

# **State College Area School District**

Financial Statements and  
Supplementary Information

June 30, 2016



**BAKER TILLY**

Candor. Insight. Results.

# State College Area School District

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## **Independent Auditors' Report**

Board of Education  
State College Area School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of State College Area School District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of State College Area School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 4 through 16, the schedule of funding progress on page 50, the schedule of District's proportionate share of the net pension liability on page 51 and the schedule of District's contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 53-54) is presented for purposes of additional analysis and is not a required part of the basic financial statements. In addition, the Schedule of Expenditures of Federal Awards (page 55), as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 53-54) and the Schedule of Expenditures of Federal Awards (page 55) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 53-54) and the Schedule of Expenditures of Federal Awards (page 55) are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Baker Tilly Viechow Krause, LLP*

State College, Pennsylvania  
October 28, 2016

# **State College Area School District**

## **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

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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, 2016. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

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

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

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

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

The statement of net deficit presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Effective with audited financial statements issued June 30, 2015, the District's estimated proportionate share of the Public School Employees' Retirement System ("PSERS") liability is included in the liabilities of the government-wide financial statements.

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

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

# **State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

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## **Fund Financial Statements**

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

### **Governmental Funds**

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

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

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

### **Proprietary Funds**

The District accounts for its food service operation in a proprietary fund, which reports the same functions presented as 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, 2016

**Government-Wide Financial Analysis**

Condensed Statement of Net Deficit  
June 30, 2016

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

**State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Condensed Statement of Activities  
For the year ended  
June 30, 2016

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

**State College Area School District**

Management's Discussion and Analysis (Unaudited)  
June 30, 2016

Condensed Statement of Net Deficit  
(As Previously Reported)  
June 30, 2015

	<b>Governmental Activities</b>	<b>Business-Type Activity</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>			
Current and other assets	\$ 151,351,605	\$ 214,528	\$ 151,566,133
Noncurrent assets	92,580,675	185,223	92,765,898
Deferred outflows of resources	13,757,721	246,881	14,004,602
Total	<u>\$ 257,690,001</u>	<u>\$ 646,632</u>	<u>\$ 258,336,633</u>
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>			
Current liabilities	\$ 21,009,940	\$ 178,748	\$ 21,188,688
Long-term liabilities:			
Due within one year	3,585,000	-	3,585,000
Due after one year	315,984,868	3,586,369	319,571,237
Total liabilities	<u>340,579,808</u>	<u>3,765,117</u>	<u>344,344,925</u>
Deferred inflows of resources	<u>13,514,431</u>	<u>235,569</u>	<u>13,750,000</u>
Net deficit:			
Net investment in capital assets	32,939,774	185,223	33,124,997
Restricted	63,370	-	63,370
Unrestricted (deficit)	<u>(129,407,382)</u>	<u>(3,539,277)</u>	<u>(132,946,659)</u>
Total net deficit	<u>(96,404,238)</u>	<u>(3,354,054)</u>	<u>(99,758,292)</u>
Total	<u>\$ 257,690,001</u>	<u>\$ 646,632</u>	<u>\$ 258,336,633</u>

**State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Condensed Statement of Activities  
(As Previously Reported)  
For the year ended  
June 30, 2015

	<b>Governmental Activities</b>	<b>Business-Type Activity</b>	<b>Total</b>
Revenues:			
Program revenues:			
Charges for services	\$ 1,177,339	\$ 2,367,491	\$ 3,544,830
Operating grants and contributions	16,377,168	1,173,323	17,550,491
General revenues:			
Taxes levied, net	105,042,553	-	105,042,553
Grants, subsidies and contributions not restricted	7,855,959	-	7,855,959
Other	320,205	-	320,205
Total revenues	<u>130,773,224</u>	<u>3,540,814</u>	<u>134,314,038</u>
Program expenses:			
Instruction	68,140,704	-	68,140,704
Instructional student support	8,919,363	-	8,919,363
Administration and financial support services	12,148,005	-	12,148,005
Operation and maintenance of plant services	11,304,970	-	11,304,970
Pupil transportation	5,505,935	-	5,505,935
Student activities	2,307,814	-	2,307,814
Community services	129,383	-	129,383
Interest on long-term debt	2,658,994	-	2,658,994
Unallocated depreciation	409,668	-	409,668
Food service	-	3,564,840	3,564,840
Total program expenses	<u>111,524,836</u>	<u>3,564,840</u>	<u>115,089,676</u>
Change in net position	<u>19,248,388</u>	<u>(24,026)</u>	<u>19,224,362</u>
Net position, beginning			
As previously reported	67,433,379	293,967	67,727,346
Effect of adoption of GASB 68	<u>(183,086,005)</u>	<u>(3,623,995)</u>	<u>(186,710,000)</u>
As restated	<u>(115,652,626)</u>	<u>(3,330,028)</u>	<u>(118,982,654)</u>
Net deficit, ending	<u>\$ (96,404,238)</u>	<u>\$ (3,354,054)</u>	<u>\$ (99,758,292)</u>

## State College Area School District

### Management's Discussion and Analysis (Unaudited)

June 30, 2016

Total net position of the District increased \$11,237,505 in 2016. Net position of governmental activities increased by \$11,241,517, while net position of the business-type activity decreased \$4,012.

The District had \$128,780,773 in expenses related to governmental activities in 2016; only \$18,907,975 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$121,241,970 also provided for these programs. The \$11,241,517 increase in governmental activity net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$4,012 as a result of the net loss of the food service operation.

The June 30, 2016, government-wide financial statements reflect the District's estimated share of the PSERS liability, as required under GASB 68. Below is a schedule showing the impact on the unrestricted net position as of June 30, 2015 and 2016.

