



State College Area School District

Financial Statements and
Supplementary Information

June 30, 2019

State College Area School District

Table of Contents

June 30, 2019

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements	
Statement of Net Deficit	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Deficit	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual - General Fund	18
Statement of Net Deficit - Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Net Deficit - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Net Position - Fiduciary Fund, Agency	22
Notes to Financial Statements	23
Required Supplementary Information (Unaudited)	
Schedule of the District's Proportionate Share of the PSERS Net Pension Liability	47
Schedule of District's PSERS Pension Contributions	48
Schedule of the District's Proportionate Share of the Net PSERS OPEB Liability	49
Schedule of District's PSERS OPEB Contributions	50
Schedule of Changes in Total OPEB Liability and Related Ratios - District Plan	51
Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund	52
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	55

State College Area School District

Table of Contents

June 30, 2019

	<u>Page</u>
Single Audit Reports	
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 <i>Government Auditing Standards</i>	57
Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	59
Schedule of Findings and Questioned Costs	61

Independent Auditors' Report

To the Board of Education of
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, 2019, 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, 2019, 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.

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 3 through 11, the Schedule of District's Proportionate Share of the PSERS Net Pension Liability on page 47, the Schedule of District's PSERS Pension Contributions on page 48, the Schedule of District's Proportionate Share of the Net PSERS OPEB Liability on page 49, the Schedule of District's PSERS OPEB Contributions on page 50 and the Schedule of Changes in Total OPEB Liability and Related Ratios – District Plan on page 51 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 52-53) 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 54), 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 December 11, 2019 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
December 11, 2019

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2019

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, 2019. 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.

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.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2019

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.

Government-Wide Financial Analysis Condensed Statements of Net Deficit June 30, 2019 and 2018

	Condensed Statements of Net Deficit					
	Governmental Activities		Business-Type Activity		Total	
	2019	2018	2019	2018	2019	2018
Assets and Deferred Outflows of Resources						
Current and other assets	\$ 42,478,994	\$ 46,207,706	\$ 280,644	\$ 255,558	\$ 42,759,638	\$ 46,463,264
Noncurrent assets	351,111,037	335,871,714	161,774	127,301	351,272,811	335,999,015
Deferred outflows of resources	<u>41,344,169</u>	<u>42,824,597</u>	<u>813,486</u>	<u>859,180</u>	<u>42,157,655</u>	<u>43,683,777</u>
Total	<u>\$ 434,934,200</u>	<u>\$ 424,904,017</u>	<u>\$ 1,255,904</u>	<u>\$ 1,242,039</u>	<u>\$ 436,190,104</u>	<u>\$ 426,146,056</u>
Liabilities, Deferred Inflows of Resources and Net Deficit						
Current liabilities	\$ 36,777,747	\$ 36,146,431	\$ 154,058	\$ 148,255	\$ 36,931,805	\$ 36,294,686
Long-term liabilities:						
Due within one year	7,730,000	7,335,000	-	-	7,730,000	7,335,000
Due after one year	<u>457,524,786</u>	<u>465,400,869</u>	<u>4,996,440</u>	<u>5,122,844</u>	<u>462,521,226</u>	<u>470,523,713</u>
Total liabilities	<u>502,032,533</u>	<u>508,882,300</u>	<u>5,150,498</u>	<u>5,271,099</u>	<u>507,183,031</u>	<u>514,153,399</u>
Deferred inflows of resources	<u>3,990,448</u>	<u>2,092,014</u>	<u>93,407</u>	<u>42,986</u>	<u>4,083,855</u>	<u>2,135,000</u>
Net deficit:						
Net investment in capital assets	61,159,101	44,626,928	161,774	127,301	61,320,875	44,754,229
Restricted (for capital projects and debt service)	65,352,256	62,683,101	-	-	65,352,256	62,683,101
Unrestricted	<u>(197,600,138)</u>	<u>(193,380,326)</u>	<u>(4,149,775)</u>	<u>(4,199,347)</u>	<u>(201,749,913)</u>	<u>(197,579,673)</u>
Total net deficit	<u>(71,088,781)</u>	<u>(86,070,297)</u>	<u>(3,988,001)</u>	<u>(4,072,046)</u>	<u>(75,076,782)</u>	<u>(90,142,343)</u>
Total	<u>\$ 434,934,200</u>	<u>\$ 424,904,017</u>	<u>\$ 1,255,904</u>	<u>\$ 1,242,039</u>	<u>\$ 436,190,104</u>	<u>\$ 426,146,056</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2019

Condensed Statements of Activities

For the Year Ended
June 30, 2019 and 2018

	Condensed Statements of Activities					
	Governmental Activities		Business-Type Activity		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,595,642	\$ 1,614,736	\$ 2,708,464	\$ 2,566,886	\$ 4,304,106	\$ 4,181,622
Operating grants and contributions	21,540,675	20,559,988	1,535,168	1,409,506	23,075,843	21,969,494
Capital grants	6,799,671	-	-	-	6,799,671	-
General revenues:						
Taxes levied, net	126,225,922	120,752,937	-	-	126,225,922	120,752,937
Grants, subsidies and contributions not restricted	9,344,307	9,148,206	-	-	9,344,307	9,148,206
Other	3,897,576	2,609,288	-	-	3,897,576	2,609,288
Total revenues	169,403,793	154,685,155	4,243,632	3,976,392	173,647,425	158,661,547
Program Expenses:						
Instruction	91,248,469	89,814,795	-	-	91,248,469	89,814,795
Instructional student support	13,000,519	12,082,049	-	-	13,000,519	12,082,049
Administration and financial support services	16,188,122	15,645,891	-	-	16,188,122	15,645,891
Operation and maintenance of plant services	16,464,476	15,447,993	-	-	16,464,476	15,447,993
Pupil transportation	6,550,189	6,466,839	-	-	6,550,189	6,466,839
Student activities	2,868,956	2,815,891	-	-	2,868,956	2,815,891
Community services	94,904	86,998	-	-	94,904	86,998
Interest on long-term debt	6,501,461	6,982,183	-	-	6,501,461	6,982,183
Unallocated depreciation	373,934	374,410	-	-	373,934	374,410
Loss on disposal of capital assets	1,131,247	3,560,839	-	29,527	1,131,247	3,590,366
Food service	-	-	4,159,587	4,139,415	4,159,587	4,139,415
Total program expenses	154,422,277	153,277,888	4,159,587	4,168,942	158,581,864	157,446,830
Change in net position	14,981,516	1,407,267	84,045	(192,550)	15,065,561	1,214,717
Net deficit, beginning, as previously reported	(86,070,297)	(75,479,221)	(4,072,046)	(3,564,277)	(90,142,343)	(79,043,498)
Effect of adoption of GASB No. 75	-	(11,998,343)	-	(315,219)	-	(12,313,562)
As restated	(86,070,297)	(87,477,564)	(4,072,046)	(3,879,496)	(90,142,343)	(91,357,060)
Net deficit, ending	\$ (71,088,781)	\$ (86,070,297)	\$ (3,988,001)	\$ (4,072,046)	\$ (75,076,782)	\$ (90,142,343)

Total net position of the District increased \$15,065,561 in 2019. Net position of governmental activities increased by \$14,981,516, while net position of the business-type activity increased \$84,045.

The District had \$154,422,277 in expenses related to governmental activities in 2019; only \$29,935,988 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$139,467,805 also provided for these programs. The \$14,981,516 increase in governmental activities net position represents the excess of revenues over expenses.

In the District's business-type activity, net position increased by \$84,045 as a result of the net income of the food service operation.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2019

The June 30, 2019, 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. Below is a schedule showing the impact of GASB 68 and 75 on the unrestricted net position as of June 30, 2018 and 2019.

