

State College Area School District

Financial Statements and
Supplementary Information

June 30, 2017



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State College Area School District

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Independent Auditors' Report

Board of Education
State College Area School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of State College Area School District (the "District"), as of and for the year ended June 30, 2017, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of State College Area School District as of June 30, 2017, 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 4 through 16, the schedule of funding progress on page 51, the schedule of District's proportionate share of the net pension liability on page 52 and the schedule of District's contributions on page 53 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 54-55) 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 56), as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
November 16, 2017

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

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, 2017. 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. Effective with audited financial statements issued June 30, 2015, the District's estimated proportionate share of the Public School Employees' Retirement System ("PSERS") liability is included in the liabilities of the government-wide financial statements. The net pension liability as of June 30, 2017 was \$229,249,797 for governmental activities and \$4,698,203 for the business-type activity.

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short term. Fund financial statements are prepared using the modified accrual basis of accounting.

Governmental Funds

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

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

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

Proprietary Funds

The District accounts for its food service operation in a proprietary fund, which reports the same functions presented as the business-type activity in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to Financial Statements

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Government-Wide Financial Analysis

Condensed Statement of Net Deficit

June 30, 2017

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Condensed Statement of Activities
For the Year Ended
June 30, 2017

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Condensed Statement of Net Deficit (As Previously Reported) June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 150,256,913	\$ 263,553	\$ 150,520,466
Noncurrent assets	108,509,344	163,824	108,673,168
Deferred outflows of resources	<u>16,171,564</u>	<u>291,312</u>	<u>16,462,876</u>
Total	<u>\$ 274,937,821</u>	<u>\$ 718,689</u>	<u>\$ 275,656,510</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current liabilities	\$ 25,859,537	\$ 181,497	\$ 26,041,034
Long-term liabilities:			
Due within one year	4,990,000	-	4,990,000
Due after one year	<u>327,374,789</u>	<u>3,858,474</u>	<u>331,233,263</u>
Total liabilities	<u>358,224,326</u>	<u>4,039,971</u>	<u>362,264,297</u>
Deferred inflows of resources	<u>1,876,216</u>	<u>36,784</u>	<u>1,913,000</u>
Net deficit:			
Net investment in capital assets	41,025,937	163,824	41,189,761
Restricted	75,620	-	75,620
Unrestricted (deficit)	<u>(126,264,278)</u>	<u>(3,521,890)</u>	<u>(129,786,168)</u>
Total net deficit	<u>(85,162,721)</u>	<u>(3,358,066)</u>	<u>(88,520,787)</u>
Total	<u>\$ 274,937,821</u>	<u>\$ 718,689</u>	<u>\$ 275,656,510</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Condensed Statement of Activities (As Previously Reported) For the Year Ended June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,653,518	\$ 2,544,423	\$ 4,197,941
Operating grants and contributions	17,254,457	1,312,584	18,567,041
General revenues:		-	
Taxes levied, net	111,851,380	-	111,851,380
Grants, subsidies and contributions not restricted	8,325,457	-	8,325,457
Other	1,065,133	-	1,065,133
Total revenues	<u>140,149,945</u>	<u>3,857,007</u>	<u>144,006,952</u>
Program expenses:			
Instruction	79,742,882	-	79,742,882
Instructional student support	10,553,204	-	10,553,204
Administration and financial support services	13,950,534	-	13,950,534
Operation and maintenance of plant services	11,565,761	-	11,565,761
Pupil transportation	6,103,636	-	6,103,636
Student activities	2,610,330	-	2,610,330
Community services	121,258	-	121,258
Interest on long-term debt	3,737,923	-	3,737,923
Unallocated depreciation	395,245	-	395,245
Food service	-	3,988,674	3,988,674
Total program expenses	<u>128,780,773</u>	<u>3,988,674</u>	<u>132,769,447</u>
Change in net position before transfers	11,369,172	(131,667)	11,237,505
Transfers	<u>(127,655)</u>	<u>127,655</u>	<u>-</u>
Change in net position	11,241,517	(4,012)	11,237,505
Net deficit, beginning	<u>(96,404,238)</u>	<u>(3,354,054)</u>	<u>(99,758,292)</u>
Net deficit, ending	<u>\$ (85,162,721)</u>	<u>\$ (3,358,066)</u>	<u>\$ (88,520,787)</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Total net position of the District increased \$9,477,289 in 2017. Net position of governmental activities increased by \$9,683,500, while net position of the business-type activity decreased \$206,211.

The District had \$140,053,590 in expenses related to governmental activities in 2017; only \$23,221,121 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$126,781,938 also provided for these programs. The \$9,683,500 increase in governmental activities net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$206,211 as a result of the net loss of the food service operation.

The June 30, 2017, 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. Below is a schedule showing the impact on the unrestricted net position as of June 30, 2016 and 2017.

	<u>Total Net Position</u>	<u>GASB 68 (PSERS liability) Impact</u>	<u>Total Excluding GASB 68 Impact</u>	<u>Unrestricted Net Position Excluding GASB 68 Impact</u>
Governmental Activities:				
At June 30, 2016	\$ (85,162,721)	\$ (180,249,176)	\$ 95,086,455	\$ 53,984,898
Change in net position	<u>9,683,500</u>	<u>(6,467,177)</u>	<u>16,150,677</u>	<u>2,957,492</u>
Ending at June 30, 2017	<u>\$ (75,479,221)</u>	<u>\$ (186,716,353)</u>	<u>\$ 111,237,132</u>	<u>\$ 56,942,390</u>
Business-Type Activities:				
At June 30, 2016	\$ (3,358,066)	\$ (3,533,884)	\$ 175,818	\$ 11,994
Change in net position	<u>(206,211)</u>	<u>(292,647)</u>	<u>86,436</u>	<u>93,019</u>
Ending at June 30, 2017	<u>\$ (3,564,277)</u>	<u>\$ (3,826,531)</u>	<u>\$ 262,254</u>	<u>\$ 105,013</u>

As of June 30, 2017, excluding the pension activity recorded based on GASB 68, \$56,942,390 of unrestricted net position of the \$111,237,132 of total net position was available to meet the District's ongoing obligations to employees and creditors for governmental activities. The remaining net position of \$54,294,742, is invested in capital assets and restricted for capital projects and debt service.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2016-2017 fiscal year were \$149,444,213 compared to \$139,762,228 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2016 - 2017</u>	<u>2015 - 2016</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 119,738,829	\$ 115,076,626	\$ 4,662,203	4.1 %
State sources	28,226,039	23,174,708	5,051,331	21.8 %
Federal sources	<u>1,479,345</u>	<u>1,510,894</u>	<u>(31,549)</u>	(2.1) %
Total	<u>\$ 149,444,213</u>	<u>\$ 139,762,228</u>	<u>\$ 9,681,985</u>	6.9 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$4,662,203 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$5,062,900 with approximately \$4,099,000 related to an increase in the millage rate from 41.674 mills to 43.473 mills per \$1,000 of assessed value. The increase in millage rate of 4.32% included exceptions of 1.92% to fund the \$1,800,000 increase in debt service related to the high school building project referendum debt. Rebates totaling \$82,580 offset real estate tax revenue. The District implemented a Supplemental Tax Rebate Program in the 2015-16 fiscal year, which provides property tax rebates to senior citizens, widows, widowers and disabled persons who met certain income eligibility guidelines and who were homeowners. Earned income tax revenue and real estate transfer tax revenue decreased approximately \$311,000 and \$246,380, respectively. Revenue also decreased related to proceeds of \$400,000 received for the sale of the District's College Heights building in the prior year.

