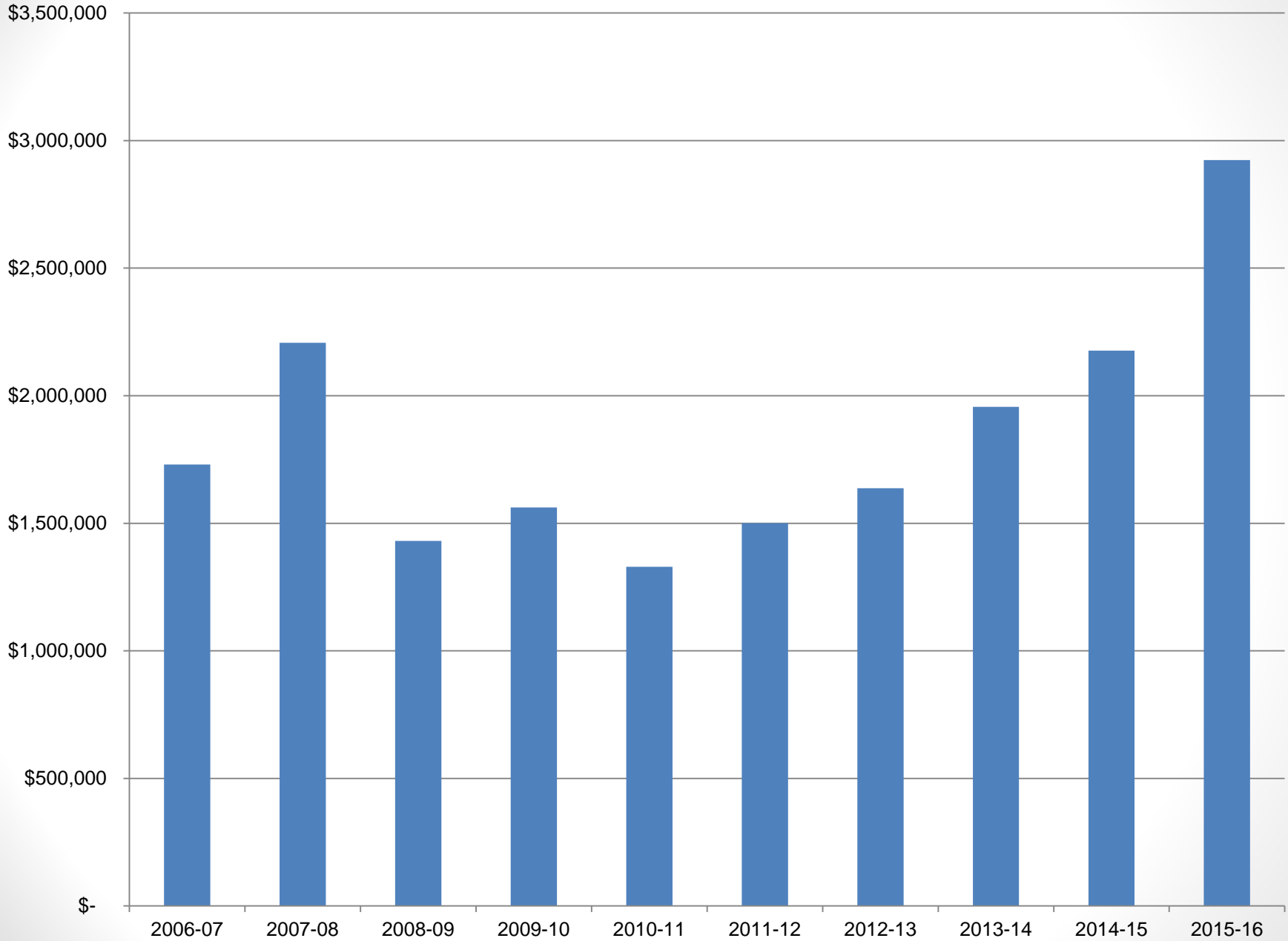
- **Revenue higher than projected** **\$1.3 million**
- **Local Revenue** **\$1,636,354**
 - Realty Transfer Tax 1,123,942
 - Earned Income Tax 256,613
 - Delinquent Real Estate Tax 157,788
- **State Revenue** **(\$389,887)**
 - Bond Reimbursement (355,987)
 - Social Security (220,666)
 - Transportation 134,352
- **Federal Revenue** **\$77,674**