	<u>Total Net Position</u>	<u>GASB 68 and 75 (Pension and OPEB Impact)</u>	<u>Total Excluding GASB 68 and 75 Impact</u>	<u>Net Position Available to Fund Operations and Debt Service</u>
Governmental Activities:				
At June 30, 2018	\$ (86,070,297)	\$ (206,052,621)	\$ 119,982,324	\$ 75,355,396
Change in net position	<u>14,981,516</u>	<u>(8,391,137)</u>	<u>23,372,653</u>	<u>6,840,480</u>
Ending at June 30, 2019	<u>\$ (71,088,781)</u>	<u>\$ (214,443,758)</u>	<u>\$ 143,354,977</u>	<u>\$ 82,195,876</u>
Business-Type Activities:				
At June 30, 2018	\$ (4,072,046)	\$ (4,262,961)	\$ 190,915	\$ 63,614
Change in net position	<u>84,045</u>	<u>3,064</u>	<u>80,981</u>	<u>46,508</u>
Ending at June 30, 2019	<u>\$ (3,988,001)</u>	<u>\$ (4,259,897)</u>	<u>\$ 271,896</u>	<u>\$ 110,122</u>

As of June 30, 2019, excluding the impact of changes in position recorded based on GASB 68 and 75, \$16,843,620 of unrestricted net position of the \$143,354,977 of total net position was available to meet the District's ongoing obligations to employees and creditors for governmental activities. In addition, \$65,352,256 of restricted net position was available to meet debt service obligations or to fund future capital projects. The remaining net position of \$61,159,101 is invested in capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2018 - 2019 fiscal year were \$167,122,998 compared to \$153,159,772 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2018 - 2019</u>	<u>2017 - 2018</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 130,199,415	\$ 124,215,479	\$ 5,983,936	4.8 %
State sources	35,452,532	27,351,253	8,101,279	30.0 %
Federal sources	<u>1,471,051</u>	<u>1,593,040</u>	<u>(121,989)</u>	<u>(7.7) %</u>
Total	<u>\$ 167,122,998</u>	<u>\$ 153,159,772</u>	<u>\$ 13,963,226</u>	<u>9.1 %</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2019

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$5,983,936 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$4,091,790 with approximately \$2,393,000 related to an increase in the millage rate from 44.1468 mills to 45.206 mills per \$1,000 of assessed value. Rebates totaling \$84,220 offset real estate tax revenue. The District implemented a Supplemental Tax Rebate Program in the 2015-2016 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. Realty transfer tax and earned income tax increased approximately \$604,000 and \$518,000, respectively. Investment earnings increased \$621,570 and tuition increased \$118,000 related to expansion of the District's Community Education Extended Learning Program.

State revenues are derived primarily from state subsidies for basic education, special education, vocational education, and transportation. State revenues also include a 50% reimbursement for social security and retirement costs. State revenues increased \$8,101,279. The District received Alternative and Clean Energy grants from the Pennsylvania Department of Community & Economic Development ("DCED") totaling \$6,799,671 which will fund a portion of three elementary construction projects and the high school construction project. Reimbursement for retirement costs increased approximately \$759,000 due to an increase in salaries and an increase in the employer contribution rate for the state's retirement plan. Basic Education increased \$196,700 related to an increase in state funding, vocational education subsidy increased \$139,550, and social security reimbursement increased \$106,190. Additional state revenue of \$65,000 was awarded from the Pennsylvania Department of Education (PDE) safe schools grant in 2018-19.

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

Expenditures

Expenditures and other financing uses for the 2018 - 2019 fiscal year were \$167,197,657 compared to the 2017 - 2018 fiscal year of \$155,112,430 or a 7.8% increase. The following table shows the expenditures by object category:

	<u>2018 - 2019</u>	<u>2017 - 2018</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>	
Salaries and benefits	\$ 111,414,106	\$ 106,955,676	\$ 4,458,430	4.2	%
Professional services	3,150,563	3,022,010	128,553	4.3	%
Purchased property services	1,781,117	1,287,090	494,027	38.4	%
Other purchased services	12,479,055	12,671,679	(192,624)	(1.5)	%
Supplies	7,015,063	6,261,850	753,213	12.0	%
Property	1,008,955	1,015,525	(6,570)	(0.6)	%
Other objects	283,622	333,012	(49,390)	(14.8)	%
Other uses of funds	<u>30,065,176</u>	<u>23,565,588</u>	<u>6,499,588</u>	27.6	%
Total	<u>\$ 167,197,657</u>	<u>\$ 155,112,430</u>	<u>\$ 12,085,227</u>	7.8	%

Salaries and benefits increased \$4,458,430. Salary expense increased approximately \$2,900,000, and benefits increased approximately \$1,560,000, primarily related to a \$1,450,000 increase in retirement expense.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2019

The increase in purchased property services is related to the mold repair remediation in multiple school buildings. The increase in supplies and equipment includes the costs associated with change in the elementary school day of approximately \$398,000. Other purchased services decreased related to charter school expense.

Other uses of funds increased \$6,499,588 primarily related to the transfer of DCED grants totaling \$6,799,671 to the capital project fund. The transfer to the capital reserve fund increased approximately \$212,000. Debt services decreased approximately \$426,000 due to the final interest rate swap payment in 2017-18.

The District budgeted approximately \$1,600,000 for the implementation of the change in the school day to fund staffing, curriculum and transportation costs. Actual costs for the implementation of the change in school day were within 2% of budget.

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, 2019 is \$65,352,256.

Capital Projects Fund

The Capital Projects Fund is used to account for capital projects of the District. The District spent \$65,199,086 for such projects in 2018-2019. The majority of expenditures in 2018-2019 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 \$4,787,854 at June 30, 2019. Restricted cash of \$19,025,902 at June 30, 2019 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 2019 included \$158,110,347 of revenues and \$158,873,467 of expenditures. The budget was amended by \$359,442 for additional grants and related expenditures.

The actual revenues for 2019 were \$8,653,209 greater than the final budget. Local revenues were \$3,777,783 greater than budget primarily due to favorable variances in real estate tax revenue of \$610,100, earned income tax revenue of \$558,600, real estate transfer tax revenue of \$876,200, and interest on investments of \$1,019,700. State revenues were \$4,912,081 greater than budget primarily related to receipt of DCED grants that were anticipated in the 2019-20 fiscal year. Federal revenues were less than budget by \$36,655.

Actual expenditures, excluding transfers to the Capital Reserve fund, were \$1,429,459 greater 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 \$415,000 were not utilized and the budgeted transfer to Food Service fund was not required based on better than budgeted financial results. Charter school expense is less than amended budget by approximately \$1 million due to a reduction in the number of charter school students. Transfers to the Capital Reserve fund exceeded budget by \$6,535,289 as the result of higher than anticipated revenues, and lower than anticipated expenses.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2019

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2019 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	\$ 276,899,568	\$ -	\$ 276,899,568
Equipment and other capital assets	49,171,897	1,120,522	50,292,419
Construction in progress	<u>34,089,486</u>	<u>-</u>	<u>34,089,486</u>
Total	360,160,951	1,120,522	361,281,473
Accumulated depreciation	<u>(88,645,758)</u>	<u>(958,748)</u>	<u>(89,604,506)</u>
Net	<u>\$ 271,515,193</u>	<u>\$ 161,774</u>	<u>\$ 271,676,967</u>

Long-Term Debt

At June 30, 2019, the District had long-term debt of \$199,220,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$69,585,000 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 \$129,635,000 is significantly below the legal limit of \$352,295,238.

Factors Expected to Have an Effect on Future Operations

The assessed value used for the 2020 budget preparation is approximately \$2.36 billion, which is up approximately \$28 million, or 1% from 2019. Amounts available for appropriation in the General Fund budget for 2019-2020 are \$163,938,230, an increase of approximately 3.2% over the 2018-2019 original budget of \$158,873,467. The property tax rate will increase 1.95% to 46.088 mills. The District will use this increase in revenues to finance programs currently offered and to fund teaching and psychological staff to meet student educational and support needs and anticipated enrollment increases, expanded online learning programs, support positions related to facilities and other non-recurring capital expenses.

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.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2019

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 2018-2019 is 2.4%.

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 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 2026. 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 2019 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. The next phase included the construction and renovations at the high school. The total cost, to date, net of DCED grants is estimated at \$139 million, with \$85 million being funded with referendum debt bonds issued in July 2017. Work on the project began in 2015 culminating with occupancy planned for the 2019-20 school year.