State revenues are derived primarily from state subsidies for basic education, special education and transportation. State revenues also include a 50% reimbursement for social security and retirement costs, as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues increased \$5,051,331. Reimbursement for retirement costs increased \$1,611,170 due to an increase in salaries and an increase in the employer contribution rate for the state's retirement plan. The District received a \$2,000,000 Alternative and Clean Energy Grant from the Pennsylvania Department of Community & Economic Development ("DCED") which will fund a portion of the high school building project. Basic Education also increased approximately \$640,000 related to an increase in state funding, and social security reimbursement increased approximately \$251,000. Principal and interest reimbursement increased approximately \$463,000 related to state funding delays in the prior year resulting in receipt of two years of reimbursement in the current year.

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Expenditures

Expenditures for the 2016-2017 fiscal year were \$151,002,954 compared to the 2015-2016 fiscal year of \$140,634,410 or a 7.4% increase. The following table shows the expenditures by object category:

	<u>2016 - 2017</u>	<u>2015 - 2016</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Salaries and benefits	\$ 101,414,129	\$ 95,358,330	\$ 6,055,799	6.4 %
Professional services	3,328,268	3,247,956	80,312	2.5 %
Purchased property services	1,332,485	1,979,848	(647,363)	(32.7) %
Other purchased services	11,707,191	11,619,286	87,905	.8 %
Supplies	5,894,964	3,157,079	2,737,885	86.7 %
Property	971,110	2,750,633	(1,779,523)	(64.7) %
Other objects	435,847	273,404	162,443	59.4 %
Other uses of funds	25,918,960	22,247,874	3,671,086	16.5 %
Total	<u>\$ 151,002,954</u>	<u>\$ 140,634,410</u>	<u>\$ 10,368,544</u>	7.4 %

Salaries and benefits increased \$6,055,799. Salary expense increased approximately \$2,391,000, and benefits increased approximately \$3,664,000, primarily due to a \$3,159,000 increase in retirement expense related to an increase in the employer contribution rate for PSERS from 25.84% to 30.03% (16.2%).

The decrease in purchased property services and property, and the increase in supplies are primarily related to changes in the state reporting requirements that caused movement of expenses between expense line items. The net increase in these lines is approximately \$311,000 (3.9%) and is primarily related to information technology purchases related in infrastructure and data warehouse software.

Other uses of funds increased \$3,671,086. Debt service increased \$2,452,500, of which \$1,872,000 is related to an increase to a full year of debt service for the high school referendum borrowing, which included payment of interest only in 2015-16. Capital fund transfers increased \$2,520,200 primarily related to a \$2,000,000 DCED grant which will fund a portion of the high school project. The transfer to the capital reserve fund decreased \$1,440,100 and the transfer to the Food Service fund to cover cash needs increased \$138,300.

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's fund balance as of June 30, 2017 is \$53,956,685.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Capital Projects Fund

The Capital Project Fund is used to account for capital projects of the District. The District spent \$53,523,673 for such projects in 2016-17. The majority of expenditures in 2016-17 related to the High School Project. Other projects included renovation and improvements throughout the District, and initial costs related to elementary school building projects. The Capital Projects Fund's fund balance is \$13,908,948 at June 30, 2017. Restricted cash of \$25,079,445 at June 30, 2017 represents bond funds available to fund a portion of the District's High School Project.

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 2017 included \$144,701,794 of revenues and \$147,075,664 of expenditures. The budget was amended by \$2,325,075 for additional grants and related expenditures.

The actual revenues for 2017 were \$2,417,344 greater than the final budget. Local revenues were \$1,615,782 greater than budget primarily due to favorable variances in real estate transfer taxes of \$812,900, earned income tax revenue of \$389,900, and real estate tax revenue of \$162,680. Interest on investments and insurance recoveries also exceeded budgeted amounts. State revenues were \$907,921 in excess of budget. Basic Education was \$631,100 in excess of budget related to an increase in funding from the state. Federal revenues were less than budget by \$106,359.

Actual expenditures, excluding transfers to other funds, were \$2,010,631 less than the amended budget. Positive budget variances include salary expense and related benefits, which were lower than budget primarily due to the impact of turnover and vacant positions. Healthcare expense was also lower than budget related to variances in membership and coverage levels. Charter school expense was less than budget due to lower than estimated charter school enrollments. Supplies and equipment purchases were not fully expended at budgeted levels through operational efficiencies. Transfers to the capital reserve fund exceeded budget by \$3,654,898 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, 2017

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2017 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	\$ 126,297,060	\$ -	\$ 126,297,060
Equipment and other capital assets	43,848,994	1,105,751	44,954,745
Construction in progress	75,514,601	-	75,514,601
Total	245,660,655	1,105,751	246,766,406
Accumulated depreciation	<u>(86,966,675)</u>	<u>(948,510)</u>	<u>(87,915,185)</u>
Net	<u>\$ 158,693,980</u>	<u>\$ 157,241</u>	<u>\$ 158,851,221</u>

Long-Term Debt

At June 30, 2017, the District had long-term debt of \$117,780,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$73,335,000 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 \$44,445,000 is significantly below the legal limit of \$314,886,980.

Factors Expected to Have an Effect on Future Operations

The assessed value used for the 2018 budget preparation is approximately \$2.29 billion, which is up approximately \$23 million, or 1% from 2017. Amounts available for appropriation in the General Fund budget for 2017-18 are \$152,122,250, an increase of approximately 3.5% over the 2016-17 budget of \$147,075,664. Property taxes will increase 1.55% to 44.1468 mills. The District will use this increase in revenues to finance programs currently offered and to fund additional resources to provide a psychology evaluations, develop expanded program offerings, eliminate a shared principal model and respond to increased demands across the District.

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, 2017

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 2016-17 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 Pennsylvania Department of Education ("PDE") requires all school districts to develop, implement and monitor a strategic/comprehensive plan. The 2017-2023 strategic plan was developed based on input from a broad cross-section of the State College Area School District community and included formation of a steering committee of 72 students, parents, teachers, administrators, district staff, board members, community/higher education partners and community representatives.

