

State College Area School District

Financial Statements and
Supplementary Information

June 30, 2011

State College Area School District

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June 30, 2011

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Independent Auditors' Report

Board of Education
State College Area School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State College Area School District (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State College Area School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Notes 1 and 20 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011. In connection therewith, the District restated the beginning fund balances of its General, Capital Reserve and Capital Projects Funds.

In accordance with Government Auditing Standards, we have also issued our report January 6, 2012, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the District. The additional information and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

ParenteBeard LLC

State College, Pennsylvania
January 6, 2012

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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, 2011. 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 assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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).

Both of 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, 2011

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. The District uses several different types of funds, but the two most significant types are the governmental and proprietary fund types.

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 three 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 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 business-type activities 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, 2011

Government-Wide Financial Analysis

Condensed Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-Type Activity	Total
Assets			
Current and other assets	\$ 49,318,298	\$ 444,571	\$ 49,762,869
Noncurrent assets	84,872,805	156,738	85,029,543
Total	<u>\$ 134,191,103</u>	<u>\$ 601,309</u>	<u>\$ 134,792,412</u>
Liabilities and Net Assets			
Current liabilities	\$ 27,342,753	\$ 107,511	\$ 27,450,264
Long-term liabilities:			
Due within one year	3,434,053	-	3,434,053
Due after one year	66,758,480	73,682	66,832,162
Total liabilities	<u>97,535,286</u>	<u>181,193</u>	<u>97,716,479</u>
Net assets:			
Invested in capital assets, net of related debt	27,602,996	156,738	27,759,734
Restricted	7,340,908	-	7,340,908
Unrestricted	1,711,913	263,378	1,975,291
Total net assets	<u>36,655,817</u>	<u>420,116</u>	<u>37,075,933</u>
Total	<u>\$ 134,191,103</u>	<u>\$ 601,309</u>	<u>\$ 134,792,412</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Condensed Statement of Activities

For the year ended

June 30, 2011

	Governmental Activities	Business-Type Activity	Total
Revenues			
Program revenues:			
Charges for services	\$ 534,321	\$ 2,450,345	\$ 2,984,666
Operating grants and contributions	13,861,561	994,987	14,856,548
General revenues:		-	
Taxes levied for general purposes, net	89,692,374	-	89,692,374
Grants, subsidies and contributions not restricted	6,817,883	-	6,817,883
Other	944,428	709	945,137
Total revenues	111,850,567	3,446,041	115,296,608
Program expenses			
Instruction	65,809,005	-	65,809,005
Instructional student support	8,774,467	-	8,774,467
Administration and financial support services	12,389,721	-	12,389,721
Operation and maintenance of plant services	8,891,879	-	8,891,879
Pupil transportation	5,530,452	-	5,530,452
Student activities	2,235,730	-	2,235,730
Community services	187,045	-	187,045
Interest on long-term debt	2,279,623	-	2,279,623
Unallocated depreciation	422,593	-	422,593
Food service	-	3,460,783	3,460,783
Total program expenses	106,520,515	3,460,783	109,981,298
Change in net assets	5,330,052	(14,742)	5,315,310
Net asset, beginning	31,325,765	434,858	31,760,623
Net assets, ending	\$ 36,655,817	\$ 420,116	\$ 37,075,933

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Condensed Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 48,943,148	\$ 441,601	\$ 49,384,749
Noncurrent assets	<u>59,838,552</u>	<u>182,679</u>	<u>60,021,231</u>
Total	<u>\$ 108,781,700</u>	<u>\$ 624,280</u>	<u>\$ 109,405,980</u>
Liabilities and Net Assets			
Current liabilities	\$ 24,213,295	\$ 110,320	\$ 24,323,615
Long-term liabilities:			
Due within one year	4,097,710	-	4,097,710
Due after one year	<u>49,144,930</u>	<u>79,102</u>	<u>49,224,032</u>
Total liabilities	<u>77,455,935</u>	<u>189,422</u>	<u>77,645,357</u>
Net assets:			
Invested in capital assets, net of related debt	22,359,920	182,679	22,542,599
Restricted	7,274,192	-	7,274,192
Unrestricted	<u>1,691,653</u>	<u>252,179</u>	<u>1,943,832</u>
Total net assets	<u>31,325,765</u>	<u>434,858</u>	<u>31,760,623</u>
Total	<u>\$ 108,781,700</u>	<u>\$ 624,280</u>	<u>\$ 109,405,980</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Condensed Statement of Activities
For the year ended
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 502,514	\$ 2,470,995	\$ 2,973,509
Operating grants and contributions	13,184,489	1,034,751	14,219,240
General revenues:			
Taxes levied for general purposes, net	87,178,625	-	87,178,625
Grants, subsidies and contributions not restricted	7,097,090	-	7,097,090
Other	835,085	660	835,745
Total revenues	<u>108,797,803</u>	<u>3,506,406</u>	<u>112,304,209</u>
Program expenses			
Instruction	61,940,795	-	61,940,795
Instructional student support	8,555,098	-	8,555,098
Administration and financial support services	12,561,880	-	12,561,880
Operation and maintenance of plant services	9,438,408	-	9,438,408
Pupil transportation	5,552,616	-	5,552,616
Student activities	2,307,369	-	2,307,369
Community services	137,406	-	137,406
Interest on long-term debt	2,711,556	-	2,711,556
Unallocated depreciation	1,025,000	-	1,025,000
Food service	-	3,475,720	3,475,720
Total program expenses	<u>104,230,128</u>	<u>3,475,720</u>	<u>107,705,848</u>
Change in value of interest rate swap	<u>(3,916,850)</u>	<u>-</u>	<u>(3,916,850)</u>
Change in net assets	<u>650,825</u>	<u>30,686</u>	<u>681,511</u>
Net assets, beginning, as previously reported	36,712,177	404,172	37,116,349
Restatement	<u>(6,037,237)</u>	<u>-</u>	<u>(6,037,237)</u>
Net asset, beginning as restated	<u>30,674,940</u>	<u>404,172</u>	<u>31,079,112</u>
Net assets, ending	<u>\$ 31,325,765</u>	<u>\$ 434,858</u>	<u>\$ 31,760,623</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Total net assets of the District increased \$5,315,310 in 2011. Net assets of governmental activities increased by \$5,330,052, while net assets of the business-type activity decreased \$14,742.

The District had \$106,520,515 in expenses related to governmental activities in 2011; only \$14,395,882 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$97,454,685 also provided for these programs. The \$5,330,052 increase in governmental activity net assets represents the excess of revenues over expenses.

In the District's business-type activity, net assets decreased by \$14,742 as a result of the net loss of the food service operation.

As of June 30, 2011, \$1,975,291 of unrestricted net assets of the \$37,075,933 of total net assets were available to meet the District's ongoing obligations to employees and creditors. This amount reflects the payable in the amount of \$10,368,632 for the interest rate swap liability at June 30, 2011. The remaining net assets, being \$35,100,642, are invested into capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2010-2011 fiscal year were \$112,458,309 compared to \$108,398,819 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Local sources	\$ 92,485,708	\$ 88,858,519	\$ 3,627,189	4.1	%
State sources	16,506,599	16,827,379	(320,780)	(1.9)	%
Federal sources	<u>3,466,002</u>	<u>2,712,921</u>	<u>753,081</u>	27.8	%
Total	<u>\$ 112,458,309</u>	<u>\$ 108,398,819</u>	<u>\$ 4,059,490</u>		

Local revenues are derived mostly from levying taxes such as the real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,627,189 primarily due to an increase in the real estate tax millage rate from 34.850 mills to 35.90 mills per \$1,000 of assessed value of real estate. This millage increase resulted in an increase in revenues of \$3,250,384.