Transfer Tax Revenue

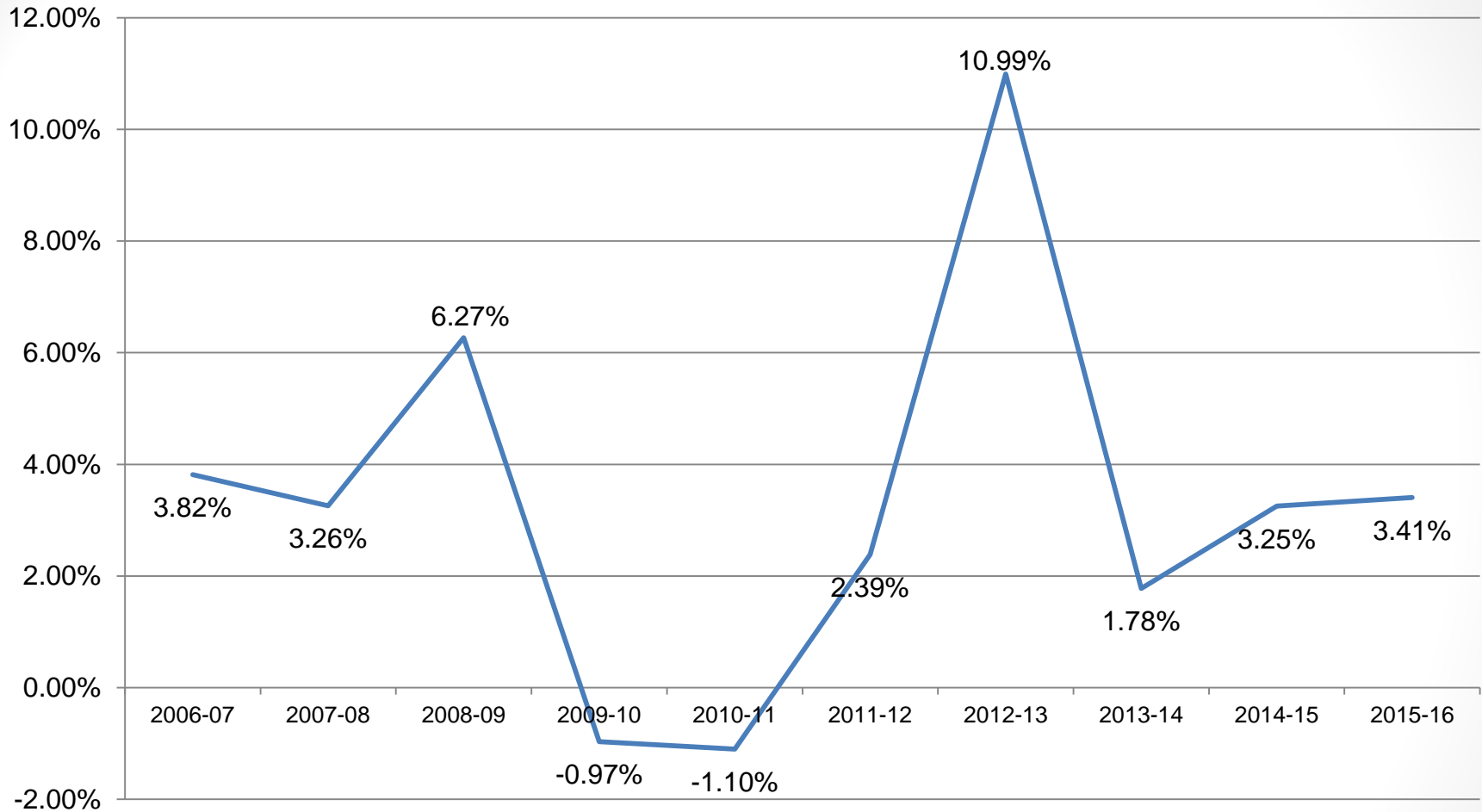


\$-	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June
◆ 2015-16	\$248,602	\$223,876	\$112,692	\$159,385	\$127,594	\$191,863	\$139,659	\$111,367	\$554,939	\$549,870	\$200,307	\$303,793
■ 2014-15	\$352,567	\$221,749	\$203,000	\$123,089	\$129,805	\$207,804	\$68,516	\$81,094	\$165,426	\$171,348	\$193,664	\$258,193
▲ 2013-14	\$499,840	\$172,861	\$125,987	\$133,609	\$86,506	\$177,986	\$159,039	\$62,904	\$70,789	\$113,811	\$139,520	\$213,573
✕ 2012-13	\$269,469	\$159,832	\$117,473	\$151,761	\$126,281	\$108,747	\$74,532	\$55,685	\$77,947	\$136,986	\$153,257	\$205,436
✧ 2011-12	\$145,628	\$140,229	\$88,359	\$92,799	\$92,642	\$100,313	\$85,759	\$78,676	\$102,795	\$130,815	\$182,717	\$259,631

Transfer Tax Revenue



Earned Income Tax - Historical Percent Change



Five-year average through 2015-2016	3.46%
Ten-year average through 2015-2016	3.42%
Five-year average (excl 2012-13)	2.71%

Expense (Excluding Capital Reserve Transfer)

- **Expense less than projected** **\$1.8 million**
- **Salaries** **(\$422,082)**
 - .7% of projected salaries
 - Professional Salaries \$221k
 - Related to leave of absences, turnover, vacant positions and lower temporary staff staffing costs
- **Health Insurance** **(288,930)**
 - 2.3% of projected
- **PSERS** **(113,477)**
 - .7% of projected PSERS
- **Other Benefits** **(195,719)**
 - Tuition \$31k
 - Unemployment \$41k
 - Other salary related benefits

Expense (Excluding Capital Reserve Transfer) (cont'd)

- **Professional Service** **(\$110,478)**