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

District Growth

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2017

District Wide Facilities Master Plan

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

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

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

Looking beyond the high school project, the District began a Facilities Master Plan Elementary Update in April of 2016 to ensure access to sizable external funding resources, with application submission deadlines scheduled to expire in spring of 2016. These funding resources included Alternative and Clean Energy Grants secured through DCED and reimbursement of debt service expenses through the PDE PlanCon process. These funds reduce the tax effort for the elementary projects from the local community. The process included facility assessment and design by the architect, Crabtree Rohrbaugh and Associates, and community input through public forums and meetings with the Board of Directors. Project selection occurred during the fall of 2016. Project scope and design continued throughout 2017, with the projects entering the bid document phase in fall of 2017. Bid acceptance and initial construction for the projects is expected in November 2017, with completion to occur during the summer of 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, 2017

	Governmental Activities	Business -Type Activity	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 82,035,784	\$ 13,779	\$ 82,049,563
Restricted cash and cash equivalents	25,079,445	-	25,079,445
Taxes receivable, net	2,034,978	-	2,034,978
Due from fiduciary fund	122,957	1,913	124,870
Internal balances	24,063	(24,063)	-
Due from other governments	5,856,450	227,589	6,084,039
Other receivables	118,088	41,067	159,155
Inventories	19,025	62,846	81,871
Other current assets	19,341	-	19,341
Total current assets	<u>115,310,131</u>	<u>323,131</u>	<u>115,633,262</u>
Noncurrent Assets			
Land	1,140,457	-	1,140,457
Buildings and improvements	125,156,603	-	125,156,603
Equipment and other capital assets	43,848,994	1,105,751	44,954,745
Construction in progress	75,514,601	-	75,514,601
Accumulated depreciation	(86,966,675)	(948,510)	(87,915,185)
Total noncurrent assets	<u>158,693,980</u>	<u>157,241</u>	<u>158,851,221</u>
Total assets	<u>274,004,111</u>	<u>480,372</u>	<u>274,484,483</u>
Deferred Outflows of Resources			
Pension	44,911,704	920,412	45,832,116
Deferred amounts on refunding	1,223,149	-	1,223,149
Total deferred outflows of resources	<u>46,134,853</u>	<u>920,412</u>	<u>47,055,265</u>
Total	<u>\$ 320,138,964</u>	<u>\$ 1,400,784</u>	<u>\$ 321,539,748</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current Liabilities			
Accounts payable	\$ 9,159,698	\$ 4,560	\$ 9,164,258
Current portion of bonds and notes payable	5,245,000	-	5,245,000
Accrued salaries and benefits	11,200,150	6,218	11,206,368
Payroll deductions and withholdings	7,576,669	-	7,576,669
Unearned revenue	380,289	38,300	418,589
Other current liabilities	1,902,917	114,439	2,017,356
Interest rate swap payable	550,000	-	550,000
Total current liabilities	<u>36,014,723</u>	<u>163,517</u>	<u>36,178,240</u>
Noncurrent Liabilities			
Bonds and notes payable	124,314,553	-	124,314,553
Other postemployment benefits liability	2,034,672	-	2,034,672
Net pension liability	229,249,797	4,698,203	233,948,000
Compensated absences	1,626,180	54,601	1,680,781
Total noncurrent liabilities	<u>357,225,202</u>	<u>4,752,804</u>	<u>361,978,006</u>
Total liabilities	<u>393,239,925</u>	<u>4,916,321</u>	<u>398,156,246</u>
Deferred Inflows of Resources			
Pension	2,378,260	48,740	2,427,000
Net Deficit			
Net investment in capital assets	54,213,872	157,241	54,371,113
Restricted	80,870	-	80,870
Unrestricted (deficit)	(129,773,963)	(3,721,518)	(133,495,481)
Total net deficit	<u>(75,479,221)</u>	<u>(3,564,277)</u>	<u>(79,043,498)</u>
Total	<u>\$ 320,138,964</u>	<u>\$ 1,400,784</u>	<u>\$ 321,539,748</u>

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Deficit		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	
Governmental activities:						
Instruction	\$ (86,396,661)	\$ 1,216,851	\$ 16,763,821	\$ (68,415,989)		\$ (68,415,989)
Instructional student support	(11,677,081)	-	1,334,553	(10,342,528)		(10,342,528)
Administration and financial support services	(15,027,506)	-	1,104,915	(13,922,591)		(13,922,591)
Operation and maintenance of plant services	(12,651,474)	228,981	613,972	(11,808,521)		(11,808,521)
Pupil transportation	(6,201,135)	-	1,193,925	(5,007,210)		(5,007,210)
Student activities	(2,781,097)	103,713	67,959	(2,609,425)		(2,609,425)
Community services	(102,423)	-	8,202	(94,221)		(94,221)
Interest on long-term debt	(4,822,039)	-	584,229	(4,237,810)		(4,237,810)
Depreciation - unallocated	(394,174)	-	-	(394,174)		(394,174)
Total governmental activities	(140,053,590)	1,549,545	21,671,576	(116,832,469)		(116,832,469)
Business-Type Activity						
Food service	(4,294,103)	2,482,495	1,339,428	-	\$ (472,180)	(472,180)
Total	\$ (144,347,693)	\$ 4,032,040	\$ 23,011,004	(116,832,469)	(472,180)	(117,304,649)
General Revenues						
Property taxes, levied for general purposes, net				99,406,057	-	99,406,057
Other taxes levied for specific purposes				17,532,964	-	17,532,964
Grants, subsidies and contributions not restricted				8,967,545	-	8,967,545
Investment earnings,						
Interest				741,888	-	741,888
Transfer (out) in				(265,969)	265,969	-
Miscellaneous income				133,484	-	133,484
Total general revenues				126,515,969	265,969	126,781,938
Changes in Net Position				9,683,500	(206,211)	9,477,289
Net Deficit, Beginning				(85,162,721)	(3,358,066)	(88,520,787)
Net Deficit, Ending				\$ (75,479,221)	\$ (3,564,277)	\$ (79,043,498)

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds
June 30, 2017

	Major Funds			Total
	General	Capital Reserve	Capital Projects	
Assets				
Assets				
Cash and cash equivalents	\$ 31,439,170	\$ 50,596,614	\$ -	\$ 82,035,784
Restricted cash and cash equivalents	-	-	25,079,445	25,079,445
Taxes receivable, net	2,034,978	-	-	2,034,978
Due from other funds	2,818,918	3,360,071	-	6,178,989
Due from other governments	5,856,450	-	-	5,856,450
Other receivables	118,088	-	-	118,088
Inventories	1,932,848	-	-	1,932,848
Other current assets	19,341	-	-	19,341
	<u>19,341</u>	<u>-</u>	<u>-</u>	<u>19,341</u>
Total	<u>\$ 44,219,793</u>	<u>\$ 53,956,685</u>	<u>\$ 25,079,445</u>	<u>\$ 123,255,923</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Due to other funds	\$ 3,479,399	\$ -	\$ 2,687,949	\$ 6,167,348
Accounts payable	673,558	-	8,482,548	9,156,106
Accrued salaries and benefits	11,200,150	-	-	11,200,150
Payroll deductions and withholdings	7,576,669	-	-	7,576,669
Unearned revenue	380,289	-	-	380,289
Other liabilities	310,288	-	-	310,288
	<u>310,288</u>	<u>-</u>	<u>-</u>	<u>310,288</u>
Total liabilities	<u>23,620,353</u>	<u>-</u>	<u>11,170,497</u>	<u>34,790,850</u>
Deferred Inflows of Resources				
Unavailable revenues - taxes	744,412	-	-	744,412
	<u>744,412</u>	<u>-</u>	<u>-</u>	<u>744,412</u>
Fund Balances				
Nonspendable	1,932,848	-	-	1,932,848
Restricted	-	80,870	13,908,948	13,989,818
Committed	6,034,715	53,875,815	-	59,910,530
Unassigned	11,887,465	-	-	11,887,465
	<u>11,887,465</u>	<u>-</u>	<u>-</u>	<u>11,887,465</u>
Total fund balances	<u>19,855,028</u>	<u>53,956,685</u>	<u>13,908,948</u>	<u>87,720,661</u>
Total	<u>\$ 44,219,793</u>	<u>\$ 53,956,685</u>	<u>\$ 25,079,445</u>	<u>\$ 123,255,923</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, 2017