	<b>Total Net Position</b>	<b>GASB 68 (PSERS liability) Impact</b>	<b>Total Excluding GASB 68 Impact</b>	<b>Unrestricted Net Position Excluding GASB 68 Impact</b>
<b>Governmental Activities:</b>				
At June 30, 2015	\$ (96,404,238)	\$ (177,063,466)	\$ 80,659,228	\$ 47,656,084
Change in net position	11,241,517	(3,185,710)	14,427,227	6,328,814
Ending at June 30, 2016	<u>\$ (85,162,721)</u>	<u>\$ (180,249,176)</u>	<u>\$ 95,086,455</u>	<u>\$ 53,984,898</u>
<b>Business-Type Activities:</b>				
At June 30, 2015	\$ (3,354,054)	\$ (3,503,652)	\$ 149,598	\$ (35,625)
Change in net position	(4,012)	(30,232)	26,220	47,619
Ending at June 30, 2016	<u>\$ (3,358,066)</u>	<u>\$ (3,533,884)</u>	<u>\$ 175,818</u>	<u>\$ 11,994</u>

As of June 30, 2016, excluding the pension liability recorded based on GASB 68, \$53,984,898 of unrestricted net position of the \$95,086,455 of total net position was available to meet the District's ongoing obligations to employees and creditors for governmental activities. The remaining net position of \$41,101,557, is invested in capital assets and restricted for capital projects and debt service.

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2016

## Financial Analysis of the Governmental Funds

### General Fund

#### Revenues

Revenues for the 2015-2016 fiscal year were \$139,762,228 compared to \$130,642,862 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2015 - 2016</u>	<u>2014 - 2015</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 115,076,626	\$ 107,281,646	\$ 7,794,980	7.3 %
State sources	23,174,708	21,832,411	1,342,297	6.1 %
Federal sources	<u>1,510,894</u>	<u>1,528,805</u>	<u>(17,911)</u>	(1.2) %
Total	<u>\$ 139,762,228</u>	<u>\$ 130,642,862</u>	<u>\$ 9,119,366</u>	7.0 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$7,794,980 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$ 5,484,000 with approximately \$4,808,000 related to an increase in the millage rate from 39.5056 mills to 41.674 mills per \$1,000 of assessed value. Millage required to fund the first payment of \$3,384,493 due on the high school building project referendum borrowing was 1.4178. Rebates totaling \$76,590 offset real estate tax revenue. The District implemented a Supplemental Tax Rebate Program in the 2015-16 fiscal year, which provided property tax rebates to senior citizens, widows, widowers and disabled persons who met certain income eligibility guidelines and who were homeowners. Earned income tax revenue and real estate transfer tax revenue increased \$552,000 and \$748,000, respectively. Tuition, related to expansion of the District's Community Education Extended Learning Program, increased \$472,000, and proceeds of \$400,000 related to the sale of the District's College Heights building is also included in local revenues.

State revenues are derived primarily from state subsidies for basic education, special education 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 increased \$1,342,297 primarily related to a \$1,611,000 increase in reimbursement for retirement costs due to an increase in the employer contribution rate for the state's retirement plan. Basic Education also increased \$469,575 related to an increase in state funding, offset by an \$889,000 decrease in principal and interest reimbursement. In 2014-15 the District received a \$631,000 retroactive reimbursement for bonds issued in prior years. In 2015-16 the District received \$121,000 in reimbursement related to debt service payments at the end of 2014-15, however no reimbursement was received for 2015-16 debt payments due to state funding delays.

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

## State College Area School District

### Management's Discussion and Analysis (Unaudited)

June 30, 2016

#### Expenditures

Expenditures for the 2015-2016 fiscal year were \$140,634,410 compared to the 2014-2015 fiscal year of \$130,575,367 or a 7.7% increase. The following table shows the expenditures by object category:

	2015 - 2016	2014 - 2015	Change Increase (Decrease)	% Change
Salaries and benefits	\$ 95,358,330	\$ 88,226,003	\$ 7,132,327	8.1 %
Professional services	3,247,956	4,315,743	(1,067,787)	(24.7) %
Purchased property services	1,979,848	2,015,860	(36,012)	(1.8) %
Other purchased services	11,619,286	10,075,188	1,544,098	15.3 %
Supplies	3,157,079	3,309,691	(152,612)	(4.6) %
Property	2,750,633	2,405,579	345,054	14.3 %
Other objects	273,404	310,276	(36,872)	(11.9) %
Other uses of funds	22,247,874	19,917,027	2,330,847	11.7 %
Total	<u>\$ 140,634,410</u>	<u>\$ 130,575,367</u>	<u>\$ 10,059,043</u>	7.7 %

Salaries and benefits increased \$7,132,327. Salary expense increased approximately \$3,174,000, which includes \$1,064,000 for substitute staffing that was a contracted service in the prior year. Benefits increased approximately \$3,958,000 primarily due to a \$3,237,000 increase in retirement expense related to an increase in the employer contribution rate for PSERS from 21.40% to 25.84% (20.8%), and an increase of approximately \$416,000 in health insurance expense related to higher insurance rates, offset by savings from the restructuring of the health insurance program.

Professional services decreased compared to the prior year by \$1,067,787 primarily due to termination of a contract for substitute staffing.

Other purchased services increased \$1,544,098 primarily due to a \$1,150,000 (22.7%) increase in charter school expense. This increase is related to both an increase in the number of students attending charter schools and an increase in the expense per student. Other increases in expense are primarily related to wide area network and transportation.

Supplies decreased \$152,612, primarily related to lower fuel costs.

Property expense increased \$345,054, which includes the purchase of land for \$240,000.

Other uses of funds increased \$2,330,847. Debt service related to the high school referendum borrowing, which was an interest only payment for 2015-16, totaled \$3,384,493. Other debt service payments decreased \$762,000 related primarily to savings from a refinancing. Capital fund transfers decreased \$419,000 and the district transferred \$127,655 to the Food Service fund to cover cash needs.

#### Capital Reserve Fund

The Capital Reserve Fund is used to account for transfers from the General Fund that are to be used to fund future capital projects or debt service. The Capital Reserve Fund's fund balance as of June 30, 2016 is \$43,391,548.

## **State College Area School District**

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### **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

#### **Capital Projects Fund**

The Capital Project Fund is used to account for capital projects of the District. The District spent \$19,443,478 for such projects in 2015-16. The majority of expenditures in 2015-16 related to the High School Project and renovation of the Panorama building. Other projects included renovation and improvements throughout the District. The Capital Projects Fund's fund balance is \$62,598,114 at June 30, 2016, of which \$62,476,529 is restricted for the District's high school project.