The District began a Facilities Master Plan Elementary Update in April of 2016 to take advantage of external funding resources through DCED and reimbursement of debt service expenses through the PDE PlanCon process. Construction began in January 2018 at Radio Park, Corl Street and Spring Creek elementary schools. Phased occupancy at Radio Park and Corl Street schools occurred in the 2018-2019 year with full occupancy for all schools planned for the 2019-20 school year.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 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, 2019

	<u>Governmental Activities</u>	<u>Business - Type Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 32,973,187	\$ 15,311	\$ 32,988,498
Taxes receivable, net	2,258,811	-	2,258,811
Due from fiduciary fund	89,154	-	89,154
Internal balances	48,988	(48,988)	-
Due from other governments	6,660,585	247,167	6,907,752
Other receivables	403,894	29,176	433,070
Inventories	17,475	37,978	55,453
Other current assets	26,900	-	26,900
Total current assets	<u>42,478,994</u>	<u>280,644</u>	<u>42,759,638</u>
Noncurrent Assets			
Restricted cash and cash equivalents	79,595,844	-	79,595,844
Capital assets:			
Land	1,140,457	-	1,140,457
Buildings and improvements	275,759,111	-	275,759,111
Equipment and other capital assets	49,171,897	1,120,522	50,292,419
Construction in progress	34,089,486	-	34,089,486
Accumulated depreciation	<u>(88,645,758)</u>	<u>(958,748)</u>	<u>(89,604,506)</u>
Total noncurrent assets	<u>351,111,037</u>	<u>161,774</u>	<u>351,272,811</u>
Total assets	<u>393,590,031</u>	<u>442,418</u>	<u>394,032,449</u>
Deferred Outflows of Resources			
Pension	38,635,235	789,694	39,424,929
Other postemployment benefits (OPEB)	1,665,355	23,792	1,689,147
Deferred amounts on refunding	<u>1,043,579</u>	<u>-</u>	<u>1,043,579</u>
Total deferred outflows of resources	<u>41,344,169</u>	<u>813,486</u>	<u>42,157,655</u>
Total	<u>\$ 434,934,200</u>	<u>\$ 1,255,904</u>	<u>\$ 436,190,104</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current Liabilities			
Accounts payable	\$ 13,400,460	\$ 6,313	\$ 13,406,773
Current portion of bonds payable	7,730,000	-	7,730,000
Accrued salaries and benefits	12,337,893	5,480	12,343,373
Payroll deductions and withholdings	8,618,767	-	8,618,767
Unearned revenue	529,524	10,247	539,771
Other current liabilities	<u>1,891,103</u>	<u>132,018</u>	<u>2,023,121</u>
Total current liabilities	<u>44,507,747</u>	<u>154,058</u>	<u>44,661,805</u>
Noncurrent Liabilities			
Bonds payable	209,257,726	-	209,257,726
Other postemployment benefits liability (OPEB)	15,323,076	254,903	15,577,979
Net pension liability	231,170,927	4,725,073	235,896,000
Compensated absences	<u>1,773,057</u>	<u>16,464</u>	<u>1,789,521</u>
Total noncurrent liabilities	<u>457,524,786</u>	<u>4,996,440</u>	<u>462,521,226</u>
Total liabilities	<u>502,032,533</u>	<u>5,150,498</u>	<u>507,183,031</u>
Deferred Inflows of Resources			
Other postemployment benefits (OPEB)	380,240	19,615	399,855
Pension	<u>3,610,208</u>	<u>73,792</u>	<u>3,684,000</u>
Total deferred inflows of resources	<u>3,990,448</u>	<u>93,407</u>	<u>4,083,855</u>
Net Deficit			
Net investment in capital assets	61,159,101	161,774	61,320,875
Restricted (for capital projects and debt service)	65,352,256	-	65,352,256
Unrestricted deficit	<u>(197,600,138)</u>	<u>(4,149,775)</u>	<u>(201,749,913)</u>
Total net deficit	<u>(71,088,781)</u>	<u>(3,988,001)</u>	<u>(75,076,782)</u>
Total	<u>\$ 434,934,200</u>	<u>\$ 1,255,904</u>	<u>\$ 436,190,104</u>

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Deficit		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants	Governmental Activities	Business-Type Activity	
Governmental activities:							
Instruction	\$ (91,248,469)	\$ 1,466,649	\$ 16,316,900	\$ 4,933,161	\$ (68,531,759)		\$ (68,531,759)
Instructional student support	(13,000,519)	-	1,531,924	670,448	(10,798,147)		(10,798,147)
Administration and financial support services	(16,188,122)	-	1,310,719	641,209	(14,236,194)		(14,236,194)
Operation and maintenance of plant services	(16,464,476)	128,993	728,332	356,303	(15,250,848)		(15,250,848)
Pupil transportation	(6,550,189)	-	1,241,596	154,353	(5,154,240)		(5,154,240)
Student activities	(2,868,956)	-	80,617	39,438	(2,748,901)		(2,748,901)
Community services	(94,904)	-	9,730	4,759	(80,415)		(80,415)
Interest on long-term debt	(6,501,461)	-	320,857	-	(6,180,604)		(6,180,604)
Loss on disposal of capital assets	(1,131,247)	-	-	-	(1,131,247)		(1,131,247)
Depreciation, unallocated	(373,934)	-	-	-	(373,934)		(373,934)
Total governmental activities	(154,422,277)	1,595,642	21,540,675	6,799,671	(124,486,289)		(124,486,289)
Business-Type Activity							
Food service	(4,159,587)	2,708,464	1,535,168	-		\$ 84,045	84,045
Total	<u>\$ (158,581,864)</u>	<u>\$ 4,304,106</u>	<u>\$ 23,075,843</u>	<u>\$ 6,799,671</u>	<u>(124,486,289)</u>	<u>84,045</u>	<u>(124,402,244)</u>
General Revenues							
Property taxes, levied for general purposes, net					107,450,427	-	107,450,427
Other taxes					18,775,495	-	18,775,495
Grants, subsidies and contributions not restricted					9,344,307	-	9,344,307
Investment earnings, Interest					3,441,840	-	3,441,840
Miscellaneous income					455,736	-	455,736
Total general revenues					<u>139,467,805</u>	-	<u>139,467,805</u>
Changes in net position					14,981,516	84,045	15,065,561
Net Deficit, Beginning					<u>(86,070,297)</u>	<u>(4,072,046)</u>	<u>(90,142,343)</u>
Net Deficit, Ending					<u>\$ (71,088,781)</u>	<u>\$ (3,988,001)</u>	<u>\$ (75,076,782)</u>

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds
June 30, 2019

	<u>Major Funds</u>			<u>Total</u>
	<u>General</u>	<u>Capital Reserve</u>	<u>Capital Projects</u>	
Assets				
Assets				
Cash and cash equivalents	\$ 32,973,187	\$ -	\$ -	\$ 32,973,187
Restricted cash and cash equivalents	-	60,569,942	19,025,902	79,595,844
Taxes receivable, net	2,258,811	-	-	2,258,811
Due from other funds	1,958,631	4,928,022	-	6,886,653
Due from other governments	6,660,585	-	-	6,660,585
Other receivables	403,894	-	-	403,894
Inventories	1,933,433	-	-	1,933,433
Other current assets	<u>26,900</u>	<u>-</u>	<u>-</u>	<u>26,900</u>
Total	<u>\$ 46,215,441</u>	<u>\$ 65,497,964</u>	<u>\$ 19,025,902</u>	<u>\$ 130,739,307</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Due to other funds	\$ 5,005,955	\$ -	\$ 1,843,780	\$ 6,849,735
Accounts payable	855,938	145,708	12,394,268	13,395,914
Accrued salaries and benefits	12,337,893	-	-	12,337,893
Payroll deductions and withholdings	8,618,767	-	-	8,618,767
Unearned revenue	529,524	-	-	529,524
Other liabilities	<u>250,160</u>	<u>-</u>	<u>-</u>	<u>250,160</u>
Total liabilities	<u>27,598,237</u>	<u>145,708</u>	<u>14,238,048</u>	<u>41,981,993</u>
Deferred Inflows of Resources				
Unavailable revenues, taxes	<u>789,493</u>	<u>-</u>	<u>-</u>	<u>789,493</u>
Fund Balances				
Nonspendable	1,933,433	-	-	1,933,433
Restricted (for capital projects and debt service)	-	65,352,256	4,787,854	70,140,110
Committed	2,640,414	-	-	2,640,414
Unassigned	<u>13,253,864</u>	<u>-</u>	<u>-</u>	<u>13,253,864</u>
Total fund balances	<u>17,827,711</u>	<u>65,352,256</u>	<u>4,787,854</u>	<u>87,967,821</u>
Total	<u>\$ 46,215,441</u>	<u>\$ 65,497,964</u>	<u>\$ 19,025,902</u>	<u>\$ 130,739,307</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, 2019