Total Fund Balance - Governmental Funds \$ 87,720,661

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$245,660,655 and the accumulated depreciation is \$86,966,675. 158,693,980

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. 744,412

Inventory of books and supplies was reclassified. (1,932,848)

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. 137,454

Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds. (550,000)

Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit. 44,911,704

Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit. (2,378,260)

Long-term liabilities, including bonds and notes 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 and notes payable	(129,559,553)
Deferred amounts on refunding	1,223,149
Accrued interest on long-term debt	(1,592,629)
Other postemployment benefits liability	(2,034,672)
Net pension liability	(229,249,797)
Compensated absences	(1,612,822)

Total Net Deficit - Governmental Activities \$ (75,479,221)

See notes to financial statements

State College Area School District

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

Year Ended June 30, 2017

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
Revenues					
Local sources	\$ 119,738,829	\$ 246,751	\$ 217,339	\$ -	\$ 120,202,919
State sources	28,226,039	-	-	-	28,226,039
Federal sources	1,479,345	-	-	-	1,479,345
Total revenues	149,444,213	246,751	217,339	-	149,908,303
Expenditures					
Instruction	80,969,824	-	-	-	80,969,824
Support services	41,095,026	-	15,975	-	41,111,001
Noninstructional services	2,786,038	-	-	-	2,786,038
Facilities acquisition, construction and improvement services	78,139	11,512	53,507,698	-	53,597,349
Debt service	550,000	-	-	10,160,560	10,710,560
Total expenditures	125,479,027	11,512	53,523,673	10,160,560	189,174,772
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	23,965,186	235,239	(53,306,334)	(10,160,560)	(39,266,469)
Other Financing Sources (Uses)					
Transfer in	-	10,329,898	4,617,168	10,155,922	25,102,988
Refund of prior year receipts	(154,970)	-	-	-	(154,970)
Transfer out	(25,368,957)	-	-	-	(25,368,957)
Total other financing (uses) sources	(25,523,927)	10,329,898	4,617,168	10,155,922	(420,939)
Changes in Fund Balances	(1,558,741)	10,565,137	(48,689,166)	(4,638)	(39,687,408)
Fund Balance, Beginning	21,413,769	43,391,548	62,598,114	4,638	127,408,069
Fund Balance, Ending	\$ 19,855,028	\$ 53,956,685	\$ 13,908,948	\$ -	\$ 87,720,661

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, 2017

Total Changes in Fund Balances-Governmental Funds		\$ (39,687,408)
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.		65,802
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 exceeds depreciation in this period:		
Depreciation expense	(4,838,127)	
Capital outlays	<u>55,022,763</u>	50,184,636
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.		(47,399)
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, 2017 are as follows,		
Scheduled principal payments on long-term debt		4,990,000
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.		348,520
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.		50,284
Other post employment benefits that are reflected on the statement of net deficit but are not considered a current expenditures in governmental funds.		(291,666)
Change in the interest rate swap payable:		
Installment payment made on interest rate swap payable		550,000
Net pension liability is considered long-term in nature, and is not reported as a liability within the funds. Such a liability is, however, reported with in the statement of net deficit, and changes in the liability is reflected within the statement of net deficit. This represents the change in pension liability and the deferred outflows and inflows related to the pension.		(6,467,177)
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.		<u>(12,092)</u>
Changes in Net Deficit of Governmental Activities		\$ <u>9,683,500</u>

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 118,106,343	\$ 118,123,047	\$ 119,738,829	\$ 1,615,782
State sources	25,300,451	27,318,118	28,226,039	907,921
Federal sources	1,295,000	1,585,704	1,479,345	(106,359)
Total revenues	144,701,794	147,026,869	149,444,213	2,417,344
Expenditures				
Instruction:				
Regular programs	59,658,934	59,640,297	58,312,829	1,327,468
Special programs	17,004,348	17,247,055	17,320,644	(73,589)
Vocational education programs	3,338,173	3,356,271	3,543,751	(187,480)
Other instructional programs	1,968,427	1,705,881	1,755,973	(50,092)
Adult education programs	10,006	15,541	13,976	1,565
Nonpublic school programs	21,534	21,977	22,651	(674)
Total instruction	82,001,422	81,987,022	80,969,824	1,017,198
Support services:				
Pupil personnel	4,785,018	4,811,818	4,766,454	45,364
Instructional staff	4,897,619	5,108,199	5,083,371	24,828
Administration	7,774,144	7,337,368	7,148,699	188,669
Pupil health	1,471,741	1,492,827	1,531,259	(38,432)
Business	1,266,309	1,433,782	1,364,669	69,113
Operation and maintenance of plant services	9,545,723	9,533,487	9,349,720	183,767
Student transportation services	6,125,001	6,149,746	6,107,409	42,337
Central	5,511,281	6,140,246	5,743,445	396,801
Total support services	41,376,836	42,007,473	41,095,026	912,447
Noninstructional services:				
Student activities	2,630,496	2,670,541	2,683,615	(13,074)
Community services	87,221	105,722	96,490	9,232
Scholarships and awards	50,000	50,000	5,933	44,067
Total noninstructional services	2,767,717	2,826,263	2,786,038	40,225
Facilities acquisition, construction and improvement services	-	68,066	78,139	(10,073)
Debt service	550,000	550,000	550,000	-
Total expenditures	126,695,975	127,438,824	125,479,027	1,959,797
Excess of Revenues Over Expenditures Before Other Financing Uses				
	18,005,819	19,588,045	23,965,186	4,377,141
Other Financing Uses				
Budgetary reserve	(1,036,930)	(40,804)	-	40,804
Refund of prior year receipts	(65,007)	(165,000)	(154,970)	10,030
Transfer out	(19,277,752)	(21,756,111)	(25,368,957)	(3,612,846)
Total other financing uses	(20,379,689)	(21,961,915)	(25,523,927)	(3,562,012)
Changes in Fund Balance	\$ (2,373,870)	\$ (2,373,870)	(1,558,741)	\$ 815,129
Fund Balance, Beginning			21,413,769	
Fund Balance, Ending			\$ 19,855,028	