The sale of the Boalsburg property provided \$750,000 in local revenue, which offset the decreases in other local revenue sources such as tax revenue from earned income tax, real estate transfer tax and local services tax as well as earnings on investments and tuition and revenue from other educational agencies, leaving an increase in all other revenues of \$376,000.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

State revenues are derived mostly from state subsidies for basic education, special education, charter schools and transportation. State revenues also include a 50% reimbursement from the state for social security and retirement costs as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues in the above mentioned areas decreased \$191,640. State grants and other revenues remained constant.

Federal revenues include primarily Title I, II and V grants from the federal government. The increase in Federal revenues of \$753,081 is primarily due to stimulus funds being received and expended in Title I, IDEA, and basic education.

Expenditures

Expenditures for the 2010-2011 fiscal year were \$110,215,394 compared to 2009-2010 fiscal year were \$103,968,750 or a 6% increase. The current year adjusted budget was \$114,629,381 resulting in a positive variance of \$4,413,987. The following table shows the expenditures by object category:

	2010-11	2009-10	Increase (Decrease)	Favorable (Unfavorable) Variance	
Salaries and benefits	\$ 81,294,460	\$ 77,351,875	\$ 3,942,585	5.1	%
Professional services	3,016,546	2,423,835	592,711	24.5	%
Purchased property services	1,978,213	2,088,696	(110,483)	(5.3)	%
Other purchased services	8,833,909	8,320,362	513,547	6.2	%
Supplies	3,671,406	3,397,987	273,419	8.0	%
Property	2,549,192	3,315,074	(765,882)	(23.1)	%
Other objects	250,617	794,656	(544,039)	(68.5)	%
Other uses of funds	8,621,051	6,276,265	2,344,786	37.4	%
Total	<u>\$ 110,215,394</u>	<u>\$ 103,968,750</u>	<u>\$ 6,246,644</u>		

Salaries and benefits increased \$1,053,252 due to scheduled salary increases, in addition to the Athletics Department salaries, which are included as a result of a new accounting principle adopted, increases in health insurance costs of \$1,295,995, increases in retirement costs of \$644,866, and an increase in other benefits due to the increased salaries.

Purchased professional services increased \$592,711 from the prior year due to an abnormally high level of professional education costs primarily related to Special Education in the prior year.

Purchased property services decreased \$110,483 primarily due to decreased costs of electricity.

Other purchased services increased over the prior year by \$513,547. Of this amount, student tuition increased \$412,690, while other costs such as transportation, telephone service, travel, and advertising expense all increased \$56,285 in total.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Expenses for supplies increased due primarily to the inclusion of the Athletics Department expenses as a result of a new accounting principle adopted. Property expenditures decreased significantly because of the increased level of expenses in the prior year to fund the Park Forest roof.

Other objects and financing sources increased significantly due to principal payments made from the capital reserve fund in the prior year.

Capital Projects Funds

The Capital Project Fund is used to account for capital projects of the District. The District spent \$27,521,651 for such projects in 2010-11. The Capital Projects Fund balance was \$14,955,146 at June 30, 2011. The capital projects included renovations and improvements throughout the District, primarily consisting of the Mount Nittany and Ferguson Township Elementary Projects.

General Fund Budgetary Highlights

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

The General Fund's originally-approved budget for 2011 included \$112,810,755 of revenues and \$113,164,143 of expenditures. The budget was amended by \$973,160 for additional federal, state, and local grant revenues and the related additional expenditures for those grants.

The actual revenues for 2011 were \$1,325,606 less than the final budget. Local revenues were \$280,630 more than budget due to revenue received from the sale of the Boalsburg property. State revenues were less than budget by the amount of \$1,737,916 due to a change in the PSERS employer contribution rate and a change in the transportation revenue reimbursement calculation.

The final actual expenses were \$4,413,987 less than the budget due to responsible spending practices by the District's personnel.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2011 is summarized below (see details in Note #6 to the financial statements).

	Governmental Activities	Business-type Activity	Total
Land, buildings and improvements	\$ 79,454,044	\$ -	\$ 79,454,044
Equipment and other capital assets	36,023,587	952,794	36,976,381
Construction in progress	28,099,381	-	28,099,381
Total	143,577,012	952,794	144,529,806
Accumulated depreciation	(59,686,230)	(796,056)	(60,482,286)
Net	\$ 83,890,782	\$ 156,738	\$ 84,047,520

Long Term Debt

At June 30, 2011, the District's long-term debt of \$66,395,000 (see details in Note #8 to the financial statements) is significantly below the legal limit of approximately \$253,031,195 and approximately \$3,405,000 of this debt is scheduled for payment in 2012. The District entered into an interest rate swap agreement on the \$58,050,000 General Obligation Bond Series of 2004 which has been authorized but not yet issued with the net proceeds designated for the High School renovation and construction project. In addition, the district also authorized but has not yet issued a General Obligation Bond Series A of 2006 in the amount of \$24,000,000, again with the net proceeds to be used for the High School renovation and construction project. The original swap agreement with an issue date of December 2008 was extended until December 2010. During 2008, the District expanded the use of the proceeds from the \$10,000,000 General Obligation Bond Series for 2004AA beyond the High School renovation and construction project.

Factors Expected to Have an Effect on Future Operations

The appraised value used for the 2012 budget preparation is approximately \$2 billion, which is up approximately \$12 million or 1% from 2011. Amounts available for appropriation in the general fund budget for 2011-12 are \$111,869,367, a decrease of approximately 1.6% over the 2010-11 budget of \$113,656,221. Property taxes will increase 2.6% to 36.85 mills. The District will use these increases in revenues to finance programs currently offered.

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.

State College Area School District

Management's Discussion and Analysis (Unaudited)

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The District continually strives to enhance the cost-effectiveness of its operations and of its program delivery without sacrificing quality. The Citizens Advisory Committee on School Finance assists the District in this endeavor. Over the last three years, this committee has reviewed eleven areas of operations and has made recommendations accepted by the school board for implementation. Annually, the committee reviews the District's budget and planning process and is instrumental in developing the budget document. The District's financial planning process includes a five-year budget that is updated annually and can be found in the budget document. There are, however, other issues that may affect operations, which have not been included in the current long-range plan.

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 issuance, and certain other limited areas. The Act 1 Index for 2011-12 is 1.4%.

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

On September 20, 2000, A Strategic Planning Leadership Team Consisting Of 42 Members Including Students, Parents, Citizens, Representatives Of Business And The University, District Faculty, Staff And Administrators, And Representatives Of The Board Of School Directors, Met To Prepare For The Process Of Developing A New Six-Year Strategic Plan For The District. During Six Meetings Through The Months Of October And November, The Team Reviewed The District's Mission Statement, Vision, Beliefs, Goals And Strategies. The Team Agreed On Several Modifications To The Preceding Strategic Plan And Presented The Revised Plan To The Board Of School Directors For Approval On December 4, 2000.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Following that approval, Action Planning Teams began to develop plans of action to accomplish the eight strategies developed by the Leadership Team. These teams met from January 23 to April 6, 2001, and on April 28 and 29 presented the resulting Action Plans to the Leadership Team for review and modifications. The Board reviewed and discussed the Action Plans during June and July and, following a 30-day public comment period, the board adopted the Strategic plan on September 24, 2001. The Strategic Plan and its annual updates are required to be submitted to the Pennsylvania Department of Education by September 30 of each year. Implementation of the plan began immediately. The Leadership Team reconvenes annually to review progress and make adjustments as needed.