#### **General Fund Budgetary Highlights**

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

The General Fund's originally-approved budget for 2016 included \$136,368,756 of revenues and \$137,552,303 of expenditures. The budget was amended by \$511,682 for additional grants and related expenditures.

The actual revenues for 2016 were \$2,881,790 greater than the final budget. Local revenues were \$2,911,255 greater than budget due to favorable variances in real estate transfer taxes of \$1,423,900, earned income tax revenue of \$486,600, and revenue from the sale of a District building of \$399,700. Real estate taxes, tuition and delinquent tax also exceeded budgeted amounts. State revenues were \$113,580 in excess of budget. Basic Education was \$462,600 in excess of budget related to an increase in funding from the state, while rental/sinking fund payments were \$396,600 less than budget due to delays in state funding. Social security revenue is less than budget related to an adjustment in the revenue recognition period. Federal revenues were less than budget by \$143,045.

Actual expenditures, excluding transfers to other funds, were \$2,889,162 less than the amended budget. Positive budget variances include salary expense and related benefits, which were lower than budget due to lower than budgeted substitute costs and due to vacant positions and turnover. Healthcare expense was also lower than budget related to greater than budgeted savings from health plan changes. Natural gas expense was lower related to rate decreases and less square footage in the high school during construction. Services, supplies and equipment purchases were not fully expended at budgeted levels through operational efficiencies. Debt service was lower due to refinancing of debt during the year, and budget contingency was used to cover increased charter school costs. Transfers to the capital reserve fund exceeded budget by \$5,994,000 as the result of higher than anticipated revenues, and lower than anticipated expenses.



## State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2016

### Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2016 is summarized below (see details in Note 7 to the financial statements).

	<b>Governmental Activities</b>	<b>Business-Type Activity</b>	<b>Total</b>
Land, buildings and improvements	\$ 119,714,632	\$ -	\$ 119,714,632
Equipment and other capital assets	42,367,242	1,083,956	43,451,198
Construction in progress	28,577,751	-	28,577,751
Total	190,659,625	1,083,956	191,743,581
Accumulated depreciation	(82,150,281)	(920,132)	(83,070,413)
Net	<u>\$ 108,509,344</u>	<u>\$ 163,824</u>	<u>\$ 108,673,168</u>

### Long-Term Debt

At June 30, 2016, the District had long-term debt of \$122,770,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$75,120,000 related to the District High School Project. Debt issued based on a voter referendum is excluded when comparing to the legal limit of debt. Debt that is not related to the referendum of \$47,650,000 is significantly below the legal limit of \$296,313,212.

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

The assessed value used for the 2017 budget preparation is approximately \$2.27 billion, which is up approximately \$29 million or 1.3% from 2016. Amounts available for appropriation in the General Fund budget for 2016-17 are \$146,985,032, an increase of approximately 6.9% over the 2015-16 budget of \$137,552,303. The budget includes \$5,256,275 for payment of the second year of debt service on the 2016 borrowing to fund the High School project. This is an increase of \$1,871,781 over the 2015-16 interest only payment. Property taxes will increase 4.32 % to 43.473 mills, with 1.92% for the payment of the increase in referendum debt service. The District will use these remaining 2.4 % increase in revenues to finance programs currently offered and for six new teaching positions to enhance and expand program offering and respond to expected student enrollment across the district.

In the fall of 2015, the State College Area School District Education Foundation ("Education Foundation") was established. The Education Foundation was established to enhance the education experience of students within the District by providing financial support for innovative learning opportunities.

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

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

## **State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

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

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

School districts are now governed by back-end referendum requirements for increases in property tax rates. School districts are prohibited from increasing their tax rates above the annual inflationary percentage and must place referendum questions before the voters to approve further increases. Exceptions for rate increases above the index without going to referendum exist for special education costs, retirement rate changes, debt issuances, and certain other limited areas. The Act 1 Index for 2015-16 is 1.9%.

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

### **Strategic Plan**

The Pennsylvania Department of Education ("PDE") requires all school districts to develop, implement and monitor a strategic/comprehensive plan. The 2014-2017 strategic plan was developed based on input from a broad cross-section of the State College Area School District community including nearly 150 students, parents, teachers, administrators, district staff, board members, community/higher education partners and community representatives.

The strategic plan and its annual updates are required to be submitted to PDE by September 30 of each year.

### **District Growth**

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

## **State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

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

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

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

Design for the high school continued through the summer of 2015. Design changes, primarily the inclusion of the Delta middle level program and increases in program space for both performing arts and physical education/athletics, increased the estimated project cost approximately \$11.9 million. Site work began in the summer of 2015 and the construction project went to bid in the fall of 2015. Base bids were accepted on November 30, 2015, including \$3.5 million for bid alternates, bringing total project cost, when combined with initial site work from the summer of 2015, to \$138 million. Subsequent to bid acceptance, \$4 million in change orders, recommended by the contractors and design team, were accepted by the board, reducing the total project cost to \$134 million. The district's capital financing plan includes funding for the cost in excess of the \$85 million referendum debt. Work on the project moved through the year with significant progress. A milestone for occupying the majority of the new classroom areas is expected in early January 2017.

Looking beyond the high school project, the District expected to begin a Facilities Master Plan Elementary Update in the fall of 2016. As a result of the potential for sizable resources to fund facility projects from outside the district, a Facilities Master Plan Elementary Update began in April 2016. The process included facility assessment by the architect, Crabtree Rohrbaugh and Associates, and community input through public forums and meetings with the Board of Directors. Selection of project(s), including scope and design, is expected to occur during the fall of 2016.