Total Fund Balance, Governmental Funds	\$ 87,967,821
Amounts reported for governmental activities in the statement of net deficit are different because:	
Capital assets used in governmental activities are long-term financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$360,160,951 and the accumulated depreciation is \$88,645,758.	271,515,193
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.	789,493
Inventory of books and supplies was reclassified to capital assets.	(1,933,433)
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.	111,569
Deferred outflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit.	1,665,355
Deferred inflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit.	(380,240)
Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit.	38,635,235
Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit.	(3,610,208)
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	(216,987,726)
Deferred amounts on refunding	1,043,579
Accrued interest on long-term debt	(1,640,943)
Net OPEB liability	(15,323,076)
Net pension liability	(231,170,927)
Compensated absences	(1,770,473)
Total Net Deficit, Governmental Activities	<u>\$ (71,088,781)</u>

See notes to financial statements

State College Area School DistrictStatement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
Revenues					
Local sources	\$ 130,199,415	\$ 1,331,409	\$ 840,651	\$ -	\$ 132,371,475
State sources	35,452,532	-	-	-	35,452,532
Federal sources	1,471,051	-	-	-	1,471,051
Total revenues	167,122,998	1,331,409	840,651	-	169,295,058
Expenditures					
Instruction	87,796,642	-	-	-	87,796,642
Support services	46,288,043	-	2,120	-	46,290,163
Noninstructional services	2,992,397	-	-	-	2,992,397
Facilities acquisition, construction and improvement services	36,194	3,393,224	65,196,966	-	68,626,384
Debt service	-	3,444,319	-	12,867,657	16,311,976
Total expenditures	137,113,276	6,837,543	65,199,086	12,867,657	222,017,562
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)					
	30,009,722	(5,506,134)	(64,358,435)	(12,867,657)	(52,722,504)
Other Financing Sources (Uses)					
Transfer in	-	8,175,289	9,022,230	12,867,657	30,065,176
Refund of prior year receipts	(19,205)	-	-	-	(19,205)
Transfer out	(30,065,176)	-	-	-	(30,065,176)
Total other financing (uses) sources	(30,084,381)	8,175,289	9,022,230	12,867,657	(19,205)
Changes in fund balances	(74,659)	2,669,155	(55,336,205)	-	(52,741,709)
Fund Balance, Beginning	17,902,370	62,683,101	60,124,059	-	140,709,530
Fund Balance, Ending	\$ 17,827,711	\$ 65,352,256	\$ 4,787,854	\$ -	\$ 87,967,821

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, 2019

Total Changes in Fund Balances-Governmental Funds

\$ (52,741,709)

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.

85,022

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

(7,040,877)

Loss on disposal of capital assets

(1,131,247)

Capital outlays

70,353,170

62,181,046

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.

(131,750)

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, 2019 are as follows,

Scheduled principal payments on long-term debt

7,335,000

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.

2,475,515

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.

(9,323)

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.

(284,590)

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.

(3,846,650)

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.

(81,045)**Changes in Net Deficit of Governmental Activities**\$ 14,981,516

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual - General Fund
Year Ended June 30, 2019

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 126,402,378	\$ 126,421,632	\$ 130,199,415	\$ 3,777,783
State sources	30,496,614	30,540,451	35,452,532	4,912,081
Federal sources	<u>1,211,355</u>	<u>1,507,706</u>	<u>1,471,051</u>	<u>(36,655)</u>
Total revenues	<u>158,110,347</u>	<u>158,469,789</u>	<u>167,122,998</u>	<u>8,653,209</u>
Expenditures				
Instruction:				
Regular programs	64,234,298	64,401,842	62,117,656	2,284,186
Special programs	19,330,603	19,334,045	19,765,253	(431,208)
Vocational education programs	3,718,510	3,732,087	3,693,232	38,855
Other instructional programs	2,410,337	2,421,365	2,198,271	223,094
Adult education programs	7,678	7,678	6,946	732
Nonpublic school programs	<u>15,594</u>	<u>18,252</u>	<u>15,284</u>	<u>2,968</u>
Total instruction	<u>89,717,020</u>	<u>89,915,269</u>	<u>87,796,642</u>	<u>2,118,627</u>
Support services:				
Pupil personnel	5,457,194	5,485,817	5,581,639	(95,822)
Instructional staff	6,036,970	6,167,117	6,042,696	124,421
Administration	8,173,152	8,155,033	7,734,776	420,257
Pupil health	1,543,144	1,549,295	1,521,505	27,790
Business	1,442,923	1,466,144	1,471,511	(5,367)
Operation and maintenance of plant services	10,350,321	10,905,917	11,231,279	(325,362)
Student transportation services	6,763,935	6,779,736	6,680,066	99,670
Central	<u>6,348,816</u>	<u>6,323,922</u>	<u>6,024,571</u>	<u>299,351</u>
Total support services	<u>46,116,455</u>	<u>46,832,981</u>	<u>46,288,043</u>	<u>544,938</u>
Noninstructional services:				
Student activities	2,768,379	2,908,256	2,896,625	11,631
Community services	110,349	119,911	94,072	25,839
Scholarships and awards	<u>10,000</u>	<u>10,000</u>	<u>1,700</u>	<u>8,300</u>
Total noninstructional services	<u>2,888,728</u>	<u>3,038,167</u>	<u>2,992,397</u>	<u>45,770</u>
Facilities acquisition, construction and improvement services				
	<u>55,000</u>	<u>67,917</u>	<u>36,194</u>	<u>31,723</u>
Debt service				
	<u>75,000</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total expenditures	<u>138,852,203</u>	<u>139,929,334</u>	<u>137,113,276</u>	<u>2,816,058</u>
Excess of Revenues Over Expenditures Before Other Financing Uses				
	<u>19,258,144</u>	<u>18,540,455</u>	<u>30,009,722</u>	<u>11,469,267</u>
Other Financing Uses				
Budgetary reserve	(1,172,669)	(413,964)	-	413,964
Refund of prior year receipts	-	-	(19,205)	(19,205)
Transfer out	<u>(18,848,595)</u>	<u>(18,889,611)</u>	<u>(30,065,176)</u>	<u>(11,175,565)</u>
Total other financing uses	<u>(20,021,264)</u>	<u>(19,303,575)</u>	<u>(30,084,381)</u>	<u>(10,780,806)</u>
Changes in fund balance	<u>\$ (763,120)</u>	<u>\$ (763,120)</u>	<u>(74,659)</u>	<u>\$ 688,461</u>
Fund Balance, Beginning			<u>17,902,370</u>	
Fund Balance, Ending			<u>\$ 17,827,711</u>	

See notes to financial statements

State College Area School DistrictStatement of Net Deficit - Proprietary Funds
June 30, 2019