District Growth

Dr. Shelby Stewman, Professor of Demography and Sociology at Carnegie-Mellon University, analyzed district demographics to project student population. The analysis focused on demographic and economic processes within the District and their effect on expected number of students and included fertility age structure, net in-migration, Penn State University student population, and housing growth.

A number of different scenarios were considered by Dr. Stewman. In nearly all of them, the District will experience a small decrease in enrollment over the next few years, followed by a return to current enrollment levels in about 10 years. The report itself can be accessed at the following website:

http://www.scasd.org/scasd/lib/scasd/Demographic_Analysis.pdf

District Wide Facilities Master Plan

The District completed a Facilities Master Plan in the spring of 2009. Since that time, the District has begun the first phase of the Master Plan. A new elementary building to replace the existing Panorama Village Elementary and Boalsburg Elementary Schools is planned to go to bid in the spring of 2010. A renovation and addition to the Ferguson Township Elementary School is also planned to go to bid at the same time. The final phase one project is a planned four-classroom addition to Grays Woods Elementary School. Ground was broken on all of these projects during June 2010.

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 Assets

June 30, 2011

	Governmental Activities	Business -Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 24,034,534	\$ 288,837	\$ 24,323,371
Restricted cash and cash equivalents	18,772,408	-	18,772,408
Taxes receivable, net	3,174,672	-	3,174,672
Due from fiduciary fund	93,748	60,984	154,732
Due from other governments	3,068,161	24,997	3,093,158
Other receivables	120,183	20,698	140,881
Inventories	27,086	49,055	76,141
Other current assets	27,506	-	27,506
Total current assets	49,318,298	444,571	49,762,869
Noncurrent assets			
Land	899,887	-	899,887
Buildings and improvements	78,554,157	-	78,554,157
Equipment and other capital assets	36,023,587	952,794	36,976,381
Construction in progress	28,099,381	-	28,099,381
Accumulated depreciation	(59,686,230)	(796,056)	(60,482,286)
Other noncurrent assets	982,023	-	982,023
Total noncurrent assets	84,872,805	156,738	85,029,543
Total assets	\$ 134,191,103	\$ 601,309	\$ 134,792,412
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 3,809,642	\$ 1,774	\$ 3,811,416
Current portion of bonds and notes payable	3,405,000	-	3,405,000
Current portion of capital lease obligation	29,053	-	29,053
Accrued salaries and benefits	8,902,475	2,085	8,904,560
Payroll deductions and withholdings	3,589,865	-	3,589,865
Deferred revenue	224,004	23,166	247,170
Other current liabilities	448,135	80,486	528,621
Interest rate swap payable	10,368,632	-	10,368,632
Total current liabilities	30,776,806	107,511	30,884,317
Noncurrent liabilities			
Bonds and notes payable	64,239,392	-	64,239,392
Capital lease obligation	46,241	-	46,241
Other postemployment benefits liability	717,239	-	717,239
Compensated absences	1,755,608	73,682	1,829,290
Total noncurrent liabilities	66,758,480	73,682	66,832,162
Total liabilities	97,535,286	181,193	97,716,479
Net Assets			
Invested in capital assets, net of related debt	27,602,996	156,738	27,759,734
Restricted	7,340,908	-	7,340,908
Unrestricted	1,711,913	263,378	1,975,291
Total net assets	36,655,817	420,116	37,075,933
Total	\$ 134,191,103	\$ 601,309	\$ 134,792,412

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities:					
Instruction	\$ (65,809,005)	\$ 282,225	\$ 11,497,319	\$ (54,029,461)	\$ -
Instructional student support	(8,774,467)	-	614,806	(8,159,661)	-
Administration and financial support services	(12,389,721)	-	370,426	(12,019,295)	-
Operation and maintenance of plant services	(8,891,879)	167,016	205,836	(8,519,027)	-
Pupil transportation	(5,530,452)	-	922,823	(4,607,629)	-
Student activities	(2,235,730)	85,080	22,783	(2,127,867)	-
Community services	(187,045)	-	2,750	(184,295)	-
Interest on long-term debt	(2,279,623)	-	224,818	(2,054,805)	-
Depreciation - unallocated	(422,593)	-	-	(422,593)	-
Total governmental activities	(106,520,515)	534,321	13,861,561	(92,124,633)	-
Business-type Activity					
Food service	(3,460,783)	2,450,345	994,987	-	(15,451)
Total	<u>\$ (109,981,298)</u>	<u>\$ 2,984,666</u>	<u>\$ 14,856,548</u>	<u>(92,124,633)</u>	<u>(15,451)</u>
General revenues					
Property taxes, levied for general purposes, net				75,743,589	-
Other taxes levied for specific purposes				13,948,785	-
Grants, subsidies and contributions not restricted				6,817,883	-
Investment earnings:					
Interest and dividends				234,809	709
Changes in the value of interest rate swap				(414,545)	-
Miscellaneous income				1,124,164	-
Total general revenues				97,454,685	709
Change in net assets				5,330,052	(14,742)
Net assets, beginning				31,325,765	434,858
Net assets, ending				\$ 36,655,817	\$ 420,116
					\$ 37,075,933

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds
June 30, 2011

	Major Funds			Total
	General	Capital Projects	Debt Service	
Assets				
Cash and cash equivalents	\$ 24,034,534	\$ -	\$ -	\$ 24,034,534
Restricted cash and cash equivalents	-	18,772,408	-	18,772,408
Taxes receivable, net	3,174,672	-	-	3,174,672
Due from other funds	2,532,703	1,500,000	4,638	4,037,341
Due from other governments	3,068,161	-	-	3,068,161
Other receivables	120,183	-	-	120,183
Inventories	1,781,842	-	-	1,781,842
Other current assets	27,506	-	-	27,506
Total	\$ 34,739,601	\$ 20,272,408	\$ 4,638	\$ 55,016,647

Liabilities and Fund Balances

Liabilities				
Due to other funds	\$ 1,650,516	\$ 2,299,126	\$ -	\$ 3,949,642
Accounts payable	787,880	3,018,136	-	3,806,016
Accrued salaries and benefits	8,902,475	-	-	8,902,475
Payroll deductions and withholdings	3,589,865	-	-	3,589,865
Deferred revenue	989,057	-	-	989,057
Other liabilities	224,461	-	-	224,461
Total liabilities	16,144,254	5,317,262	-	21,461,516
Fund Balances				
Nonspendable	1,781,842	-	-	1,781,842
Restricted		14,955,146	4,638	14,959,784
Committed	10,000,000	-	-	10,000,000
Unassigned	6,813,505	-	-	6,813,505
Total fund balances	18,595,347	14,955,146	4,638	33,555,131
Total	\$ 34,739,601	\$ 20,272,408	\$ 4,638	\$ 55,016,647

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2011

Total Fund Balance - Governmental Funds \$ 33,555,131

Amounts reported for governmental activities in the statement of net assets 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 \$143,577,012 and the accumulated depreciation is \$59,686,230.

83,890,782

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.

765,053

Inventory of books and supplies was reclassified.

(1,781,842)

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 are reported with governmental activities.

6,442

Unamortized bond issuance costs are not reported as non-current assets in the governmental funds.