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

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

**State College Area School District**Statement of Net Deficit  
June 30, 2016

	Governmental Activities	Business -Type Activities	Total
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 74,961,582	\$ 24,754	\$ 74,986,336
Restricted cash and cash equivalents	67,742,846	-	67,742,846
Taxes receivable, net	2,559,775	-	2,559,775
Due from fiduciary fund	75,510	-	75,510
Internal balances	28,844	(28,844)	-
Due from other governments	4,675,142	191,850	4,866,992
Other receivables	72,887	16,875	89,762
Inventories	16,575	58,918	75,493
Other current assets	123,752	-	123,752
Total current assets	150,256,913	263,553	150,520,466
<b>Noncurrent Assets</b>			
Land	1,140,457	-	1,140,457
Buildings and improvements	118,574,175	-	118,574,175
Equipment and other capital assets	42,367,242	1,083,956	43,451,198
Construction in progress	28,577,751	-	28,577,751
Accumulated depreciation	(82,150,281)	(920,132)	(83,070,413)
Total noncurrent assets	108,509,344	163,824	108,673,168
Total assets	258,766,257	427,377	259,193,634
<b>Deferred Outflows of Resources</b>			
Pension	14,858,629	291,312	15,149,941
Deferred amounts on refunding	1,312,935	-	1,312,935
Total deferred outflows of resources	16,171,564	291,312	16,462,876
Total	\$ 274,937,821	\$ 718,689	\$ 275,656,510
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 6,145,154	\$ 9,999	\$ 6,155,153
Current portion of bonds and notes payable	4,990,000	-	4,990,000
Accrued salaries and benefits	10,578,229	34,095	10,612,324
Payroll deductions and withholdings	6,614,107	-	6,614,107
Unearned revenue	339,965	27,675	367,640
Other current liabilities	1,632,082	109,728	1,741,810
Interest rate swap payable	550,000	-	550,000
Total current liabilities	30,849,537	181,497	31,031,034
<b>Noncurrent Liabilities</b>			
Bonds and notes payable	130,236,253	-	130,236,253
Other postemployment benefits liability	1,743,006	-	1,743,006
Interest rate swap payable	550,000	-	550,000
Net pension liability	193,231,589	3,788,411	197,020,000
Compensated absences	1,613,941	70,063	1,684,004
Total noncurrent liabilities	327,374,789	3,858,474	331,233,263
Total liabilities	358,224,326	4,039,971	362,264,297
<b>Deferred Inflows of Resources</b>			
Pension	1,876,216	36,784	1,913,000
<b>Net Deficit</b>			
Net investment in capital assets	41,025,937	163,824	41,189,761
Restricted	75,620	-	75,620
Unrestricted (deficit)	(126,264,278)	(3,521,890)	(129,786,168)
Total net deficit	(85,162,721)	(3,358,066)	(88,520,787)
Total	\$ 274,937,821	\$ 718,689	\$ 275,656,510

See notes to financial statements

# State College Area School District

## Statement of Activities

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Deficit		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:						
Instruction	\$ (79,742,882)	\$ 1,399,090	\$ 13,277,261	\$ (65,066,531)		\$ (65,066,531)
Instructional student support	(10,553,204)	-	1,238,495	(9,314,709)		(9,314,709)
Administration and financial support services	(13,950,534)	-	929,286	(13,021,248)		(13,021,248)
Operation and maintenance of plant services	(11,565,761)	161,504	516,379	(10,887,878)		(10,887,878)
Pupil transportation	(6,103,636)	-	1,108,051	(4,995,585)		(4,995,585)
Student activities	(2,610,330)	92,924	57,156	(2,460,250)		(2,460,250)
Community services	(121,258)	-	6,898	(114,360)		(114,360)
Interest on long-term debt	(3,737,923)	-	120,931	(3,616,992)		(3,616,992)
Depreciation - unallocated	(395,245)	-	-	(395,245)		(395,245)
Total governmental activities	(128,780,773)	1,653,518	17,254,457	(109,872,798)		(109,872,798)
Business-Type Activity						
Food service	(3,988,674)	2,544,423	1,312,584	-	\$ (131,667)	(131,667)
Total	<u>\$ (132,769,447)</u>	<u>\$ 4,197,941</u>	<u>\$ 18,567,041</u>	<u>(109,872,798)</u>	<u>(131,667)</u>	<u>(110,004,465)</u>
<b>General Revenues</b>						
Property taxes, levied for general purposes, net				94,717,645	-	94,717,645
Other taxes levied for specific purposes				17,133,735	-	17,133,735
Grants, subsidies and contributions not restricted				8,325,457	-	8,325,457
Investment earnings,						
Interest and dividends				515,189	-	515,189
Transfer (out) in				(127,655)	127,655	-
Miscellaneous income				549,944	-	549,944
Total general revenues				121,114,315	127,655	121,241,970
<b>Changes in Net Position</b>				11,241,517	(4,012)	11,237,505
<b>Net Deficit, Beginning</b>				(96,404,238)	(3,354,054)	(99,758,292)
<b>Net Deficit, Ending</b>				<u>\$ (85,162,721)</u>	<u>\$ (3,358,066)</u>	<u>\$ (88,520,787)</u>

See notes to financial statements

# State College Area School District

Balance Sheet - Governmental Funds  
June 30, 2016

	Major Funds				
	General	Capital Reserve	Capital Projects	Debt Service	Total
<b>Assets</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 43,367,331	\$ 31,594,251	\$ -	\$ -	\$ 74,961,582
Restricted cash and cash equivalents	-	-	67,742,846	-	67,742,846
Taxes receivable, net	2,559,775	-	-	-	2,559,775
Due from other funds	671,527	11,797,297	-	4,638	12,473,462
Due from other governments	4,675,142	-	-	-	4,675,142
Other receivables	72,887	-	-	-	72,887
Inventories	1,885,449	-	-	-	1,885,449
Other current assets	123,752	-	-	-	123,752
Total	<u>\$ 53,355,863</u>	<u>\$ 43,391,548</u>	<u>\$ 67,742,846</u>	<u>\$ 4,638</u>	<u>\$ 164,494,895</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
<b>Liabilities</b>					
Due to other funds	\$ 11,871,654	\$ -	\$ 582,469	\$ -	\$ 12,454,123
Accounts payable	1,581,682	-	4,562,263	-	6,143,945
Accrued salaries and benefits	10,578,229	-	-	-	10,578,229
Payroll deductions and withholdings	6,614,107	-	-	-	6,614,107
Unearned revenue	339,965	-	-	-	339,965
Other liabilities	277,847	-	-	-	277,847
Total liabilities	<u>31,263,484</u>	<u>-</u>	<u>5,144,732</u>	<u>-</u>	<u>36,408,216</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenues - taxes	<u>678,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>678,610</u>
<b>Fund Balances</b>					
Nonspendable	1,885,449	-	-	-	1,885,449
Restricted	-	75,620	62,476,529	-	62,552,149
Committed	8,413,719	43,315,928	121,585	4,638	51,855,870
Unassigned	11,114,601	-	-	-	11,114,601
Total fund balances	<u>21,413,769</u>	<u>43,391,548</u>	<u>62,598,114</u>	<u>4,638</u>	<u>127,408,069</u>
Total	<u>\$ 53,355,863</u>	<u>\$ 43,391,548</u>	<u>\$ 67,742,846</u>	<u>\$ 4,638</u>	<u>\$ 164,494,895</u>