	Food Service Fund	Internal Service Fund
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 15,311	\$ -
Due from other funds	-	101,224
Due from other governments	247,167	-
Other receivables	29,176	-
Inventories	<u>37,978</u>	<u>17,475</u>
Total current assets	<u>329,632</u>	<u>118,699</u>
Noncurrent Assets		
Equipment	1,120,522	295,882
Accumulated depreciation	<u>(958,748)</u>	<u>(289,990)</u>
Total noncurrent assets	<u>161,774</u>	<u>5,892</u>
Deferred Outflows of Resources		
OPEB	23,792	4,687
Pension	<u>789,694</u>	<u>105,859</u>
Total deferred outflows of resources	<u>813,486</u>	<u>110,546</u>
Total	<u>\$ 1,304,892</u>	<u>\$ 235,137</u>
Liabilities, Deferred Inflows of Resources and Net Deficit		
Current Liabilities		
Accounts payable	\$ 6,313	\$ 4,546
Accrued salaries and benefits	5,480	-
Due to other funds	48,988	-
Other liabilities	132,018	-
Unearned revenue	<u>10,247</u>	<u>-</u>
Total current liabilities	<u>203,046</u>	<u>4,546</u>
Noncurrent Liabilities		
Net pension liability	4,725,073	633,398
Net OPEB liability	254,903	43,418
Compensated absences	<u>16,464</u>	<u>2,584</u>
Total noncurrent liabilities	<u>4,996,440</u>	<u>679,400</u>
Total liabilities	<u>5,199,486</u>	<u>683,946</u>
Deferred Inflows of Resources		
OPEB	19,615	1,048
Pension	<u>73,792</u>	<u>9,892</u>
Total deferred inflows of resources	<u>93,407</u>	<u>10,940</u>
Net Deficit		
Net investment in capital assets	161,774	5,892
Unrestricted deficit	<u>(4,149,775)</u>	<u>(465,641)</u>
Total net deficit	<u>(3,988,001)</u>	<u>(459,749)</u>
Total	<u>\$ 1,304,892</u>	<u>\$ 235,137</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, 2019

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Food service revenue	\$ 2,708,464	\$ -
Charges for services	-	<u>602,138</u>
Total operating revenues	<u>2,708,464</u>	<u>602,138</u>
Operating Expenses		
Salaries and employee benefits	2,306,719	339,929
Food, milk and supplies	1,776,034	123,685
Depreciation	24,162	1,683
Professional and technical services	15,992	12,215
Other purchased services	14,439	407
Purchased property services	12,920	163,590
Other objects	<u>1,129</u>	<u>-</u>
Total operating expenses	<u>4,151,395</u>	<u>641,509</u>
Operating loss	<u>(1,442,931)</u>	<u>(39,371)</u>
Nonoperating Revenues (Expenses)		
Loss on disposal of equipment	(8,192)	-
State sources	388,016	-
Federal sources	<u>1,147,152</u>	<u>-</u>
Total nonoperating revenues	<u>1,526,976</u>	<u>-</u>
Changes in net deficit	84,045	(39,371)
Net Deficit, Beginning	<u>(4,072,046)</u>	<u>(420,378)</u>
Net Deficit, Ending	<u>\$ (3,988,001)</u>	<u>\$ (459,749)</u>

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2019

	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,816,478	\$ 619,579
Cash paid to employees	(2,336,728)	(323,360)
Cash paid to vendors	<u>(1,806,262)</u>	<u>(296,219)</u>
Net cash used in operating activities	<u>(1,326,512)</u>	<u>-</u>
Cash Flows from Investing Activities		
Proceeds from sale of equipment	461	-
Purchase of equipment	<u>(67,288)</u>	<u>-</u>
Net cash used in investing activities	<u>(66,827)</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities		
State sources	374,510	-
Federal sources	<u>1,024,382</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,398,892</u>	<u>-</u>
Increase in cash and cash equivalents	5,553	-
Cash and Cash Equivalents, Beginning	<u>9,758</u>	<u>-</u>
Cash and Cash Equivalents, Ending	<u>\$ 15,311</u>	<u>\$ -</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,442,931)	\$ (39,371)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	24,162	1,683
Pension changes	57,866	25,436
OPEB changes	(60,930)	2,929
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	13,588	-
Other receivables	(3,389)	-
Due to/from other funds	91,172	17,441
Accounts payable	664	3,678
Accrued salaries and benefits	280	(11,796)
Other liabilities	20,231	-
Compensated absences	<u>(27,225)</u>	<u>-</u>
Net Cash Used in Operating Activities	<u>\$ (1,326,512)</u>	<u>\$ -</u>
Noncash Investing and Noncapital Financing Activities		
USDA Donated Commodities	<u>\$ 293,451</u>	<u>\$ -</u>
Loss on disposal of equipment	<u>\$ (8,192)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Position - Fiduciary Fund, Agency
June 30, 2019

Assets

Current Assets

Cash	<u>\$ 567,448</u>
------	-------------------

Liabilities

Current Liabilities

Due to other funds	\$ 89,154
Accounts payable	8,624
Other current liabilities	<u>469,670</u>

Total	<u>\$ 567,448</u>
-------	-------------------

State College Area School District

Notes to Financial Statements
June 30, 2019

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, Debt Service and Internal 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 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.

State College Area School District

Notes to Financial Statements
June 30, 2019

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 was established under the Pennsylvania Municipal Code to account for (1) moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the District at the end of a fiscal year, and (3) interest earnings of the fund itself. Bond proceeds and other local, state and federal revenue may not be deposited in this fund. No transfers out of this fund are allowable for any purpose. Expenditures from this fund are limited to: capital improvements, replacement and additions to public works and improvements, for deferred maintenance, for the purchase or replacement of school buses, or to make debt service payments, and for no other purpose. The Capital Reserve Fund is a major fund.

Capital Projects Fund

The Capital Project Fund accounts for the financial resources to be used 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.

State College Area School District

Notes to Financial Statements
June 30, 2019

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.

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.

Student Activity Fund

The Student 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.

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.

State College Area School District

Notes to Financial Statements

June 30, 2019

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 (next fiscal year) or, for real estate taxes, 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.

The District reports unearned revenue on its fund financial statements. Unearned revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues may also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

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.

State College Area School District

Notes to Financial Statements
June 30, 2019

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.

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.

State College Area School District

Notes to Financial Statements
June 30, 2019

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.

Pension

The District provides eligible employees with retirement benefits through the Public School Employees' Retirement System ("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.

Other Postemployment Benefits (OPEB)

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 the PSERS Health Insurance Premium Assistance Program 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 GAAP 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.

State College Area School District

Notes to Financial Statements
June 30, 2019

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").

Pennsylvania statutes provide for the investment of governmental funds in certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for cash management and investment purposes. Pennsylvania Act 72 requires all governmental (public funds) deposits not insured by the Federal Deposit Insurance Corporation to be collateralized by the financial institution.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to the following deposit and investment risks: credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following is a description of the District's deposit and investment risks:

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, 2019, \$103,971,105 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, 2019, the carrying amount and bank balances of the District's investment in PSDLAF were \$12,653,338. 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.

3. Property Taxes

Property taxes are levied on July 1. Taxes are 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.

State College Area School District

Notes to Financial Statements
June 30, 2019

4. Interfund Receivables, Payables and Transfers

At June 30, 2019, the following interfund balances were unpaid:

Amounts due from other funds:	
General Fund	\$ 1,958,631
Capital Reserve Fund	4,928,022
Internal Service Fund	<u>101,224</u>
Total	<u>\$ 6,987,877</u>
Amounts due to other funds:	
General Fund	\$ 5,005,955
Capital Projects Fund	1,843,780
Food Service Fund	48,988
Agency Fund	<u>89,154</u>
Total	<u>\$ 6,987,877</u>

Interfund balances primarily arise between the General Fund and other funds due to operating expenses and capital project related 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, 2019 is as follows:

Transfers in:	
Capital Reserve Fund	\$ 8,175,289
Capital Projects Fund	9,022,230
Debt Service Fund	<u>12,867,657</u>
Total	<u>\$ 30,065,176</u>
Transfers out, General Fund	<u>\$ 30,065,176</u>

The General Fund transferred \$8,175,289 to the Capital Reserve Fund to provide funding for planned major capital projects. The General Fund also transferred \$9,022,230 to the Capital Projects Fund to cover current year building projects and \$12,867,657 to the Debt Service Fund to cover required debt service payments.

5. Due from Other Governments

The amount reported in the funds at June 30, 2019 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 325,464	\$ 5,600,172	\$ 734,949	\$ 6,660,585
Food Service Fund	<u>141,698</u>	<u>105,469</u>	<u>-</u>	<u>247,167</u>
Total	<u>\$ 467,162</u>	<u>\$ 5,705,641</u>	<u>\$ 734,949</u>	<u>\$ 6,907,752</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, 2019. 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, 2019.