982,023

Interest rate swap payable is not due and payable in the current period, and therefore is not reported as a liability in the funds.

(10,368,632)

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

(67,644,392)

Accrued interest on long-term debt

(223,674)

Capital lease obligation

(75,294)

Other postemployment benefits liability

(717,239)

Compensated absences

(1,732,541)

Total Net Assets - Governmental Activities

\$ 36,655,817

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, 2011

Major Funds

	General	Capital Projects	Debt Service	Total
Revenues				
Local sources	\$ 92,485,708	\$ 102,112	\$ -	\$ 92,587,820
State sources	16,506,599	-	-	16,506,599
Federal sources	3,466,002	-	-	3,466,002
Total revenues	112,458,309	102,112	-	112,560,421
Expenditures				
Instruction	65,267,328	-	-	65,267,328
Support services	33,655,378	281,274	-	33,936,652
Noninstructional services	2,465,847	-	-	2,465,847
Facilities acquisition, construction and improvement services	168,623	27,237,377	-	27,406,000
Debt service	71,326	756,574	5,742,533	6,570,433
Total expenditures	101,628,502	28,275,225	5,742,533	135,646,260
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)	10,829,807	(28,173,113)	(5,742,533)	(23,085,839)
Other Financing Sources (Uses)				
Debt proceeds	-	43,630,000	-	43,630,000
Bond premium	-	1,404,657	-	1,404,657
Refinancing of bonds	-	(23,900,265)	-	(23,900,265)
Cost of issuance	-	(373,160)	-	(373,160)
Transfer in	-	2,844,359	5,742,533	8,586,892
Transfer out	(8,586,892)	-	-	(8,586,892)
Total other financing sources (uses)	(8,586,892)	23,605,591	5,742,533	20,761,232
Net Change in Fund Balances	2,242,915	(4,567,522)	-	(2,324,607)
Fund Balance, Beginning				
As previously reported	16,176,192	13,165,865	4,638	29,346,695
Restatement	176,240	6,356,803		6,533,043
As restated	16,352,432	19,522,668	4,638	35,879,738
Fund Balance, Ending	\$ 18,595,347	\$ 14,955,146	\$ 4,638	\$ 33,555,131

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, 2011

Total Change in Fund Balances-Governmental Funds

\$ (2,324,607)

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

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. Deferred tax revenues decreased
by this amount this year.

(334,947)

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 and loss on disposal in this period:

Depreciation expense	\$ (3,591,007)	
Loss on disposal	(209,494)	
Capital outlays	<u>28,743,172</u>	24,942,671

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.

62,480

The issuance of long term debt (bond) 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 assets. Also, governmental
funds report the effect of issuance costs, premiums, 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, 2011 are as follows:

Issuance of bonds and notes payable	(43,630,000)	
Refund of bonds payable	15,620,000	
Advance refunding of bonds payable	8,125,000	
Scheduled principal payments on long-term debt	4,371,440	
Deferred bond issuance costs	373,160	
Advance refunding prepaid interest	155,265	
Bond premium	<u>(1,404,657)</u>	(16,389,792)

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, bond issue costs, and deferred interest from
advanced refunding bonds. The net additional interest accrued in
the statement of activities over the amount due is shown here.

(80,630)

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.

57,593

Other post employment benefits that are reflected on the statement
of net assets but are not considered a current expenditures in
governmental funds.

(226,732)

Change in the interest rate swap payable.

(414,545)

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.

38,561**Change in Net Assets of Governmental Activities**\$ 5,330,052

See notes to financial statements
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State College Area School District**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund**

Year Ended June 30, 2011

	Budgeted Amount			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Local sources	\$ 92,034,527	\$ 92,205,078	\$ 92,485,708	\$ 280,630
State sources	18,926,228	18,244,515	16,506,599	(1,737,916)
Federal sources	1,850,000	3,334,322	3,466,002	131,680
Total revenues	112,810,755	113,783,915	112,458,309	(1,325,606)
Expenditures				
Instruction:				
Regular programs	48,515,933	48,302,461	47,525,648	776,813
Special programs	13,648,451	13,992,301	13,771,789	220,512
Vocational education programs	2,729,148	2,719,030	2,676,878	42,152
Other instructional programs	885,128	863,322	827,526	35,796
Adult education programs	468,503	498,029	458,621	39,408
Nonpublic school programs	6,338	9,203	6,866	2,337
Total instruction	66,253,501	66,384,346	65,267,328	1,117,018
Support services:				
Pupil personnel	4,030,328	4,019,278	3,864,378	154,900
Instructional staff	3,828,144	3,938,455	3,664,062	274,393
Administration	5,715,393	5,826,331	5,708,543	117,788
Pupil health	1,195,163	1,573,505	1,258,575	314,930
Business	994,096	1,000,493	884,972	115,521
Operation and maintenance of plant services	8,596,815	8,439,857	7,940,416	499,441
Student transportation services	5,762,829	5,787,614	5,669,421	118,193
Central	4,719,083	4,877,968	4,665,011	212,957
Total support services	34,841,851	35,463,501	33,655,378	1,808,123
Noninstructional services:				
Student activities	581,599	596,051	2,278,554	(1,682,503)
Community services	116,219	129,521	187,293	(57,772)
Scholarships	-	79,688	-	79,688
Total noninstructional services	697,818	805,260	2,465,847	(1,660,587)
Facilities acquisition, construction and improvement services	181,982	168,622	168,623	(1)
Debt service	694,000	694,000	71,326	622,674
Total expenditures	102,669,152	103,515,729	101,628,502	1,887,227
Excess of Revenues over Expenditures before Other Financing Uses	10,141,603	10,268,186	10,829,807	561,621
Other Financing Uses				
Transfer out	(10,676,973)	(10,676,973)	(8,586,892)	2,090,081
Budgetary reserve	(492,077)	(423,319)	-	423,319
Total other financing uses	(11,169,050)	(11,100,292)	(8,586,892)	2,513,400
Change in Fund Balance	\$ (1,027,447)	\$ (832,106)	2,242,915	\$ 3,075,021
Fund Balance, Beginning				
As previously reported			16,176,192	
Restatement			176,240	
As restated			16,352,432	
Fund Balance, Ending			\$ 18,595,347	

See notes to financial statements

State College Area School District

Statement of Net Assets - Proprietary Funds

June 30, 2011

	Food Service Fund	Internal Service Fund
Assets		
Current assets		
Cash and cash equivalents	\$ 288,837	\$ -
Due from other funds	60,984	6,049
Due from other governments	24,997	-
Other receivables	20,698	-
Inventories	49,055	27,086
Total current assets	444,571	33,135
Noncurrent assets		
Equipment	952,794	287,913
Accumulated depreciation	(796,056)	(271,911)
Total noncurrent assets	156,738	16,002
Total	\$ 601,309	\$ 49,137
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,774	\$ 3,626
Accrued salaries and benefits	2,085	-
Other liabilities	80,486	-
Deferred revenue	23,166	-
Total current liabilities	107,511	3,626
Noncurrent liabilities		
Compensated absences	73,682	23,067
Total liabilities	181,193	26,693
Net Assets		
Invested in capital assets	156,738	16,002
Unrestricted	263,378	6,442
Total net assets	420,116	22,444
Total	\$ 601,309	\$ 49,137

See notes to financial statements

State College Area School District**Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds**