See notes to financial statements

State College Area School District

Statement of Net Deficit - Proprietary Funds

June 30, 2017

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 13,779	\$ -
Due from other funds	1,913	135,379
Due from other governments	227,589	-
Other receivables	41,067	-
Inventories	62,846	19,025
	<u>347,194</u>	<u>154,404</u>
Total current assets		
Noncurrent Assets		
Equipment	1,105,751	295,882
Accumulated depreciation	(948,510)	(286,624)
	<u>157,241</u>	<u>9,258</u>
Total noncurrent assets		
Deferred Outflows of Resources		
Pension	920,412	118,387
	<u>920,412</u>	<u>118,387</u>
Total	<u>\$ 1,424,847</u>	<u>\$ 282,049</u>
Liabilities, Deferred Inflows of Resources and Net Deficit		
Current Liabilities		
Accounts payable	\$ 4,560	\$ 3,592
Accrued salaries and benefits	6,218	-
Due to other funds	24,063	-
Other liabilities	114,439	-
Unearned revenue	38,300	-
	<u>187,580</u>	<u>3,592</u>
Total current liabilities		
Noncurrent Liabilities		
Net pension liability	4,698,203	604,303
Compensated absences	54,601	13,358
	<u>4,752,804</u>	<u>617,661</u>
Total noncurrent liabilities		
Total liabilities	<u>4,940,384</u>	<u>621,253</u>
Deferred Inflows of Resources		
Pension	48,740	6,269
	<u>48,740</u>	<u>6,269</u>
Net Deficit		
Net investment in capital assets	157,241	9,258
Unrestricted deficit	(3,721,518)	(354,731)
	<u>(3,564,277)</u>	<u>(345,473)</u>
Total net deficit		
Total	<u>\$ 1,424,847</u>	<u>\$ 282,049</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, 2017

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Food service revenue	\$ 2,482,495	\$ -
Charges for services	-	572,389
	<u>2,482,495</u>	<u>572,389</u>
Total operating revenues		
	<u>2,482,495</u>	<u>572,389</u>
Operating Expenses		
Salaries and employee benefits	2,468,917	312,329
Food, milk and supplies	1,750,456	82,217
Depreciation	28,378	1,684
Other purchased services	13,586	-
Purchased property services	22,968	155,504
Other objects	1,067	574
Professional and technical services	8,731	-
	<u>4,294,103</u>	<u>552,308</u>
Total operating expenses		
	<u>4,294,103</u>	<u>552,308</u>
Operating (loss) income	<u>(1,811,608)</u>	<u>20,081</u>
Nonoperating Revenues		
Transfer in	265,969	-
State sources	333,469	-
Federal sources	1,005,959	-
	<u>1,605,397</u>	<u>-</u>
Total nonoperating revenues		
	<u>1,605,397</u>	<u>-</u>
Changes in net deficit	(206,211)	20,081
Net Deficit, Beginning	<u>(3,358,066)</u>	<u>(365,554)</u>
Net Deficit, Ending	<u><u>\$ (3,564,277)</u></u>	<u><u>\$ (345,473)</u></u>

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2017

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,456,320	\$ 522,025
Cash paid to employees	(2,219,608)	(283,663)
Cash paid to vendors	(1,806,175)	(238,362)
	<u>(1,569,463)</u>	<u>-</u>
Cash Flows Used in Investing Activities		
Purchase of equipment	(21,795)	-
Cash Flows from Noncapital Financing Activities		
Transfers in	265,969	-
State sources	309,509	-
Federal sources	1,004,805	-
	<u>1,580,283</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,580,283</u>	<u>-</u>
Decrease in cash and cash equivalents	(10,975)	-
Cash and Cash Equivalents, Beginning	<u>24,754</u>	<u>-</u>
Cash and Cash Equivalents, Ending	<u>\$ 13,779</u>	<u>\$ -</u>
Reconciliation of Operating (Loss) Income to Net Cash (used in) Provided by Operating Activities		
Operating (loss) income	\$ (1,811,608)	\$ 20,081
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation	28,378	1,684
Pension changes	292,648	28,519
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(3,928)	(2,450)
Other receivables	(24,192)	-
Due to/from other funds	(6,694)	(50,364)
Accounts payable	(5,439)	2,383
Accrued salaries and benefits	(27,877)	-
Other liabilities	4,711	-
Compensated absences	(15,462)	147
	<u>(1,569,463)</u>	<u>-</u>
Net Cash (Used in) Provided by Operating Activities	<u>\$ (1,569,463)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Position - Fiduciary Fund - Agency

June 30, 2017

Assets

Current Assets

Cash	\$ 620,991
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Liabilities

Current Liabilities

Due to other funds	\$ 124,870
Accounts payable	56,834
Other current liabilities	439,287

Total	\$ 620,991
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State College Area School District

Notes to Financial Statements

June 30, 2017

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 and 61. The specific criteria used in determining whether other organizations should be included in the District's financial reporting entity are financial accountability, fiscal dependency and legal separation.

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

Basic Financial Statements - Government-Wide Statements

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

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

State College Area School District

Notes to Financial Statements

June 30, 2017

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

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

The District does not allocate indirect costs.

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

Basic Financial Statements - Fund Financial Statements

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

The following fund types are used by the District:

Governmental Funds

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

General Fund

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

Capital Reserve Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2017

Capital Projects Fund

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

Debt Service Fund

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

Proprietary Funds

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

Food Service Fund

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

Internal Service Fund

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

Fiduciary Funds

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

State College Area School District

Notes to Financial Statements

June 30, 2017

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

Activity Fund

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

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

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

Accrual Basis

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

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

State College Area School District

Notes to Financial Statements

June 30, 2017

Modified Accrual Basis

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

Budgets and Budgetary Accounting

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

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

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

Capital Assets

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

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

The District does not have any infrastructure capital assets.

Inventories

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

State College Area School District

Notes to Financial Statements

June 30, 2017

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, 2017

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 PSERS, a governmental cost-sharing multiple-employer defined benefit pension plan. PSERS was established as of July 18, 1917, under the provisions of Public Law 1043, No. 343.

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

Use of Estimates

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

Adoption of New Accounting Standards

The District adopted GASB Statement No. 77, *Tax Abatement Disclosures*. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The District implemented the reporting requirements of this standard as of July 1, 2016. The District did not have any abatements that were material, individually or in aggregate, to the financial statements, so no additional disclosures were required.

State College Area School District

Notes to Financial Statements

June 30, 2017

2. Cash and Cash Equivalents

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

Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. Custodial credit risk is addressed in the District's policy number 608, Bank Accounts. At June 30, 2017, \$81,171,674 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, 2017, the carrying amount and bank balances of the District's investment in PSDLAF were \$28,194,196. 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 were collected at a 2% discount until September 1, at their face amount from September 2 until November 1, and include a 10% penalty thereafter. The tax rolls are maintained by Centre County, Pennsylvania, and are collected by elected tax collectors. Centre County also collects delinquent real estate taxes for the District.