See notes to financial statements

## State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Deficit  
June 30, 2016

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**Total Fund Balance - Governmental Funds** \$ 127,408,069

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$190,659,625 and the accumulated depreciation is \$82,150,281. 108,509,344

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. 678,610

Inventory of books and supplies was reclassified. (1,885,449)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund, with the exception of capital assets and pension-related assets and liabilities which are included elsewhere in this reconciliation, are reported with governmental activities. 87,170

Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds. (1,100,000)

Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit. 14,858,629

Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit. (1,876,216)

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	(135,226,253)
Deferred amounts on refunding	1,312,935
Accrued interest on long-term debt	(1,354,235)
Other postemployment benefits liability	(1,743,006)
Net pension liability	(193,231,589)
Compensated absences	(1,600,730)

**Total Net Deficit - Governmental Activities** \$ (85,162,721)

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, 2016

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
<b>Revenues</b>					
Local sources	\$ 115,076,626	\$ 64,510	\$ 329,186	\$ -	\$ 115,470,322
State sources	23,174,708	-	-	-	23,174,708
Federal sources	1,510,894	-	-	-	1,510,894
Total revenues	139,762,228	64,510	329,186	-	140,155,924
<b>Expenditures</b>					
Instruction	77,392,846	-	-	-	77,392,846
Support services	37,987,379	-	166,648	-	38,154,027
Noninstructional services	2,682,331	-	-	-	2,682,331
Facilities acquisition, construction and improvement services	306,892	-	19,276,830	-	19,583,722
Debt service	567,090	-	-	7,703,388	8,270,478
Total expenditures	118,936,538	-	19,443,478	7,703,388	146,083,404
<b>Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)</b>	20,825,690	64,510	(19,114,292)	(7,703,388)	(5,927,480)
<b>Other Financing Sources (Uses)</b>					
Debt proceeds	-	-	21,590,000	-	21,590,000
Bond premium	-	-	3,060,896	-	3,060,896
Refinancing of bonds	-	-	(24,484,248)	-	(24,484,248)
Transfer in	-	11,770,000	2,096,829	7,703,388	21,570,217
Transfer out	(21,697,872)	-	-	-	(21,697,872)
Total other financing (uses) sources	(21,697,872)	11,770,000	2,263,477	7,703,388	38,993
<b>Changes in Fund Balances</b>	(872,182)	11,834,510	(16,850,815)	-	(5,888,487)
<b>Fund Balance, Beginning</b>	22,285,951	31,557,038	79,448,929	4,638	133,296,556
<b>Fund Balance, Ending</b>	\$ 21,413,769	\$ 43,391,548	\$ 62,598,114	\$ 4,638	\$ 127,408,069

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, 2016

**Total Changes in Fund Balances-Governmental Funds** \$ (5,888,487)

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

Some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year. (37,030)

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

Depreciation expense	(4,706,549)	
Capital outlays	<u>20,635,218</u>	15,928,669

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. (100,414)

The issuance of long term debt (bonds) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. This transaction, however, does not have an effect on net position. Also, governmental funds report the effect of premiums and discounts, and other similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. Reconciling items related to long-term debt activity for the year ended June 30, 2016 are as follows:

Issuance of bonds payable	(21,590,000)	
Bond premium	(3,060,896)	
Refund of bonds payable	23,975,000	
Scheduled principal payments on long-term debt	<u>2,825,000</u>	2,149,104

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include amortization of bond premiums and deferred interest from advanced refunding bonds. The net additional interest accrued in the statement of activities over the amount due is shown here. 1,666,803

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. 33,433

Other post employment benefits that are reflected on the statement of net deficit but are not considered a current expenditures in governmental funds. (180,514)

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

Net pension liability is considered long-term in nature, and is not reported as a liability within the funds. Such a liability is, however, reported with in the statement of net deficit, and changes in the liability is reflected within the statement of net deficit. This represents the change in pension liability and the deferred outflows and inflows related to the pension. (3,185,710)

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. 305,663

**Changes in Net Deficit of Governmental Activities** \$ 11,241,517

**State College Area School District**

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund  
Year Ended June 30, 2016