Year Ended June 30, 2011

	Food Service Fund	Internal Service Fund
Operating Revenues		
Food service revenue	\$ 2,450,345	\$ -
Charges for services	-	627,837
Total operating revenues	2,450,345	627,837
Operating Expenses		
Salaries and employee benefits	1,727,009	264,044
Professional and technical services	6,642	-
Purchased property services	10,785	206,314
Other purchased services	9,999	696
Food, milk and supplies	1,637,294	96,660
Depreciation	21,054	7,832
Other objects	48,000	2,530
Total operating expenses	3,460,783	578,076
Operating Loss	(1,010,438)	49,761
Nonoperating Revenues		
State sources	177,966	-
Federal sources	817,021	-
Earnings on investments	709	-
Total nonoperating revenues	995,696	-
Change in Net Assets	(14,742)	49,761
Net Assets, Beginning	434,858	(27,317)
Net Assets, Ending	\$ 420,116	\$ 22,444

See notes to financial statements

State College Area School District**Statement of Cash Flows - Proprietary Funds**

Year Ended June 30, 2011

	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,413,133	\$ 648,587
Cash paid to employees	(1,733,454)	(648,587)
Cash paid to vendors	(1,697,074)	-
Net cash used in operating activities	(1,017,395)	-
Cash Flows from Noncapital Financing Activities		
State sources	180,567	-
Federal sources	823,561	-
Net cash provided by noncapital financing activities	1,004,128	-
Cash Flows from Investing Activities		
Earnings on investments	709	-
Decrease in Cash and Cash Equivalents	(12,558)	-
Cash and Cash Equivalents, Beginning	301,395	-
Cash and Cash Equivalents, Ending	<u>\$ 288,837</u>	<u>\$ -</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities		
Operating loss (income)	\$ (1,010,438)	\$ 49,761
Adjustments to reconcile operating loss (income) to net cash used in operating activities:		
Depreciation	21,054	7,832
Loss on disposal of equipment	4,887	-
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	13,081	3,422
Other receivables	(10,561)	-
Due to/from other funds	(37,527)	20,750
Accounts payable	(2,321)	(80,535)
Accrued salaries and benefits	(1,025)	-
Other liabilities	10,875	-
Compensated absences	(5,420)	(1,230)
Net Cash Used in Operating Activities	<u>\$ (1,017,395)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Assets - Fiduciary Fund - Agency

June 30, 2011

Assets

Current Assets

Cash	\$ 695,235
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Liabilities

Current liabilities

Due to other funds	\$ 154,732
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Accounts payable	24,666
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Other current liabilities	515,837
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Total	\$ 695,235
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See notes to financial statements

State College Area School District

Notes to Financial Statements

June 30, 2011

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. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds the District has chosen not to. 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, 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 14 as amended by GASB Statement 39. 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 which should be included in the District's financial statements.

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 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 Assets, both the governmental and business-type activities 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 and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

State College Area School District

Notes to Financial Statements

June 30, 2011

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities. The functions 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 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 assets 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, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are use 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 non instructional services (including athletics) are accounted for in this fund.

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. The Capital Projects Fund is a major fund.

Debt Service Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2011

Proprietary Funds

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

Food Service Fund

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

Internal Service Fund

This fund accounts for the revenues and expenses associated with providing printing services by the District's printing services department to schools and other departments of the District on a cost reimbursement basis. As the internal service fund primarily serves the needs of the District, the assets, liabilities, 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 assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

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

Activity Fund

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

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 associates with the operation of the district are included on the statements of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the District's net total assets.

State College Area School District

Notes to Financial Statements

June 30, 2011

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.

Proprietary funds are also accounted for using the economic resources measurement focus.

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

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

Modified Accrual Basis

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

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.

State College Area School District

Notes to Financial Statements

June 30, 2011

New Accounting Principle

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds.

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 years

The District does not have any infrastructure capital assets.

Inventories

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

Compensated Absences

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

Governmental Fund Balances

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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

State College Area School District

Notes to Financial Statements

June 30, 2011

- *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
- *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
- *Unassigned* – includes position 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 Assets/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.

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.

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. The District does not have a deposit policy for custodial credit risk. At June 30, 2011, \$38,198,345 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount 16,197,490 was collateralized with securities held by the pledging financial institution in the District's name and the remaining \$22,000,855 were collateralized with securities held by the pledging financial institution, but not in the District's name.

State College Area School District

Notes to Financial Statements

June 30, 2011

Pennsylvania School District Liquid Asset Fund

The Pennsylvania School District Liquid Asset Fund ("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. Since PSDLAF has the characteristics of a mutual fund, it is not subject to the disclosure requirements promulgated by GASB Nos. 3 and 40. At June 30, 2011, the carrying amount and bank balances of the District's investment in PSDLAF was \$6,875,985 and \$6,883,839, respectively.

3. Property Taxes

Property taxes are levied on July 1. Taxes are collected at a 2% discount until September 1, at their face amount from September 15 until November 15, and include a 10% penalty thereafter. The taxes are billed 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, 2011, the following interfund balances were unpaid:

Amounts due from other funds:

General fund	\$ 2,532,703
Capital projects fund	1,500,000
Debt service fund	4,638
Food service fund	60,984
Internal service fund	6,049
Total	<u>\$ 4,104,374</u>

Amounts due to other funds:

General fund	\$ 1,650,516
Capital projects fund	2,299,126
Agency fund	154,732
Total	<u>\$ 4,104,374</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.

State College Area School District

Notes to Financial Statements

June 30, 2011

The composition of interfund transfers, used to move cash between funds at June 30, 2011 is as follows:

Transfers in:	
Capital projects fund	\$ 2,844,359
Debt service fund	<u>5,742,533</u>
Total	<u>\$ 8,586,892</u>
Transfers out,	
General fund	<u>\$ 8,586,892</u>

5. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2011 follows:

Delinquent real estate taxes receivable	\$ 1,597,619
Earned income taxes receivable	1,676,711
Real estate transfer tax receivable	227,148
Supplemental real estate tax	43,830
Local service	<u>9,071</u>
Total	3,554,379
Estimated uncollectible taxes at June 30, 2011	<u>(379,707)</u>
Total	<u>\$ 3,174,672</u>

State College Area School District

Notes to Financial Statements

June 30, 2011

6. Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance June 30, 2011</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	3,152,946	25,682,632	(736,197)	28,099,381
Total capital assets, not being depreciated	<u>4,052,833</u>	<u>25,682,632</u>	<u>(736,197)</u>	<u>28,999,268</u>
Capital assets being depreciated:				
Buildings and improvements	76,470,629	1,887,213	196,315	78,554,157
Equipment and other capital assets	34,756,656	1,173,327	(194,309)	35,735,674
Equipment-internal service	<u>287,913</u>	<u>-</u>	<u>-</u>	<u>287,913</u>
Total capital assets, being depreciated	<u>111,515,198</u>	<u>3,060,540</u>	<u>2,006</u>	<u>114,577,744</u>
Accumulated depreciation for:				
Buildings and improvements	\$ (30,558,013)	\$ (1,983,261)	\$ 331,558	\$ (32,209,716)
Equipment and other capital assets	(25,797,828)	(1,599,914)	193,139	(27,204,603)
Equipment-internal service	<u>(264,079)</u>	<u>(7,832)</u>	<u>-</u>	<u>(271,911)</u>
Total accumulated depreciation	<u>(56,619,920)</u>	<u>(3,591,007)</u>	<u>524,697</u>	<u>(59,686,230)</u>
Total capital assets being depreciated, net	<u>54,895,278</u>	<u>(530,467)</u>	<u>526,703</u>	<u>54,891,514</u>
Governmental activities capital assets, net	<u>\$ 58,948,111</u>	<u>\$ 25,152,165</u>	<u>\$ (209,494)</u>	<u>\$ 83,890,782</u>
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 966,285	\$ -	\$ (13,491)	\$ 952,794
Accumulated depreciation, Equipment and other capital assets	<u>(783,606)</u>	<u>(21,054)</u>	<u>8,604</u>	<u>(796,056)</u>
Business-type activity capital assets, net	<u>\$ 182,679</u>	<u>\$ (21,054)</u>	<u>\$ (4,887)</u>	<u>\$ 156,738</u>