4. Interfund Receivables, Payables and Transfers

At June 30, 2017, the following interfund balances were unpaid:

Amounts due from other funds:	
General Fund	\$ 2,818,918
Capital Reserve Fund	3,360,071
Food Service Fund	1,913
Internal Service Fund	135,379
Total	<u>\$ 6,316,281</u>
Amounts due to other funds:	
General Fund	\$ 3,479,399
Capital Projects Fund	2,687,949
Food Service Fund	24,063
Agency Fund	124,870
Total	<u>\$ 6,316,281</u>

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

State College Area School District

Notes to Financial Statements

June 30, 2017

The composition of interfund transfers, used to move cash between funds at June 30, 2017 is as follows:

Transfers in:	
Capital Reserve Fund	\$ 10,329,898
Capital Projects Fund	4,617,168
Debt Service Fund	10,155,922
Food Service Fund	<u>265,969</u>
Total	<u>\$ 25,368,957</u>
Transfers out,	
General Fund	<u>\$ 25,368,957</u>

The General Fund transferred \$10,329,898 to the Capital Reserve Fund to provide funding for planned major capital projects. The General Fund also transferred \$4,617,168 to the Capital Projects Fund to cover current year building projects, \$10,155,922 to the Debt Service Fund to cover required debt service payments and \$265,969 to the Food Service Fund to cover operational expenses in excess of revenues in the current year.

5. Due from Other Governments

The amount reported in the funds at June 30, 2017 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 429,261	\$ 4,683,613	\$ 743,576	\$ 5,856,450
Food Service Fund	<u>134,822</u>	<u>92,767</u>	<u>-</u>	<u>227,589</u>
Total	<u>\$ 564,083</u>	<u>\$ 4,776,380</u>	<u>\$ 743,576</u>	<u>\$ 6,084,039</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, 2017. 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, 2017.

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2017 follows:

Delinquent real estate taxes receivable	\$ 1,178,474
Earned income taxes receivable	842,044
Real estate transfer tax receivable	269,395
Interim real estate tax	18,371
Local service	<u>9,498</u>
Total	2,317,782
Estimated uncollectible taxes at June 30, 2017	<u>(282,804)</u>
Total	<u>\$ 2,034,978</u>

State College Area School District

Notes to Financial Statements

June 30, 2017

7. Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Increases	Transfers/ Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,140,457	\$ -	\$ -	\$ 1,140,457
Construction in progress	28,577,751	53,198,792	(6,261,942)	75,514,601
Total capital assets, not being depreciated	29,718,208	53,198,792	(6,261,942)	76,655,058
Capital assets being depreciated:				
Buildings and improvements	118,574,176	320,485	6,261,942	125,156,603
Equipment and other capital assets	42,071,359	1,503,486	(21,733)	43,553,112
Equipment-internal service	295,882	-	-	295,882
Total capital assets, being depreciated	160,941,417	1,823,971	6,240,209	169,005,597
Accumulated depreciation for:				
Buildings and improvements	(47,131,851)	(3,387,140)	-	(50,518,991)
Equipment and other capital assets	(34,733,490)	(1,449,304)	21,733	(36,161,061)
Equipment, internal service	(284,940)	(1,683)	-	(286,623)
Total accumulated depreciation	(82,150,281)	(4,838,127)	21,733	(86,966,675)
Total capital assets being depreciated, net	78,791,136	(3,014,156)	6,261,942	82,038,922
Governmental activities capital assets, net	<u>\$ 108,509,344</u>	<u>\$ 50,184,636</u>	<u>\$ -</u>	<u>\$ 158,693,980</u>
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 1,083,956	\$ 21,795	\$ -	\$ 1,105,751
Accumulated depreciation, Equipment and other capital assets	(920,132)	(28,378)	-	(948,510)
Business-type activity capital assets, net	<u>\$ 163,824</u>	<u>\$ (6,583)</u>	<u>\$ -</u>	<u>\$ 157,241</u>

State College Area School District

Notes to Financial Statements

June 30, 2017

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

Government activities:	
Unallocated	\$ 394,174
Instruction	1,108,379
Instructional support services	4,274
Administrative and financial support services	6,573
Operation and maintenance of plant services	<u>3,324,727</u>
Total depreciation expenses for governmental activities	<u>\$ 4,838,127</u>
Business-type activities,	
Food service	<u>\$ 28,378</u>

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$11,200,150 represent salaries of \$8,094,569, the District's share of Social Security taxes of \$619,235 for employees' services during the 2016-2017 school term, which are paid during July and August 2017, and retirement plan expense of \$2,430,817 applicable to the accrued salaries at June 30, 2017, and accrued workers' compensation of \$55,529.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2017 are as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>	<u>Amounts due within one year</u>
General Obligation					
Note - Series of 2008	\$ 670,000	\$ -	\$ 670,000	\$ -	\$ -
Bond Series - 2012	13,690,000	-	460,000	13,230,000	905,000
Bond Series - 2013	3,690,000	-	720,000	2,970,000	740,000
Bond Series - 2014A	2,470,000	-	480,000	1,990,000	490,000
Bond Series - 2014B	5,730,000	-	-	5,730,000	-
Bond Series - 2015	75,120,000	-	1,785,000	73,335,000	1,840,000
Bond Series - 2015B	<u>21,400,000</u>	<u>-</u>	<u>875,000</u>	<u>20,525,000</u>	<u>1,270,000</u>
Total bonds and notes payable	122,770,000	-	4,990,000	117,780,000	<u>\$ 5,245,000</u>
Bond premium	<u>12,456,253</u>	<u>-</u>	<u>676,700</u>	<u>11,779,553</u>	
Total long-term debt	<u>\$ 135,226,253</u>	<u>\$ -</u>	<u>\$ 5,666,700</u>	<u>\$ 129,559,553</u>	

State College Area School District

Notes to Financial Statements

June 30, 2017

Long-term debt at June 30, 2017 consists of the following:

\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	\$ 13,230,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	2,970,000
\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	1,990,000
\$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%	73,335,000
\$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%	20,525,000
Unamortized bond premium	<u>11,779,553</u>
Total	129,559,553
Current portion	<u>5,245,000</u>
Long-term debt	<u><u>\$ 124,314,553</u></u>

State College Area School District

Notes to Financial Statements

June 30, 2017

Debt service requirements at June 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2018	\$ 5,245,000	\$ 5,026,984	\$ 10,271,984
2019	6,101,700	4,832,859	10,934,559
2020	6,236,700	4,618,357	10,855,057
2021	6,501,700	4,393,151	10,894,851
2022	6,726,700	4,143,349	10,870,049
2023 - 2027	36,405,910	16,429,313	52,835,223
2028 - 2032	25,131,332	10,344,183	35,475,515
2033 - 2037	22,036,800	6,399,225	28,436,025
2038 - 2040	15,173,711	1,454,750	16,628,461
Total	<u>\$ 129,559,553</u>	<u>\$ 57,642,171</u>	<u>\$ 187,201,724</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>\$ 1,932,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,932,848</u>
Restricted for, Capital projects	<u>\$ -</u>	<u>\$ 80,870</u>	<u>\$ 13,908,948</u>	<u>\$ 13,989,818</u>
Committed for:				
PSERS	\$ 5,484,715	\$ -	\$ -	\$ 5,484,715
Interest rate swap settlement	550,000	-	-	550,000
Capital projects	-	53,875,815	-	53,875,815
Total	<u>\$ 6,034,715</u>	<u>\$ 53,875,815</u>	<u>\$ -</u>	<u>\$ 59,910,530</u>

11. Construction Commitments

The District had several active construction projects as of June 30, 2017. Outstanding construction commitments on these projects amounted to approximately \$71,035,000 at June 30, 2017.