State College Area School District

Notes to Financial Statements
June 30, 2019

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2019 follows:

Delinquent real estate taxes receivable	\$ 1,219,675
Earned income taxes receivable	1,009,013
Real estate transfer tax receivable	287,880
Interim real estate tax	18,888
Local service	<u>17,222</u>
Total	2,552,678
Estimated uncollectible taxes at June 30, 2019	<u>293,867</u>
Total	<u>\$ 2,258,811</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2019 is as follows:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance June 30, 2019</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,140,457	\$ -	\$ -	\$ 1,140,457
Construction in progress	<u>57,158,002</u>	<u>68,501,267</u>	<u>(91,569,783)</u>	<u>34,089,486</u>
Total capital assets, not being depreciated	<u>58,298,459</u>	<u>68,501,267</u>	<u>(91,569,783)</u>	<u>35,229,943</u>
Capital assets being depreciated:				
Buildings and improvements	188,125,766	82,684	87,550,661	275,759,111
Equipment and other capital assets	46,816,757	1,769,219	290,039	48,876,015
Equipment-internal service	<u>295,882</u>	<u>-</u>	<u>-</u>	<u>295,882</u>
Total capital assets, being depreciated	<u>235,238,405</u>	<u>1,851,903</u>	<u>87,840,700</u>	<u>324,931,008</u>
Accumulated depreciation for:				
Buildings and improvements	(46,388,192)	(5,280,798)	2,214,454	(49,454,536)
Equipment and other capital assets	(37,526,218)	(1,758,396)	383,382	(38,901,232)
Equipment, internal service	<u>(288,307)</u>	<u>(1,683)</u>	<u>-</u>	<u>(289,990)</u>
Total accumulated depreciation	<u>(84,202,717)</u>	<u>(7,040,877)</u>	<u>2,597,836</u>	<u>(88,645,758)</u>
Total capital assets being depreciated, net	<u>151,035,688</u>	<u>(5,188,974)</u>	<u>90,438,536</u>	<u>236,285,250</u>
Governmental activities capital assets, net	<u>\$ 209,334,147</u>	<u>\$ 63,312,293</u>	<u>\$ (1,131,247)</u>	<u>\$ 271,515,193</u>
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 1,071,135	\$ 67,288	\$ (17,901)	\$ 1,120,522
Accumulated depreciation,				
Equipment and other capital assets	<u>(943,834)</u>	<u>(24,162)</u>	<u>9,248</u>	<u>(958,748)</u>
Business-type activity capital assets, net	<u>\$ 127,301</u>	<u>\$ 43,126</u>	<u>\$ (8,653)</u>	<u>\$ 161,774</u>

State College Area School District

Notes to Financial Statements
June 30, 2019

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

Governmental activities:	
Unallocated	\$ 373,934
Instruction	1,100,501
Instructional support services	3,077
Administrative and financial support services	6,199
Operation and maintenance of plant services	<u>5,557,166</u>
 Total depreciation expenses for governmental activities	 <u>\$ 7,040,877</u>
 Business-type activities, Food service	 <u>\$ 24,162</u>

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$12,337,893 represent salaries of \$8,704,595, the District's share of Social Security taxes of \$665,901 for employees' services during the 2018-2019 school term, which are paid during July and August 2019, and retirement plan expense of \$2,909,947 applicable to the accrued salaries at June 30, 2019, and accrued workers' compensation of \$57,450.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2019 are as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Amounts due within one year
Bond Series, 2012	\$ 12,325,000	\$ -	\$ 930,000	\$ 11,395,000	\$ 860,000
Bond Series, 2013	2,230,000	-	760,000	1,470,000	770,000
Bond Series, 2014A	1,500,000	-	500,000	1,000,000	520,000
Bond Series, 2014B	5,730,000	-	-	5,730,000	-
Bond Series, 2015	71,495,000	-	1,910,000	69,585,000	2,010,000
Bond Series, 2015B	19,255,000	-	1,325,000	17,930,000	1,400,000
Bond Series, 2017	42,735,000	-	975,000	41,760,000	1,035,000
Bond Series, 2018	<u>51,285,000</u>	<u>-</u>	<u>935,000</u>	<u>50,350,000</u>	<u>1,135,000</u>
 Total bonds payable	 206,555,000	 -	 7,335,000	 199,220,000	 <u>\$ 7,730,000</u>
 Bond premium	 <u>18,825,221</u>	 <u>-</u>	 <u>1,057,495</u>	 <u>17,767,726</u>	
 Total long-term debt	 <u>\$ 225,380,221</u>	 <u>\$ -</u>	 <u>\$ 8,392,495</u>	 <u>\$ 216,987,726</u>	

State College Area School District

Notes to Financial Statements

June 30, 2019

Long-term debt at June 30, 2019 consists of the following:

\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of 2% to 3.5%	\$ 11,395,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of 2.1% to 2.75%	1,470,000
\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	1,000,000
\$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%	69,585,000
\$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%	17,930,000
\$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%	41,760,000
\$51,285,000 General Obligation Bonds, Series of 2018, due in varying annual installments beginning May 2019 through May 2044, interest rates of 2% to 5%	50,350,000
Unamortized bond premium	<u>17,767,726</u>
Total	216,987,726
Current portion	<u>7,730,000</u>
Long-term debt	<u>\$ 209,257,726</u>

State College Area School District

Notes to Financial Statements
June 30, 2019

Debt service requirements at June 30, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2020	\$ 7,730,000	\$ 8,510,607	\$ 16,240,607
2021	9,148,596	8,187,251	17,335,847
2022	9,483,596	7,823,949	17,307,545
2023	9,733,595	7,499,000	17,232,595
2024	10,119,199	7,091,251	17,210,450
2025 - 2029	51,301,004	29,072,256	80,373,260
2030 - 2034	41,734,924	20,403,888	62,138,812
2035 - 2039	47,692,940	12,650,549	60,343,489
2040 - 2043	<u>30,043,872</u>	<u>3,356,774</u>	<u>33,400,646</u>
Total	<u>\$ 216,987,726</u>	<u>\$ 104,595,525</u>	<u>\$ 321,583,251</u>

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>\$ 1,933,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,933,433</u>
Restricted for, Capital projects and debt service	<u>\$ -</u>	<u>\$ 65,352,256</u>	<u>\$ 4,787,854</u>	<u>\$ 70,140,110</u>
Committed for, PSERS	<u>2,640,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,640,414</u>

11. Construction Commitments

The District had several active construction projects as of June 30, 2019. Outstanding construction commitments on these projects amounted to approximately \$25,942,000 at June 30, 2019.

12. Retirement Plan

Plan Description

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.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 average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

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.

State College Area School District

Notes to Financial Statements

June 30, 2019

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, 2019 was 32.60% 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 \$22,512,929 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$235,896,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2019, the District's proportion was .4914%, which was an increase of .0134% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized pension expense of \$27,080,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,899,000	\$ 3,651,000
Changes in assumptions	4,395,000	-
Net difference between projected and actual earnings on pension plan investments	1,156,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	9,462,000	33,000
District contributions subsequent to the measurement date	<u>22,512,929</u>	<u>-</u>
Total	<u>\$ 39,424,929</u>	<u>\$ 3,684,000</u>

State College Area School District

Notes to Financial Statements
June 30, 2019

\$22,512,929 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, 2020. 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:		
2020		\$ 8,493,000
2021		6,128,000
2022		(492,000)
2023		<u>(901,000)</u>
Total		<u>\$ 13,228,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the District's total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2015.

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.

State College Area School District

Notes to Financial Statements

June 30, 2019

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0 %	5.2 %
Fixed income	36.0	2.2
Commodities	8.0	3.2
Absolute return	10.0	3.5
Risk parity	10.0	3.9
Infrastructure/MLPs	8.0	5.2
Real estate	10.0	4.2
Alternative investments	15.0	6.7
Cash	3.0	0.4
Financing (LIBOR)	(20.0)	0.9
	100.0 %	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

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.