State College Area School District

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June 30, 2011

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

Government activities:	
Unallocated	\$ 422,592
Instruction	1,240,957
Instructional support services	2,327
Student activities	1,731
Administrative and financial support services	3,025
Operation and maintenance of plant services	1,813,366
Pupil transportation	<u>107,009</u>
Total depreciation expenses for governmental activities	<u>\$ 3,591,007</u>
Business-type activities,	
Food service equipment	<u>\$ 21,054</u>

7. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$8,902,475 represent salaries of \$7,792,785, the District's share of Social Security taxes of \$596,149 for teachers' services during the 2010-2011 school term, which are paid during July and August 2011, and retirement plan expense of \$439,510 applicable to the accrued salaries at June 30, 2011, and accrued workers' compensation of \$74,031.

8. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2011 are as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amounts due within one year
Bond Series - 2003	\$ 1,955,000	\$ -	\$ (1,955,000)	\$ -	\$ -
Bond Series - 2004	2,820,000	-	(2,820,000)	-	-
Bond Series - 2004A	3,750,000	-	(3,750,000)	-	-
Bond Series - 2004AA	8,520,000	-	(8,520,000)	-	-
Bond Series - 2005	7,770,000	-	(7,770,000)	-	-
Bond Series - 2006	9,125,000	-	(360,000)	8,765,000	375,000
Bond Series - 2009	9,990,000	-	(420,000)	9,570,000	460,000
General Obligation Note - Series of 2008	6,925,000	-	(1,185,000)	5,740,000	1,220,000
Bond Series - 2010A	-	15,675,000	(1,095,000)	14,580,000	1,050,000
Bond Series - 2010B	-	8,875,000	(205,000)	8,670,000	290,000
Bond Series - 2010C	-	5,450,000	(10,000)	5,440,000	10,000
General Obligation Note - Series A of 2011	-	13,630,000	-	13,630,000	-
Total bonds and notes payable	<u>50,855,000</u>	<u>43,630,000</u>	<u>(28,090,000)</u>	<u>66,395,000</u>	<u>\$ 3,405,000</u>

State College Area School District

Notes to Financial Statements

June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Amounts due within one year</u>
Bond premium	-	1,404,657	-	1,404,657	
Deferred amounts on refunding	-	(155,265)	-	(155,265)	
Total long-term debt	<u>\$ 50,855,000</u>	<u>\$ 44,879,392</u>	<u>\$ (28,090,000)</u>	<u>\$ 67,644,392</u>	

Long-term debt at June 30, 2011 consists of the following:

\$10,000,000 General Obligation Bonds, Series of 2006, due in varying annual installments through May 2028, interest rates of 3.5% to 4.25%	\$ 8,765,000
\$9,995,000 General Obligation Bonds, Series of 2009, due in varying annual installments through March 2022, interest rates of 2% to 4%	9,570,000
\$3,500,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	5,740,000
\$15,675,000 General Obligation Bonds, Series of 2010A, due in varying annual installments through May 2025, interest rates of 2.5% to 4.0%	14,580,000
\$8,875,000 General Obligation Bonds, Series of 2010B, due in varying annual installments through May 2026, interest rates of 2.5% to 4.0%	8,670,000
\$5,450,000 General Obligation Bonds, Series of 2010C, due in varying annual installments through May 2028, interest rates of 2.5% to 4.0%	5,440,000
\$13,630,000 General Obligation Notes, Series A of 2011, due in varying annual installments through November 2013, fixed interest 5%	13,630,000
Unamortized bond premium	1,404,657
Unamortized prepaid bond interest	<u>(155,265)</u>
Total	67,644,392
Current portion	<u>(3,405,000)</u>
Long-term debt	<u>64,239,392</u>

State College Area School District

Notes to Financial Statements

June 30, 2011

Debt service requirements at June 30, 2011 are as follows:

Year ending June 30:	Principal	Interest	Total
2012	\$ 3,405,000	\$ 2,417,944	\$ 5,822,944
2013	4,098,293	2,385,399	6,483,692
2014	17,848,293	1,921,352	19,769,645
2015	3,793,293	1,465,027	5,258,320
2016	2,818,293	1,579,978	4,398,271
2017 – 2021	14,106,464	5,184,710	19,291,174
2022 – 2026	15,971,463	2,798,544	18,770,007
2027 – 2028	5,603,293	299,976	5,903,269
Total	<u>\$ 67,644,392</u>	<u>\$ 18,052,930</u>	<u>\$ 85,697,322</u>

The District advanced-refunded a bond issue by creating a separate irrevocable trust fund containing U.S. government securities. The securities and earnings thereon are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the Statement of Net Assets.

In 2011, the District issued \$24,550,000 in General Obligation Bonds with varying interest rates from 2.5% to 4.0%. The proceeds of the bonds were used to advance refund \$8,520,000 of the District's Series 2004AA Bonds and \$16,295,000 of the District's Series 2003, 2004, 2004A and 2005 Bonds. Outstanding bonds payable at June 30, 2011 under the 2010A and B Series were \$23,250,000.

This advanced refunding reduced the District's total debt service payments over the next fifteen years by approximately \$265,000 and provided an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$1,000,244.

9. Capital Lease Obligation

In 2003-2004, the District entered into a 10-year municipal lease agreement for electrical lighting upgrades at several schools. The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2011:

Years ending June 30:	
2012	\$ 32,316
2013	32,316
2014	<u>16,158</u>
Total minimum lease payments	80,790
Less amount representing interest	<u>(5,496)</u>
Present value of future minimum lease payments	75,294
Current portion	<u>(29,053)</u>
Long-term portion	<u>\$ 46,241</u>

State College Area School District

Notes to Financial Statements

June 30, 2011

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 Projects Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total</u>
Non-spendable for, Inventories	<u>\$ 1,781,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,781,842</u>
Restricted for:				
Capital projects	<u>\$ -</u>	<u>\$ 14,955,146</u>	<u>\$ -</u>	<u>\$ 14,955,146</u>
Debt services	<u>-</u>	<u>-</u>	<u>4,638</u>	<u>4,638</u>
Total	<u>\$ 1,781,842</u>	<u>\$ 14,955,146</u>	<u>\$ -</u>	<u>\$ 14,959,784</u>
Committed for, PSERS	<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>

11. Construction Commitments

The District had several active construction projects as of June 30, 2011. At year-end the District's construction in progress balance consisted of the following:

<u>Project</u>	<u>Expended through June 30, 2011</u>
Ferguson Township Elementary	\$ 13,163,834
Mount Nittany Elementary	13,132,899
Panorama project	1,174,386
Other renovations	<u>628,262</u>
Total	<u>\$ 28,099,381</u>

Construction in progress at June 30, 2011 in the amount of \$26,296,733 primarily (94%) represented costs for the elementary projects, Ferguson Township and Mount Nittany. Also included are costs incurred for deferred maintenance projects throughout the district facilities. Outstanding construction commitments on these projects amounted to approximately \$4,400,000 at June 30, 2011.