	<b>Budgeted Amount</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Local sources	\$ 112,155,974	\$ 112,165,371	\$ 115,076,626	\$ 2,911,255
State sources	22,867,782	23,061,128	23,174,708	113,580
Federal sources	1,345,000	1,653,939	1,510,894	(143,045)
<b>Total revenues</b>	<b>136,368,756</b>	<b>136,880,438</b>	<b>139,762,228</b>	<b>2,881,790</b>
<b>Expenditures</b>				
Instruction:				
Regular programs	56,185,959	56,948,790	56,534,866	413,924
Special programs	16,238,934	16,546,944	16,090,055	456,889
Vocational education programs	3,171,493	3,259,376	3,242,498	16,878
Other instructional programs	1,864,228	1,703,434	1,499,779	203,655
Adult education programs	56,297	38,109	10,608	27,501
Nonpublic school programs	14,370	25,572	15,040	10,532
<b>Total instruction</b>	<b>77,531,281</b>	<b>78,522,225</b>	<b>77,392,846</b>	<b>1,129,379</b>
Support services:				
Pupil personnel	4,464,796	4,464,719	4,444,952	19,767
Instructional staff	4,717,972	4,885,735	4,598,410	287,325
Administration	7,167,278	7,341,404	7,135,958	205,446
Pupil health	1,289,022	1,418,723	1,395,600	23,123
Business	1,223,857	1,239,406	1,157,771	81,635
Operation and maintenance of plant services	8,925,962	9,013,341	8,473,417	539,924
Student transportation services	5,955,060	6,118,265	6,071,699	46,566
Central	5,802,595	5,261,184	4,709,572	551,612
<b>Total support services</b>	<b>39,546,542</b>	<b>39,742,777</b>	<b>37,987,379</b>	<b>1,755,398</b>
Noninstructional services:				
Student activities	2,477,332	2,518,767	2,561,073	(42,306)
Community services	86,964	100,588	84,012	16,576
Scholarships and awards	50,000	43,216	37,246	5,970
<b>Total noninstructional services</b>	<b>2,614,296</b>	<b>2,662,571</b>	<b>2,682,331</b>	<b>(19,760)</b>
Facilities acquisition, construction and improvement services	-	306,890	306,892	(2)
Debt service	622,000	591,237	567,090	24,147
<b>Total expenditures</b>	<b>120,314,119</b>	<b>121,825,700</b>	<b>118,936,538</b>	<b>2,889,162</b>
<b>Excess of Revenues Over Expenditures Before Other Financing Uses</b>	<b>16,054,637</b>	<b>15,054,738</b>	<b>20,825,690</b>	<b>5,770,952</b>
<b>Other Financing Uses</b>				
Budgetary reserve	(686,151)	-	-	-
Transfer out	(16,552,033)	(16,238,285)	(21,697,872)	(5,459,587)
<b>Total other financing uses</b>	<b>(17,238,184)</b>	<b>(16,238,285)</b>	<b>(21,697,872)</b>	<b>(5,459,587)</b>
<b>Changes in Fund Balance</b>	<b>\$ (1,183,547)</b>	<b>\$ (1,183,547)</b>	<b>(872,182)</b>	<b>\$ 311,365</b>
<b>Fund Balance, Beginning</b>			<b>22,285,951</b>	
<b>Fund Balance, Ending</b>			<b>\$ 21,413,769</b>	

See notes to financial statements

**State College Area School District**

## Statement of Net Deficit - Proprietary Funds

June 30, 2016

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 24,754	\$ -
Due from other funds	-	85,015
Due from other governments	191,850	-
Other receivables	16,875	-
Inventories	58,918	16,575
	<u>292,397</u>	<u>101,590</u>
Total current assets		
<b>Noncurrent Assets</b>		
Equipment	1,083,956	295,882
Accumulated depreciation	(920,132)	(284,940)
	<u>163,824</u>	<u>10,942</u>
Total noncurrent assets		
<b>Deferred Outflows of Resources</b>		
Pension	291,312	38,221
	<u>291,312</u>	<u>38,221</u>
Total	<u>\$ 747,533</u>	<u>\$ 150,753</u>
<b>Liabilities, Deferred Inflows of Resources and Net Deficit</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 9,999	\$ 1,209
Accrued salaries and benefits	34,095	-
Due to other funds	28,844	-
Other liabilities	109,728	-
Unearned revenue	27,675	-
	<u>210,341</u>	<u>1,209</u>
Total current liabilities		
<b>Noncurrent Liabilities</b>		
Net pension liability	3,788,411	497,061
Compensated absences	70,063	13,211
	<u>3,858,474</u>	<u>510,272</u>
Total noncurrent liabilities		
Total liabilities	<u>4,068,815</u>	<u>511,481</u>
<b>Deferred Inflows of Resources</b>		
Pension	36,784	4,826
	<u>36,784</u>	<u>4,826</u>
<b>Net Deficit</b>		
Net investment in capital assets	163,824	10,942
Unrestricted deficit	(3,521,890)	(376,496)
	<u>(3,358,066)</u>	<u>(365,554)</u>
Total net deficit		
Total	<u>\$ 747,533</u>	<u>\$ 150,753</u>

See notes to financial statements

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

Year Ended June 30, 2016

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Operating Revenues</b>		
Food service revenue	\$ 2,544,423	\$ -
Charges for services	-	562,423
Total operating revenues	2,544,423	562,423
<b>Operating Expenses</b>		
Salaries and employee benefits	2,137,893	163,934
Food, milk and supplies	1,763,283	91,046
Depreciation	31,433	842
Other purchased services	16,785	-
Purchased property services	12,212	158,286
Other objects	11,803	669
Professional and technical services	15,265	3,450
Total operating expenses	3,988,674	418,227
Operating (loss) income	(1,444,251)	144,196
<b>Nonoperating Revenues</b>		
Transfer in	127,655	-
State sources	303,141	-
Federal sources	1,009,443	-
Total nonoperating revenues	1,440,239	-
Changes in net deficit	(4,012)	144,196
<b>Net Deficit, Beginning</b>	(3,354,054)	(509,750)
<b>Net Deficit, Ending</b>	<u>\$ (3,358,066)</u>	<u>\$ (365,554)</u>

See notes to financial statements

**State College Area School District**

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2016

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,637,856	\$ 529,386
Cash paid to employees	(2,112,034)	(265,352)
Cash paid to vendors	(1,800,407)	(252,250)
Net cash (used in) provided by operating activities	(1,274,585)	11,784
<b>Cash Flows Used in Investing Activities</b>		
Purchase of equipment	(10,034)	(11,784)
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers in	127,655	-
State sources	237,694	-
Federal sources	908,354	-
Net cash provided by noncapital financing activities	1,273,703	-
Decrease in cash and cash equivalents	(10,916)	-
<b>Cash and Cash Equivalents, Beginning</b>	35,670	-
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 24,754</u>	<u>\$ -</u>
<b>Reconciliation of Operating (Loss) Income to Net Cash (used in) Provided by Operating Activities</b>		
Operating (loss) income	\$ (1,444,251)	\$ 144,196
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation	31,433	842
Pension changes	30,231	(99,821)
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	10,280	2,825
Other receivables	8,673	-
Due to/from other funds	79,963	(33,037)
Accounts payable	8,661	(1,624)
Accrued salaries and benefits	(3,030)	-
Other liabilities	4,797	-
Compensated absences	(1,342)	(1,597)
<b>Net Cash (Used in) Provided by Operating Activities</b>	<u>\$ (1,274,585)</u>	<u>\$ 11,784</u>

See notes to financial statements

**State College Area School District****Statement of Net Position - Fiduciary Fund - Agency**

June 30, 2016

**Assets****Current Assets**

Cash	\$ 524,554
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**Liabilities****Current Liabilities**

Due to other funds	\$ 75,510
Accounts payable	18,723
Other current liabilities	430,321

Total	\$ 524,554
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*See notes to financial statements*

# State College Area School District

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## Notes to Financial Statements

June 30, 2016

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

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

#### Nature of Operations

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

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

#### Reporting Entity

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

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

#### Basic Financial Statements - Government-Wide Statements

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

In the government-wide Statement of Net Deficit, both the governmental 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, receivables and deferred outflows of resources, as well as long-term debt and obligations and deferred inflows of resources. The District's net position is reported in three parts-net investment in capital assets; restricted net position; and unrestricted net position (deficit). The District first utilizes restricted resources to finance qualifying activities.