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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 292,411,000	\$ 235,896,000	\$ 188,112,000

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 PSERS website at www.psers.pa.gov.

State College Area School District

Notes to Financial Statements
June 30, 2019

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. In 2019, total contributions (including retirement bonus and sick payouts) were \$1,181,259.

14. Nonmonetary Transactions

The District receives USDA donated commodities in the Food Service Fund. 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 2019 totaled \$308,823.

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 2019 was approximately \$152,000. Future minimum rental payments required under these operating leases are as follows for the years ended June 30:

2020	\$	58,644
2021		58,644
2022		<u>58,644</u>
Total	\$	<u>175,932</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. Other Postemployment Benefits (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 GASB Statement No. 75.

State College Area School District

Notes to Financial Statements

June 30, 2019

Employees Covered by Benefit Terms

At July 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	56
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>1,267</u>
Total	<u><u>1,323</u></u>

Total OPEB Liability

The District's total OPEB liability as of June 30, 2019 was \$5,332,979, which was measured as of July 1, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018 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	2.98%
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	2.98%
Healthcare cost trend rates	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% 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, 2018.

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, 2018 valuation were based on the results of an actuarial experience study (census information) as of May 2019.

State College Area School District

Notes to Financial Statements

June 30, 2019

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2018	\$ 4,912,995
Changes for the year:	
Service cost	349,168
Interest	161,483
Differences between expected and actual experience	29,035
Changes in assumptions or other inputs	70,364
Benefit payments	<u>(190,066)</u>
Net changes	<u>419,984</u>
Balance at June 30, 2019	<u>\$ 5,332,979</u>

Changes in assumptions or other inputs reflect a change in the discount rate from 3.13% in 2017 to 2.98% in 2018.

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 (1.98%) or 1-percentage-point higher (4.13%) than the current discount rate:

	<u>1% Decrease (1.98%)</u>	<u>Discount Rate (2.98%)</u>	<u>1% Increase (3.98%)</u>
Total OPEB Liability	\$ 5,737,478	\$ 5,332,979	\$ 4,950,862

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	\$ 4,713,518	\$ 5,332,979	\$ 6,070,084

State College Area School District

Notes to Financial Statements
June 30, 2019

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$536,673. At June 30, 2019, 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	\$ 248,713	\$ -
District contributions subsequent to the measurement date	249,595	-
Differences between expected and actual experience	<u>38,657</u>	<u>11,855</u>
	<u>\$ 536,965</u>	<u>\$ 11,855</u>

The \$249,595 of District contributions will be recognized as a reduction of the net OPEB liability in 2020. Other 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:	
2020	\$ 26,022
2021	26,022
2022	26,022
2023	26,022
2024	26,022
Thereafter	<u>145,405</u>
Total	<u>\$ 275,515</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, 2018, there were no assumed future benefit increases to participating eligible retirees.

State College Area School District

Notes to Financial Statements
June 30, 2019

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, 2019 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 \$573,182 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$10,245,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2019, the District's proportion was .4914%, which was an increase of .0134% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$532,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 162,000	\$ 388,000
District contributions subsequent to the measurement date	573,182	-
Changes in proportion	337,000	-
Difference between expected and actual experience	63,000	-
Net difference between projected and actual investment earnings	<u>17,000</u>	<u>-</u>
	<u>\$ 1,152,182</u>	<u>\$ 388,000</u>

State College Area School District

Notes to Financial Statements

June 30, 2019

\$573,182 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other 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:		
2020	\$	24,000
2021		24,000
2022		24,000
2023		21,000
2024		19,000
Thereafter		<u>79,000</u>
Total	\$	<u>191,000</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2018, was determined by rolling forward the PSERS' Total OPEB Liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 2.98% - 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018
- 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, 2019

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.

<u>OPEB - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9 %	0.03 %
U.S. core fixed income	92.8	1.20
Non U.S. developed fixed	1.3	0.40
	<u>100.0 %</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.98%. 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 2.98% which represents the S&P 20 year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

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, 2018, 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, 2018 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	\$ 10,243,000	\$ 10,245,000	\$ 10,247,000

State College Area School District

Notes to Financial Statements
June 30, 2019

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 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or 1-percentage-point higher (3.98%) than the current rate:

	<u>1% Decrease (1.98%)</u>	<u>Discount Rate (2.98%)</u>	<u>1% Increase (3.98%)</u>
District's proportionate share of the net OPEB liability	\$ 11,652,000	\$ 10,245,000	\$ 9,078,000

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 PSERS's website at www.psers.pa.gov.

18. Pending Changes in Accounting Principles

The GASB has approved the following:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 87, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

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

State College Area School District

Schedule of the District's Proportionate Share of the PSERS Net Pension Liability (Unaudited)

Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.4914%	0.4780%	0.4720%	0.4547%	0.4533%	0.4561%
District's proportionate share of the net pension liability	\$ 235,896,000	\$ 236,077,000	\$ 233,948,000	\$ 197,020,000	\$ 179,419,000	\$ 186,710,000
District's covered-employee payroll	66,177,871	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	356.5%	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%	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 PSERS Pension Contributions (Unaudited)

Year Ended June 30, 2019

	<u>Last 10 Fiscal Years</u>									
	<u>2019</u>	<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>
Contractually required contribution	\$ 22,512,929	\$ 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
Contributions in relation to the contractually required contribution	<u>(22,512,929)</u>	<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>
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	\$ 68,877,803	\$ 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
Contributions as a percentage of covered-employee payroll	32.69%	30.56%	27.35%	23.28%	20.68%	16.14%	11.53%	7.61%	4.89%	4.09%

State College Area School District

Schedule of the District's Proportionate Share of the PSERS OPEB Liability (Unaudited)
Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.4914%	0.4780%	0.4720%
District's proportionate share of the net OPEB liability	\$ 10,245,000	\$ 9,741,000	\$ 10,167,000
District's covered-employee payroll	66,177,871	63,641,184	61,126,703
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.5%	15.3%	16.6%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	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 PSERS OPEB Contributions (Unaudited)

Year Ended June 30, 2019

	Last 10 Fiscal Years									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 573,182	\$ 528,764	\$ 538,893	\$ 440,248	\$ 504,075	\$ 491,380	\$ 507,202	\$ 381,461	\$ 601,421	\$ 459,824
Contributions in relation to the contractually required contribution	(573,182)	(528,764)	(538,893)	(440,248)	(504,075)	(491,380)	(507,202)	(381,461)	(601,421)	(459,824)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 68,877,803	\$ 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
Contributions as a percentage of covered-employee payroll	0.83%	0.80%	0.85%	0.72%	0.86%	0.85%	0.87%	0.66%	1.00%	0.78%

State College Area School District

Required Supplementary Information

Schedule of Changes in Total OPEB Liability and Related Ratios - District Plan

Year Ended June 30, 2019

(Unaudited)

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 349,168	\$ 333,833
Interest cost	161,483	115,773
Differences between expected and actual experience	29,035	-
Changes of assumptions	70,364	220,514
Benefit payments, including refunds of member contributions	<u>(190,066)</u>	<u>(158,873)</u>
Net change in total OPEB liability	419,984	511,247
Total OPEB Liability, Beginning	<u>4,912,995</u>	<u>4,401,748</u>
Total OPEB Liability, Ending	<u>\$ 5,332,979</u>	<u>\$ 4,912,995</u>
Covered-Employee Payroll	<u>\$ 65,136,517</u>	<u>\$ 59,749,056</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>8.19%</u>	<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 3.13% to 2.98%. 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 DistrictSchedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2019**Revenues**

Local sources:

Current taxation:

Real estate	\$ 102,321,732
Earned income tax	18,388,631
Local service tax	386,864
Real estate transfers	3,070,277
Payments in lieu of taxes	664,382
Public utility realty tax	<u>118,725</u>

Total current taxation 124,950,611

Delinquent taxation 1,190,289

Total from taxation 126,140,900

Earnings from temporary investments and deposits	1,269,780
Receipts from other LEA's	51,999
Tuition	1,414,650
IDEA	739,659
Miscellaneous revenue	<u>582,427</u>

Total local sources 130,199,415

State sources:

Basic instructional subsidy	7,920,859
Private placement tuition	108,757
Vocational education	227,172
Special education	3,292,352
Transportation	926,079
Rental and sinking fund payments	320,857
Medical and dental services	140,026
Property tax reduction	1,423,448
Extra grants	6,799,671
Social Security subsidy	2,536,120
Retirement subsidy	11,363,341
Other state grants	<u>393,850</u>

Total state sources 35,452,532

Federal sources:

Title I	783,711
Title II A	167,980
Secondary Allocation	66,634
Title III	56,699
Title IV	50,856
Medical Assistance	11,880
ACCESS	331,236
Other federal grants	<u>2,055</u>

Total federal sources 1,471,051

Total revenues 167,122,998

State College Area School DistrictSchedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2019**Expenditures**

Instruction:

Regular programs	\$ 62,117,656
Special programs	19,765,253
Vocational education programs	3,693,232
Other instructional programs	2,198,271
Adult education programs	6,946
Nonpublic school programs	<u>15,284</u>

Total instruction 87,796,642

Support services:

Pupil personnel	5,581,639
Instructional staff	6,042,696
Administration	7,734,776
Pupil health	1,521,505
Business	1,471,511
Operation and maintenance of plant services	11,231,279
Student transportation services	6,680,066
Central	<u>6,024,571</u>

Total support services 46,288,043

Noninstructional services:

Student activities	2,896,625
Community services	<u>95,772</u>

Total noninstructional services 2,992,397

Facilities acquisition, construction and improvement services

36,194

Total expenditures 137,113,276

Excess of revenues over expenditures before other
before other financing uses

30,009,722

Other Financing Uses

Refund of prior year receipts	(19,205)
Transfer out	<u>(30,065,176)</u>

Total other financing uses (30,084,381)

Change in fund balance (74,659)

Fund Balance, Beginning

17,902,370

Fund Balance, Ending

\$ 17,827,711

State College Area School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

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, 2018	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2019	Expenditures to Subrecipients	
Grantor/Pass-Through											
Grantor/Program or Cluster Title											
U.S. Department of Education											
Passed through the PA Department of Education:											
Title I, Part A:											
Title I Grants to Local Educational Agencies	I	84.010	013-190418	C	\$ 765,944	\$ 612,805	\$ -	\$ 712,660	\$ 712,660	\$ 99,855	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-180418	B	765,537	200,244	121,503	59,066	59,066	(19,675)	-
Title I Grants to Local Educational Agencies	I	84.010	013-170418	A	760,967	-	(11,985)	11,985	11,985	-	-
Total Title I, Part A						813,049	109,518	783,711	783,711	80,180	-
Career and Technical Education - Basic Grants to States	I	84.048	380-190097	C	66,634	66,634	-	66,634	66,634	-	-
Career and Technical Education - Basic Grants to States	I	84.048	380-180095	B	68,524	6,229	6,229	-	-	-	-
Total Career and Technical Education - Basic Grants to States						72,863	6,229	66,634	66,634	-	-
English Language Acquisition State Grants	I	84.365	010-190418	C	55,211	18,404	-	28,791	28,791	10,387	-
English Language Acquisition State Grants	I	84.365	010-180418	B	53,860	28,725	817	27,908	27,908	-	-
Total English Language Acquisition State Grants						47,129	817	56,699	56,699	10,387	-
Improving Teacher Quality State Grants	I	84.367	020-190418	C	167,002	121,750	-	159,794	159,794	38,044	-
Improving Teacher Quality State Grants	I	84.367	020-180418	B	181,899	35,713	19,498	8,186	8,186	(8,029)	-
Total Improving Teacher Quality State Grants						157,463	19,498	167,980	167,980	30,015	-
Student Support and Academic Enrichment Program	I	84.424	144-190418	C	56,212	52,465	-	43,903	43,903	(8,562)	-
Student Support and Academic Enrichment Program	I	84.424	144-180418	B	17,632	8,228	8	6,953	6,953	(1,267)	-
Total Student Support and Academic Enrichment Program						60,693	8	50,856	50,856	(9,829)	-
Total PA Department of Education						1,151,197	136,070	1,125,880	1,125,880	110,753	-
Passed through Central Intermediate Unit #10:											
Special Education Cluster (IDEA):											
Special Education - Grants to States	I	84.027	062-18-0-010	B	738,794	738,794	738,794	-	-	-	-
Special Education - Grants to States	I	84.027	062-19-0-010	C	734,949	-	-	734,949	734,949	734,949	-
Preschool/Early Intervention Funds (619)	I	84.173	131-19-0-010	C	4,710	4,710	-	4,710	4,710	-	-
Total Special Education Cluster (IDEA)						743,504	738,794	739,659	739,659	734,949	-
Total U.S. Department of Education						1,894,701	874,864	1,865,539	1,865,539	845,702	-
U.S. Environmental Protection Agency											
Passed through The Pennsylvania State University, Environmental Education Grants											
	I	66.951	5784-SC-EPA-2201	C	4,550	2,054	-	2,054	2,054	-	-
U.S. Department of Health and Human Services, Medicaid Cluster											
Passed through Pennsylvania Department of Public Welfare Administrative Claiming Quarterly Program											
	I	93.778	044-007418	C		8,405	-	11,880	11,880	3,475	-
U.S. Department of Agriculture											
Child Nutrition Cluster:											
Passed through PA Department of Education:											
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 5	28,603	28,603	-	-	-	-
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 5	579,060	-	694,803	694,803	115,743	-
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 5	117,571	-	143,526	143,526	25,955	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 5	5,696	5,696	-	-	-	-
Passed through the PA Department of Agriculture, National School Lunch Program											
	I	10.555	110-14-800-2	C	NOTE 5	293,451	(25,618)	308,823	308,823	(10,246)	-
Total Child Nutrition Cluster and Total U.S. Department of Agriculture						1,024,381	8,681	1,147,152	1,147,152	131,452	-
Total						\$ 2,929,541	\$ 883,545	\$ 3,026,625	\$ 3,026,625	\$ 980,629	\$ -

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the federal award activity of the District under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the 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"). 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 accrual basis of accounting for the Child Nutrition Cluster and the modified accrual basis of accounting for all remaining programs. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs, primarily those involving governmental activities (i.e., General Fund), are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs, including those involving business-type activities (i.e., Food Service Fund), are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

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 \$331,236 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

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

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 = 07/01/16 - 06/30/17

B = 07/01/17 - 06/30/18

C = 07/01/18 - 06/30/19

7. Indirect Cost Rate

The District has elected not to use the 10% 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***

To the Board of Education of
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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2019.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
December 11, 2019

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

To the Board of Education of
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, 2019. 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 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, 2019.

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
December 11, 2019

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were in accordance with GAAP: 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>
10.553, 10.555	Child Nutrition Cluster

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

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, 2018 Single Audit.

Board of Directors
State College Area School District
State College, PA

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's") for the year ended June 30, 2019, and have issued our report thereon dated December 11, 2019. 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'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'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'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'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'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's compliance with those requirements.

Board of Directors
State College Area School District

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 April 26, 2019 .

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's are described in Note 1 to the financial statements.

The District adopted Governmental Accounting Standards Board ("GASB") 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 was required to adopt Statement No. 88 for its 2019 financial statements.

Otherwise, no new accounting policies were adopted and the application of existing policies was not changed during 2019.

We noted no transactions entered into by the District's 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. A summary of uncorrected financial statement misstatements has been provided to you. Management has determined that their effects 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's that, in our professional judgment, may reasonably be thought to bear on our independence.

Board of Directors
State College Area School District

Relating to our audit of the financial statements of the District's for the year ended June 30, 2019, Baker Tilly hereby confirms that we are, in our professional judgment, independent with respect to the District's in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. During the year ended June 30, 2019, Baker Tilly provided the following services to the District's:

Proposing correcting and adjusting journal entries as considered necessary

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

Technical assistance with the preparation of the financial statements, required supplementary information, and notes thereto

Technical assistance with the presentation of the 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's and is not intended to be and should not be used by anyone other than these specified parties.

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 Vorchaw Krause, LLP

State College, Pennsylvania
December 11, 2019