State College Area School District

Notes to Financial Statements

June 30, 2011

12. Defined Benefit Pension Plan

All full-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the "System"), a governmental cost sharing multiple-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2011 was \$61,203,499.

All full-time District employees are eligible to participate in the System. Employees are entitled to monthly retirement benefits upon reaching (a) age 62; (b) age 60 with 30 or more years of service; or (c) after 35 or more years of service. This law does not require a minimum age in conjunction with length of service to be eligible for full benefits. Such benefits are generally equal to 2 percent of the employee's final average salary (as defined) multiplied by the number of years of credited service. After completion of 10 years of service, an employee's right to the defined benefits is vested and early retirement benefits may be elected. The System also provides disability and health insurance premiums assistance to qualifying annuitants.

The contribution policy is set by Act 96, dated October 2, 1975, as amended, and requires contributions by active employees, districts and the Commonwealth. The contribution required of districts is based upon an actuarial valuation computed as a percentage of the total compensation. Most active members contribute 7.5 percent of the members qualifying compensation. Members joining the System before July 22, 1983 contribute 5.25% of compensation. The District's contribution rate was 5.64% in 2011, 4.78% in 2010, and 4.76% in 2009 of annual covered payroll. The District's contribution requirement for the year ended June 30, 2011 was \$3,537,772, 2010 was \$2,873,898, and 2009 was \$2,542,530.

On May 17, 2001, the Commonwealth of Pennsylvania enacted Act 9 which allows active or inactive members as of July 1, 2001 to elect a new membership class and receive a higher benefit formula. Upon qualifying and filing appropriate election forms, the new membership class will make employee contributions of 6.50% or 7.50%, depending on date of hire, effective January 1, 2002. Those members not making the election will continue to contribute at the old rates.

The Commonwealth of Pennsylvania issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. Copies of the report may be obtained by writing to the Pennsylvania Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125.

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, 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, 2011, total contributions (including retirement bonus and sick payouts) were 1,489,474.

State College Area School District

Notes to Financial Statements

June 30, 2011

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 for fiscal year 2011 totaled \$158,027.

15. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under four-year operating leases expiring July 2014. The following is a schedule of future minimum rental payments required under the above operating lease as of June 30, 2011:

Years ending June 30:	
2012	175,440
2013	175,440
2014	175,440
	<hr/>
Total	\$ 526,320

Rent expense for 2011 was 334,444.

16. Contingencies and Commitments

In August 2004, the District authorized, but had not issued, General Obligation Bonds of \$58,050,000 for alterations, additions and improvements to the High School North and High School South secondary school buildings. Because the High School renovation project was abandoned at the end of fiscal year ended June 30, 2007, the District has not authorized the issuance of these bonds. In April 2006, in conjunction with the anticipated issuance of 2004 bonds, the District entered into a forward interest rate swap agreement (the "contract") as a means to manage interest rate exposure. The contract was for a pay fixed, received variable interest rate swap with the Royal Bank of Canada ("RBC"). The original effective date of the contract was December 1, 2007. The effective date was subsequently extended to December 1, 2010. As the District failed to perform under the terms of the contract, RBC terminated the contract on May 11, 2011 in accordance with the agreement terms. In accordance with the contract, if the swap has a negative fair value, the District is liable to the counterparty for a payment equal to the swap's fair value. RBC calculated the fair value at the date of termination of \$10,368,632 due from the District. The District has recorded this liability on the Statement of Net Assets related to governmental activities. However, the District is contesting this liability by legal means. No outcome has been reached as of this report date. The change in fair value of the swap from July 1, 2010 to May 11, 2011 (the termination date) of \$414,545 is included in investment earnings in the statement of activities.

In April 2006, the District approved, but has not issued, General Obligation Bonds of \$24,000,000 to provide funds for the High School renovation project and for the paying of the costs and expenses of issuing the bonds. Because the High School renovation project was stopped at the end of the fiscal year ended June 30, 2007, the District has not authorized the issuance of these bonds as of this report date.

State College Area School District

Notes to Financial Statements

June 30, 2011

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. The District did not pay premiums for the year ended June 30, 2011. Total retiree contributions made by plan members were \$626,212 for the year ended June 30, 2011.

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:

State College Area School District

Notes to Financial Statements

June 30, 2011

Annual required contribution	\$ 398,573
Interest on net OPEB obligation	22,073
Adjustment to annual required contribution	<u>(30,113)</u>
Annual OPEB cost (expense)	390,533
Contributions made	<u>(163,801)</u>
Increase in net OPEB obligation	226,732
Net OPEB obligation at July 1, 2010	<u>490,507</u>
Net OPEB obligation at June 30, 2011	<u>\$ 717,239</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 390,533	42.0 %	\$ 717,239

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2010, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 3,066,971
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,066,971</u>
Funded ratio (actuarial value of plan assets/UAAL)	-0-%
Covered payroll	<u>\$ 54,590,199</u>
UAAL as a percentage of covered payroll	5.6%

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, 2011

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 Annual Required Contribution (ARC) was determined through an actuarial valuation performed as of January 1, 2010 using the following assumptions:

Valuation date	January 1, 2010
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 3% to .25%
Health care cost trend rate	9.5% in 2010 decreasing .5% per year to an ultimate rate of 5.5% in 2018 and later
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 Events

In July 2011, the District issued General Obligation Bonds, Series B and C of 2011 to refund the General Obligation Bonds, Series of 2006. The Bond Series of 2011 are due in varying annual installments from May 2012 through May 2028, with interest rates of .65% to 4.0%.

20. Restatement

The District adopted the provisions of GASB Statement No. 54 during its year ended June 30, 2011. As part of this adoption, the District's Capital Reserve Fund no longer met the criteria to be reported as a special revenue fund and was merged into the District's Capital Projects Fund. The effect of this restatement was to increase the District's Capitals Project Fund fund balance by \$6,356,803 at July 1, 2010.

In addition, the District's Athletic Fund, formerly reported as a special revenue fund, was merged into the General Fund, as it too no longer met the requirements of a special revenue fund. The effect of this restatement was to increase the District's General Fund fund balance by \$176,240 at July 10, 2010.

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2011

Revenues

Local sources:

Current taxation:

Real estate	\$ 72,694,934
Earned income tax	13,569,393
Emergency Municipal service tax	376,773
Real estate transfers	1,329,695
Payments in lieu of taxes	410,039
Public utility realty tax	118,294

Total current taxation 88,499,128

Delinquent taxation 1,528,193

Total from taxation 90,027,321

Earnings from temporary investments and deposits	132,697
Receipts from other LEA's	106,925
Miscellaneous revenue	2,218,765

Total local sources 92,485,708

State sources:

Basic instructional subsidy	5,378,115
Charter school grant	762,659
Private placement tuition	60,338
Vocational education	107,202
Driver education	17,430
Special education	3,221,641
Adult education	19,749
Transportation	833,654
Rental and sinking fund payments	224,818
Medical and dental services	147,470
Property tax reduction	1,439,768
Social Security subsidy	2,219,091
Retirement subsidy	1,709,078
Other state grants	365,586

Total state sources 16,506,599

Federal sources:

Title I	644,501
Title II A	221,230
Title II C	65,964
Title III	28,100
Drug free schools	26,503
IDEA Part B, ARRA	565,607
Title I, ARRA	176,407
Fiscal Stabilization, ARRA	743,876
Education Jobs, ARRA	440,734
Medical Assistance	300,868
ACCESS	30,614
Other federal grants	221,598

Total federal sources 3,466,002

Total revenues 112,458,309

State College Area School District**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**
Year Ended June 30, 2011**Expenditures**

Instruction:

Regular programs	\$ 47,525,648
Special programs	13,771,789
Vocational education programs	2,676,878
Other instructional programs	827,526
Adult education programs	458,621
Nonpublic school programs	6,866

Total instruction 65,267,328

Support services:

Pupil personnel	3,864,378
Instructional staff	3,664,062
Administration	5,708,543
Pupil health	1,258,575
Business	884,972
Operation and maintenance of plant services	7,940,416
Student transportation	5,669,421
Central	4,665,011

Total support services 33,655,378

Noninstructional services:

Student activities	2,278,554
Community services	187,293

Total noninstructional services 2,465,847

Facilities acquisition, construction and improvement services 168,623

Debt service 71,326

Total expenditures 101,628,502

**Excess of Revenues over Expenditures before Other
before Other Financing Uses**

10,829,807

Other Financing Uses

Transfer out (8,586,892)

Change in Fund Balance

2,242,915

Fund Balance, Beginning

As previously reported	16,176,192
Restatement	176,240
As restated	<u>16,352,432</u>

Fund Balance, Ending

\$ 18,595,347

See notes to financial statements

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Grantor/Pass-Through Grantor/Program or Cluster Title

U.S. Department of Education Passed through the PA Department of Education: Title I, Part A Cluster:

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, 2010	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2011
I	84.010	013-090418	A	\$ 603,495	\$ -	\$ (2,249)	\$ 2,249	\$ 2,249	\$ -
I	84.010	013-100418	B	604,709	160,997	127,995	33,002	33,002	-
I	84.010	013-110418	C	670,012	515,394	-	609,250	609,250	93,856
I	84.010	077-100418	B	7,200	-	5,760	-	-	-
I	84.389	127-110418	C	176,044	176,044	-	176,044	176,044	-
I	84.389	127-100418	B	169,516	-	(363)	363	363	-
					858,195	131,143	820,908	820,908	93,856
I	84.002	041-100090	C	118,910	89,183	-	113,554	113,554	24,371
					89,183	-	113,554	113,554	24,371
I	84.048	380-111058	C	71,001	53,251	-	65,964	65,964	12,713
I	84.048	380-100111	B	61,113	9,881	9,881	9,881	9,881	-
					63,132	9,881	75,845	75,845	22,594
I	84.186	100-100574	C	18,786	11,741	-	5,785	5,785	(5,956)
I	84.186	100-100418	B	36,253	17,423	(3,295)	20,718	20,718	-
					29,164	(3,295)	26,503	26,503	(5,956)
I	84.365	010-110418	C	36,342	13,215	-	10,204	10,204	(3,011)
I	84.365	010-090418	A	40,774	12,232	12,047	185	185	-
I	84.365	010-100418	B	44,545	12,149	6,586	17,711	17,711	12,148
					37,596	18,633	28,100	28,100	9,137
I	84.367	020-110418	C	235,977	199,673	-	191,916	191,916	(7,757)
I	84.367	020-090418	A	229,400	-	(855)	855	855	-
I	84.367	020-100418	B	230,356	30,714	2,254	28,460	28,460	-
					230,387	1,399	221,231	221,231	(7,757)
I	84.394	126-110418	C	743,876	743,876	-	743,876	743,876	-
I	84.410	140-141757	C	440,734	440,734	-	440,734	440,734	-
I	94.004	019-10-2070	C	8,000	5,714	-	4,883	4,883	(831)
					2,497,981	157,761	2,475,634	2,475,634	135,414
I	84.027	613,766	C	613,766	-	-	613,766	613,766	613,766
I	84.027	592,400	B	592,400	592,400	579,341	13,059	13,059	-
I	84.391	565,607	C	565,607	-	-	565,607	565,607	565,607
I	84.391	475,000	B	475,000	592,400	453,717	-	-	453,717
						1,033,058	1,192,432	1,192,432	1,633,090
I	84.215	373,704	C	373,704	74,765	-	103,159	103,159	28,394
					3,165,146	1,190,819	3,771,225	3,771,225	1,796,898
I	93.778	044-007418	C	30,614	30,614	-	30,614	30,614	-

See notes to schedule of expenditures of federal awards

State College Area School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

**Grantor/Pass-Through
Grantor/Program or Cluster Title**

U.S. Department of Agriculture

Passed through the PA Department of Education:

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, 2010	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2011
I (F)	10.555	362-0000	C	NOTE 6	\$ 532,242	\$ -	\$ 550,647	\$ 550,647	\$ 18,405
I (F)	10.555	362-0000	B	NOTE 6	32,131	32,131	-	-	-
I (F)	10.553	365-0000	C	NOTE 6	89,447	-	92,605	92,605	3,158
I (F)	10.553	365-0000	B	NOTE 8	6,325	6,325	-	-	-
I (F)	10.553	367-0000	C	NOTE 6	1,635	-	1,712	1,712	77
I (F)	10.553	367-0000	B	NOTE 6	63	63	-	-	-
I (F)	10.559	264-0000	C	NOTE 6	14,029	-	14,029	14,029	-
I (S)	N/A	510-0000	B	NOTE 6	714	714	-	-	-
I (S)	N/A	510-0000	C	NOTE 6	9,902	-	10,250	10,250	348
I (S)	N/A	511-0000	B	NOTE 6	5,243	5,243	-	-	-
I (S)	N/A	511-0000	C	NOTE 6	87,840	-	90,849	90,849	3,009
I	10.555				147,689	(33,504)	158,027	158,027	(23,166)
Total U.S. Department of Agriculture					927,260	10,972	918,119	918,119	1,831
Total					\$ 4,123,020	\$ 1,201,791	\$ 4,719,958	\$ 4,719,958	\$ 1,798,729

Passed through the PA Department of Agriculture,
Value of USDA Donated Commodities

Total U.S. Department of Agriculture

Total

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the State College Area School District. The State College Area School District reporting entity is defined in Note 1 to the District's financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditure of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements.

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 \$300,868 of Access reimbursements for direct medical services.

4. State Matching Funds

State matching funds for the National School Lunch Program are included on the Schedule of Expenditures of Federal Awards at the request of the Pennsylvania Department of Education.

5. Relationship to Federal Financial Reports

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

6. 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, 2011

7. Source Code and Grant Period Code

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

I	= Indirect funding
S	= State share
F	= Federal share

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

A	= 07/01/08 – 06/30/09
B	= 07/01/09 – 06/30/10
C	= 07/01/10 – 06/30/11

**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 the accompanying 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 6, 2012. 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.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

This report is intended solely for the information and use of the board of education, management, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "ParenteBeard LLC". The script is cursive and fluid, with the letters "P", "B", and "L" being particularly prominent.

State College, Pennsylvania
January 6, 2012

**Independent Auditors' Report on
Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program
And on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Board of Education
State College Area School District

Compliance

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of education, management, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ParenteBeard LLC

State College, Pennsylvania
January 6, 2012

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

_____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?

_____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number

84.010, 84.389
84.027, 84.391
84.394
84.410

Name of Federal Program or Cluster

Title 1, Part A Cluster
Special Education Cluster (IDEA)
Fiscal Stabilization - Basic Education
Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.