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

## **State College Area School District**

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### Notes to Financial Statements

June 30, 2016

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

The District does not allocate indirect costs.

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

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

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

The following fund types are used by the District:

#### **Governmental Funds**

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

#### **General Fund**

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

#### **Capital Reserve Fund**

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

#### **Capital Projects Fund**

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

#### **Debt Service Fund**

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



# **State College Area School District**

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## **Notes to Financial Statements**

June 30, 2016

### **Proprietary Funds**

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

#### **Food Service Fund**

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

#### **Internal Service Fund**

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

### **Fiduciary Funds**

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

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

#### **Activity Fund**

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

### **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 statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the District's total net position.

# **State College Area School District**

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## **Notes to Financial Statements**

June 30, 2016

### **Fund Financial Statements**

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

### **Basis of Accounting**

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

#### **Accrual Basis**

Both governmental 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, 2016

### Capital Assets

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

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

The District does not have any infrastructure capital assets.

### Inventories

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

### Compensated Absences

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

### Governmental Fund Balances

The District classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the School Board which do not lapse at year-end
  - The School Board of the District is its highest level of decision-making authority, and
  - The School Board commits funds through a formal board motion.

## State College Area School District

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### Notes to Financial Statements

June 30, 2016

- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District, but not through a formal action of the School Board
  - The School Board of the District authorized the District Business Administrator to assign funds to specific purposes, and
  - The School Board passed a board motion authorizing assignments for activities as contemplated by the Board.
- *Unassigned* - includes 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 Position/Fund Balances**

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

### **Deferred Outflows/Inflows of Resources**

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

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

### **Pension**

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

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

### Use of Estimates

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

### New Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to enhance the comparability of financial statements by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value on a government's financial position. The District adopted the guidance for the fiscal year beginning July 1, 2015. The guidance is retrospective, and the adoption of this standard did not have a significant impact on the District's financial position or results of operations.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The guidance is retrospective, and the adoption of this standard did not have a significant impact on the District's financial position or results of operations.

In June of 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* which supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to clarify the applicability and use of authoritative and nonauthoritative sources of accounting and financial reporting for the preparation of state and local government financial statements. The adoption of this guidance did not have any impact on the District's financial position or results of operations.

The District adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79, permits qualifying external investment pools to measure pool investments, which function similarly to private sector money market funds, at amortized cost. The statement also establishes additional disclosure requirements, which includes information about any limitations or restrictions on participant withdrawals, for both the pool and its participants. The District implemented the accounting and reporting requirements of GASB No. 79 as of July 1, 2015. This implementation did not materially change the District's accounting and reporting policies.

# State College Area School District

## Notes to Financial Statements

June 30, 2016

### 2. Cash and Cash Equivalents

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

#### Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. Custodial credit risk is addressed in the District's policy number 608, Bank Accounts. At June 30, 2016, \$117,583,567 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$117,583,567 was collateralized with securities held by the pledging financial institution, but not in the District's name.

#### Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Such assets are not considered deposits pursuant to GASB Nos. 3 and 40, and as such are not subject to custodial credit risk. At June 30, 2016, the carrying amount and bank balances of the District's investment in PSDLAF were \$25,600,162. Due to the short-term nature and liquidity of the investments held within the pool, the fair value of the underlying investments approximates amortized cost.

### 3. Property Taxes

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

### 4. Interfund Receivables, Payables and Transfers

At June 30, 2016, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 671,527
Capital Reserve Fund	11,797,297
Debt Service Fund	4,638
Internal Service Fund	85,015
Total	<u>\$ 12,558,477</u>

Amounts due to other funds:

General Fund	\$ 11,871,654
Capital Projects Fund	582,469
Food Service Fund	28,844
Agency Fund	75,510
Total	<u>\$ 12,558,477</u>

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

## State College Area School District

### Notes to Financial Statements

June 30, 2016

The composition of interfund transfers, used to move cash between funds at June 30, 2016 is as follows:

Transfers in:

Capital Reserve Fund	\$ 11,770,000
Capital Projects Fund	2,096,829
Debt Service Fund	7,703,388
Food Service Fund	<u>127,655</u>

Total	<u>\$ 21,697,872</u>
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Transfers out,

General Fund	<u>\$ 21,697,872</u>
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The General Fund transferred \$11,770,000 to the Capital Reserve Fund to provide funding for planned major capital projects. The General Fund also transferred \$2,096,829 to the Capital Projects Fund to cover current year building improvements, \$7,703,388 to the Debt Service Fund to cover required debt service payments and \$127,655 to the Food Service Fund to cover operational expenses in excess of revenues in the current year.

## 5. Due from Other Governments

The amount reported in the governmental funds at June 30, 2016 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 289,287	\$ 3,647,835	\$ 738,020	\$ 4,675,142
Food Service Fund	<u>123,042</u>	<u>68,808</u>	<u>-</u>	<u>191,850</u>
Total	<u>\$ 412,329</u>	<u>\$ 3,716,643</u>	<u>\$ 738,020</u>	<u>\$ 4,866,992</u>

Amounts due from the federal and state government are primarily federal grants and state subsidies receivable from the Commonwealth of Pennsylvania, Department of Education at June 30, 2016. The amount due from local governments represents receivables earned by the District for special education, but not yet remitted to the District as of June 30, 2016.