12. Retirement Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied times the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

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

State College Area School District

Notes to Financial Statements

June 30, 2017

Contributions

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

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

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

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

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 30.03% (29.2% for pension portion and .83% for healthcare insurance premium assistance portion) 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 \$17,963,116 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$233,948,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2015 to June 30, 2016. 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, 2016, the District's proportion was .4720%, which was an increase of .0173% from its proportion measured as of June 30, 2015.

State College Area School District

Notes to Financial Statements

June 30, 2017

For the year ended June 30, 2017, the District recognized pension expense of \$25,129,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,948,000
Changes in assumptions	8,444,000	-
Net difference between projected and actual earnings on pension plan investments	13,037,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	6,388,000	479,000
District contributions subsequent to the measurement date	<u>17,963,116</u>	<u>-</u>
Total	<u>\$ 45,832,116</u>	<u>\$ 2,427,000</u>

\$17,963,116 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, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2018	\$ (5,165,000)
2019	(5,165,000)
2020	(8,693,000)
2021	<u>(6,419,000)</u>
Total	<u>\$ (25,442,000)</u>

Actuarial Assumptions

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

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016.

- The Investment Rate of Return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

State College Area School District

Notes to Financial Statements

June 30, 2017

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the 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	22.5 %	5.3 %
Fixed income	28.5	2.1
Commodities	8.0	2.5
Absolute return	10.0	3.3
Risk parity	10.0	3.9
Infrastructure/MLPs	5.0	4.8
Real estate	12.0	4.0
Alternative investments	15.0	6.6
Cash	3.0	0.2
Financing (LIBOR)	(14.0)	0.5
	100.00 %	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

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	\$ 286,133,000	\$ 233,948,000	\$ 190,024,000

State College Area School District

Notes to Financial Statements

June 30, 2017

Pension Plan Fiduciary Net Position

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

13. Defined Contribution Plan

The District provides a 403(b) defined contribution plan for its employees, administered by the District. The plan is defined within the teachers' contract (State College Area Education Association); however, all employees are eligible to participate. With the exception of retiring teachers and certain contracted employees, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2017, total contributions (including retirement bonus and sick payouts) were \$1,233,504.

14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government and was used by the District for fiscal year 2017 totaled \$240,458.

15. Operating Leases

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

Rent expense for 2017 was approximately \$102,000. Future minimum rental payments required under these operating leases are as follows for the years ended June 30:

2018	\$	152,484
2019		152,484
2020		58,644
2021		58,644
2022		58,644
Total	\$	<u>480,900</u>

16. Interest Rate Swap Settlement Agreement

In February 2013, a settlement agreement related to an interest rate swap agreement was entered into by the District.

The District agreed to pay \$9,000,000 to Royal Bank of Canada in six varying annual installments beginning in March 2013. The repayment schedule remaining is as follows:

Year ending June 30, 2018	\$	<u>550,000</u>
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This outstanding liability is recorded on the Statement of Net Deficit related to governmental activities at June 30, 2017.

State College Area School District

Notes to Financial Statements

June 30, 2017

17. Other Postemployment Benefits

Plan Description

The State College Area School District Postemployment Benefits Plan (the "Plan") is a single employer defined benefit Other Post Employment Benefits ("OPEB") Plan, which is administered by the District.

The District provides postemployment 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 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 Plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contributions are equal to the premiums determined for the purpose of COBRA. Total retiree contributions made by plan members were \$463,770 for the year ended June 30, 2017.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefits ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following show the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 479,110
Interest on net OPEB obligation	78,435
Adjustment to annual required contribution	<u>(107,006)</u>
Annual OPEB cost	450,539
Contributions made	<u>(158,873)</u>
Increase in net OPEB obligation	291,666
Net OPEB obligation at July 1, 2016	<u>1,743,006</u>
Net OPEB obligation at June 30, 2017	<u>\$ 2,034,672</u>

State College Area School District

Notes to Financial Statements

June 30, 2017

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2017, 2016 and 2015 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 450,539	35.3 %	\$ 2,034,672
June 30, 2016	395,524	54.4	1,743,006
June 30, 2015	398,958	47.5	1,562,492

Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2016, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 3,780,269
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,780,269</u>
Funded ratio (actuarial value of plan assets/UAAL)	0%
Covered payroll	<u>\$ 59,749,056</u>
UAAL as a percentage of covered payroll	6.33%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

State College Area School District

Notes to Financial Statements

June 30, 2017

Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided under the terms of the Plan at the time of the valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's ARC was determined through an actuarial valuation performed as of July 1, 2016 using the following assumptions:

Valuation date	July 1, 2016
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	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 .25%
Health care cost trend rate	6.5% in 2016, then decreasing by 0.5% per year to 5.5% in 2018
Amortization method	Level dollar 30 year open period

18. 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.

19. Subsequent Event

In July 2017, the District issued \$43,840,000 General Obligation Bonds, Series of 2017 to be applied toward the costs of designing, constructing and equipping a new high school. The Series of 2017 Bonds are due in varying annual installments from May 2018 through May 2037, with interest rates of 3.0% to 5.0%.

20. Pending Changes in Accounting Principles

In June of 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which replaces the requirements of GASB Statement No. 45. Statement No. 75 establishes that governments with a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. Additionally, Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures, including a sensitivity analysis of the discount rate and a healthcare cost trend rate assumptions used for the valuation, and required supplementary information about their OPEB liabilities. The District is required to adopt Statement No. 75 for its fiscal 2018 financial statements.

State College Area School District

Notes to Financial Statements

June 30, 2017

In March 2016, the GASB issued Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Statement No. 68, and Statement No. 73. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District is required to adopt Statement No. 82 for its fiscal 2018 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments and separate criteria to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The District is required to adopt Statement No. 84 for its fiscal 2020 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. The District is required to adopt Statement No. 86 for its fiscal 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that all long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying assets. The District is required to adopt Statement No. 87 for its fiscal 2021 financial statements.

District management is in the process of evaluating, but has not yet determined how the adoption of the above GASB guidance will impact the District's financial statements.

State College Area School District

Required Supplementary Information Schedule of Funding Progress (Unaudited) Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
July 1, 2016	\$ -	\$ 3,780,269	\$ 3,780,269	0.00%	\$ 59,749,056	6.3%
January 1, 2014	-	3,382,323	3,382,323	0.00%	55,781,105	6.0%
January 1, 2012	-	3,136,662	3,136,662	0.00%	54,004,356	5.8%
January 1, 2010	-	3,066,971	3,066,971	0.00%	54,590,199	5.6%
January 1, 2008	-	3,212,176	3,212,176	0.00%	50,791,629	6.3%

Note: The five years above are the only valuations performed since the adoption of GASB No. 45.