 - Refund of EIT collection fee \$86k
- **Purchased Property Services** **(143,025)**
 - Electricity \$43k
 - IT Maintenance \$50k
- **Other Purchased Service** **323,630**
 - Charter schools higher than projected \$200k
 - Timing of E-Rate reimbursement \$100k

Expense (Excluding Capital Reserve Transfer) (cont'd)

- **Supplies/Equipment** **(\$257,445)**
 - Vendor delay in shipment of IT equip (\$150k)
 - Lower natural gas related to rates reduction and partial building demolition (\$240k)
 - Other various lower than projected (\$81k)
 - Offset by land purchase \$214k
- **Athletics/trans/contingencies** **(\$592,173)**
 - Contingency included in projection (\$490k)
 - Refund of prior year receipts (\$50k)

Proposed Board Resolution

- **Transfer to Capital Reserve Fund to fund future capital project expense**
 - \$11,770,000
 - Maintains Unassigned General Fund within 8% maximum
- **Food Service Transfer**
 - Proposed Transfer of \$127,655 to fund cash shortfalls.
- **PSERS Fund Balance**

• Balance as of June 30, 2015	\$8,572,000
• Use in 2015-16	<u>(1,258,281)</u>
• Balance as of June 30, 2016	7,313,719

Key Review and Reporting Dates

Management Discussion and Analysis (MD&A) for Board review	October 10
MD&A for Board approval	October 24
Due Date for Filing State Annual Financial Report (AFR)	October 31
Audited Financial Statement Presented for Board review	November 14
Audited Financial Statement Presented for Board approval	November 28
Continuing Disclosures posted on Electronic Municipal Market Access (EMMA)	December 27

Questions

State College Area School District