State College Area School DistrictSchedule of the District's Proportionate Share of the Net Pension Liability (Unaudited)
Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.4720%	0.4547%	0.4533%	0.4561%
District's proportionate share of the net pension liability	\$ 233,948,000	\$ 197,020,000	\$ 179,419,000	\$ 186,710,000
District's covered-employee payroll	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	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%

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 Contributions (Unaudited)

Year Ended June 30, 2017

	Last 10 Fiscal Years									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 17,963,116	\$ 14,674,941	\$ 12,601,882	\$ 9,827,603	\$ 7,245,739	\$ 4,768,262	\$ 3,537,772	\$ 2,873,898	\$ 2,542,530	\$ 3,945,782
Contributions in relation to the contractually required contribution	<u>(17,963,116)</u>	<u>(14,674,941)</u>	<u>(12,601,882)</u>	<u>(9,827,603)</u>	<u>(7,245,739)</u>	<u>(4,768,262)</u>	<u>(3,537,772)</u>	<u>(2,873,898)</u>	<u>(2,542,530)</u>	<u>(3,945,782)</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	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626	\$ 54,512,187
Contributions as a percentage of covered-employee payroll	28.20%	24.00%	21.54%	16.99%	12.40%	8.27%	5.89%	4.87%	4.51%	7.24%

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2017

Revenues

Local sources:

Current taxation:

Real estate	\$ 94,978,366
Earned income tax	17,139,905
Local service tax	393,059
Real estate transfers	2,612,934
Payments in lieu of taxes	620,356
Public utility realty tax	117,190

Total current taxation 115,861,810

Delinquent taxation 1,011,409

Total from taxation 116,873,219

Earnings from temporary investments and deposits 277,154

Receipts from other LEA's 57,336

Tuition 1,126,167

IDEA 749,006

Miscellaneous revenue 655,947

Total local sources 119,738,829

State sources:

Basic instructional subsidy 7,543,444

Private placement tuition 134,739

Vocational education 154,017

Special education 3,270,067

Transportation 927,949

Rental and sinking fund payments 584,229

Medical and dental services 142,902

Property tax reduction 1,424,101

Alternative and clean energy 2,000,000

Social Security subsidy 2,328,362

Retirement subsidy 9,388,660

Other state grants 327,569

Total state sources 28,226,039

Federal sources:

Title I 762,694

Title II A 164,093

Title II C 69,589

Title III 111,636

Medical Assistance 5,333

ACCESS 366,000

Total federal sources 1,479,345

Total revenues 149,444,213

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2017

Expenditures

Instruction:	
Regular programs	\$ 58,312,829
Special programs	17,320,644
Vocational education programs	3,543,751
Other instructional programs	1,755,973
Adult education programs	13,976
Nonpublic school programs	22,651
	<hr/>
Total instruction	80,969,824
	<hr/>
Support services:	
Pupil personnel	4,766,454
Instructional staff	5,083,371
Administration	7,148,699
Pupil health	1,531,259
Business	1,364,669
Operation and maintenance of plant services	9,349,720
Student transportation services	6,107,409
Central	5,743,445
	<hr/>
Total support services	41,095,026
	<hr/>
Noninstructional services:	
Student activities	2,683,615
Community services	102,423
	<hr/>
Total noninstructional services	2,786,038
	<hr/>
Facilities acquisition, construction and improvement services	78,139
	<hr/>
Debt service	550,000
	<hr/>
Total expenditures	125,479,027
	<hr/>
Excess of revenues over expenditures before other before other financing uses	23,965,186
	<hr/>
Other Financing Uses	
Refund of prior year receipts	(154,970)
Transfer out	(25,368,957)
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Total other financing uses	(25,523,927)
	<hr/>
Change in fund balance	(1,558,741)
	<hr/>
Fund Balance, Beginning	21,413,769
	<hr/>
Fund Balance, Ending	\$ 19,855,028
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State College Area School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Passed Through Grantor's Number	Grant Period Code	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2017	Expenditures to Subrecipients
U.S. Department of Education											
Passed through the PA Department of Education:											
Title I, Part A:											
Title I	I	84.010	013-170418	B	\$ 760,967	\$ 560,597	\$ -	\$ 682,533	\$ 682,533	\$ 121,936	\$ -
Title I	I	84.010	013-160418	A	758,570	254,917	159,281	80,161	80,161	(15,475)	-
Total Title I, Part A						815,514	159,281	762,694	762,694	106,461	-
Secondary Allocation	I	84.048	380-170095	B	69,589	75,788	6,199	69,589	69,589	-	-
Title III - Language	I	84.365	010-170418	B	97,220	32,407	-	63,849	63,849	31,442	-
Title III - Language	I	84.365	010-160418	A	79,770	26,590	(21,197)	47,787	47,787	-	-
Total Title III						58,997	(21,197)	111,636	111,636	31,442	-
Title II	I	84.367	020-170418	B	183,673	122,864	-	133,009	133,009	10,145	-
Title II	I	84.367	020-160418	A	187,556	49,815	31,159	31,084	31,084	12,428	-
Total Title II						172,679	31,159	164,093	164,093	22,573	-
Total PA Department of Education						1,122,978	175,442	1,108,012	1,108,012	160,476	-
Passed through Central Intermediate Unit #10:											
Special Education Cluster (IDEA):											
Special Education - Grants to States	I	84.027	062-17-0-010	B	743,576	-	-	743,576	743,576	743,576	-
Special Education - Grants to States	I	84.027	062-16-0-010	A	733,999	733,999	733,999	-	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-15-0-010	A	4,021	4,021	4,021	-	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-16-0-010	B	5,430	5,430	-	5,430	5,430	-	-
Total Special Education Cluster (IDEA)						743,450	738,020	749,006	749,006	743,576	-
Total U.S. Department of Education						1,866,428	913,462	1,857,018	1,857,018	904,052	-
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	B	5,333	6,393	3,846	5,333	5,333	2,786	-
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	\$ 526,622	\$ -	\$ 637,916	\$ 637,916	\$ 111,294	\$ -
National School Lunch Program	I (F)	10.555	362-0000	A	NOTE 5	101,752	101,752	-	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 5	100,365	-	122,808	122,808	22,443	-
National School Lunch Program	I (F)	10.553	365-0000	A	NOTE 5	21,291	21,291	-	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	B	NOTE 5	3,693	-	4,777	4,777	1,084	-
Passed through the PA Department of Agriculture,											
National School Lunch Program	I	10.555	110-14-800-2	B	NOTE 5	251,083	(27,675)	240,458	240,458	(38,300)	-
Total Child Nutrition Cluster and Total U.S. Department of Agriculture						1,004,806	95,368	1,005,959	1,005,959	96,521	-
Total						\$ 2,877,627	\$ 1,012,676	\$ 2,868,310	\$ 2,868,310	\$ 1,003,359	\$ -

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the federal award activity of State College Area School District under programs of the federal government for the year ended June 30, 2017. 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*. Because the Schedule presents only a select portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies

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

3. Access Reimbursements

Access reimbursements for direct medical services are classified as fee-for-service revenues and are not considered federal awards. The General Fund federal revenues include \$366,000 of Access reimbursements for direct medical services.

4. Relationship to Federal Financial Reports

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

5. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

6. Source Code and Grant Period Code

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

I = Indirect funding
F = Federal share

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

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

7. Indirect Cost Rate

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

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

Board of Education
State College Area School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the State College Area School District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
November 16, 2017

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

Board of Education
State College Area School District

Report on Compliance for the Major Federal Program

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. 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.

Auditor's 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, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
November 16, 2017

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal program:

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

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

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

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	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, 2017

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, 2016 Single Audit.