## 6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2016 follows:

Earned income taxes receivable	\$ 1,429,651
Delinquent real estate taxes receivable	1,042,660
Real estate transfer tax receivable	303,793
Interim real estate tax	30,395
Local service	<u>1,607</u>
Total	2,808,106
Estimated uncollectible taxes at June 30, 2016	<u>(248,331)</u>
Total	<u>\$ 2,559,775</u>

# State College Area School District

## Notes to Financial Statements

June 30, 2016

### 7. Capital Assets

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Increases	Transfers/ Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 899,887	\$ 240,570	\$ -	\$ 1,140,457
Construction in progress	10,328,229	19,088,549	(839,027)	28,577,751
Total capital assets, not being depreciated	11,228,116	19,329,119	(839,027)	29,718,208
Capital assets being depreciated:				
Buildings and improvements	117,668,519	152,078	753,579	118,574,176
Equipment and other capital assets	40,934,422	1,142,237	(5,300)	42,071,359
Equipment-internal service	284,098	11,784	-	295,882
Total capital assets, being depreciated	158,887,039	1,306,099	748,279	160,941,417
Accumulated depreciation for:				
Buildings and improvements	(44,017,859)	(3,199,440)	85,448	(47,131,851)
Equipment and other capital assets	(33,232,523)	(1,506,267)	5,300	(34,733,490)
Equipment, internal service	(284,098)	(842)	-	(284,940)
Total accumulated depreciation	(77,534,480)	(4,706,549)	90,748	(82,150,281)
Total capital assets being depreciated, net	81,352,559	(3,400,450)	839,027	78,791,136
Governmental activities capital assets, net	\$ 92,580,675	\$ 15,928,669	\$ -	\$ 108,509,344
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 1,073,922	\$ 10,034	\$ -	\$ 1,083,956
Accumulated depreciation, Equipment and other capital assets	(888,699)	(31,433)	-	(920,132)
Business-type activity capital assets, net	\$ 185,223	\$ (21,399)	\$ -	\$ 163,824



## State College Area School District

### Notes to Financial Statements

June 30, 2016

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

Government activities:

Unallocated	\$	395,245
Instruction		1,124,674
Instructional support services		4,275
Administrative and financial support services		5,776
Operation and maintenance of plant services		<u>3,176,579</u>

Total depreciation expenses for governmental activities

\$ 4,706,549

Business-type activities,  
Food service

\$ 31,433

## 8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$10,578,229 represent salaries of \$7,881,907, the District's share of Social Security taxes of \$602,966 for employees' services during the 2015-2016 school term, which are paid during July and August 2016, and retirement plan expense of \$2,036,685 applicable to the accrued salaries at June 30, 2016, and accrued workers' compensation of \$56,671.

## 9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Amounts due within one year
General Obligation					
Note - Series of 2008	\$ 1,325,000	\$ -	\$ 655,000	\$ 670,000	\$ 670,000
Bond Series - 2010A	10,085,000	-	10,085,000	-	-
Bond Series - 2010B	7,070,000	-	7,070,000	-	-
Bond Series - 2011B	7,280,000	-	7,280,000	-	-
Bond Series - 2012	14,135,000	-	445,000	13,690,000	460,000
Bond Series - 2013	4,300,000	-	610,000	3,690,000	720,000
Bond Series - 2014A	2,935,000	-	465,000	2,470,000	480,000
Bond Series - 2014B	5,730,000	-	-	5,730,000	-
Bond Series - 2015	75,120,000	-	-	75,120,000	1,785,000
Bond Series - 2015B	-	21,590,000	190,000	21,400,000	875,000
Total bonds and notes payable	127,980,000	21,590,000	26,800,000	122,770,000	<u>\$ 4,990,000</u>
Bond premium	11,102,139	3,060,896	1,706,782	12,456,253	
Total long-term debt	<u>\$ 139,082,139</u>	<u>\$ 24,650,896</u>	<u>\$ 28,506,782</u>	<u>\$ 135,226,253</u>	

## State College Area School District

### Notes to Financial Statements

June 30, 2016

Long-term debt at June 30, 2016 consists of the following:

\$9,515,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	\$ 670,000
\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	13,690,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	3,690,000
\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	2,470,000
\$5,730,000 General Obligation Bonds, Series B of 2014, due in varying annual installments beginning March 2021 through March 2028, interest rates of 2% to 2.5%	5,730,000
\$75,120,000 General Obligation Bonds, Series of 2015, due in varying annual installments beginning March 2017 through March 2040, interest rates of 3% to 5%	75,120,000
\$21,590,000 General Obligation Bonds, Series B of 2015, due in varying annual installments beginning May 2016 through May 2028, interest rates of 3% to 5%	21,400,000
Unamortized bond premium	<u>12,456,253</u>
Total	135,226,253
Current portion	<u>4,990,000</u>
Long-term debt	<u><u>\$ 130,236,253</u></u>

# State College Area School District

## Notes to Financial Statements

June 30, 2016

Debt service requirements at June 30, 2016 are as follows:

	Principal	Interest	Total
Year ending June 30:			
2017	\$ 4,990,000	\$ 5,170,560	\$ 10,160,560
2018	5,921,700	5,026,984	10,948,684
2019	6,101,700	4,832,859	10,934,559
2020	6,236,700	4,618,357	10,855,057
2021	6,501,700	4,393,151	10,894,851
2022 - 2026	34,305,306	17,867,781	52,173,087
2027 - 2031	29,989,276	11,330,139	41,319,415
2032 - 2036	21,251,800	7,186,150	28,437,950
2037 - 2040	19,928,071	2,386,750	22,314,821
Total	<u>\$ 135,226,253</u>	<u>\$ 62,812,731</u>	<u>\$ 198,038,984</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 Deficit.

In August 2015, the District issued \$21,590,000 in General Obligation Bonds with varying interest rates from 3% to 5%. The proceeds of the bonds were used to currently refund \$10,085,000 of the District's Series 2010A bonds, currently refund \$7,070,000 of the District's Series 2010B bonds, and to advance refund \$6,820,000 of the District's Series 2011B bonds.

This advanced refunding decreased the District's total debt service payments over the next thirteen years by approximately \$1,303,000 and provided an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$1,243,000.

## 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:

	General Fund	Capital Reserve Fund	Capital Projects Fund	Non-Major Governmental Fund	Total
Non-spendable for, Inventories	\$ 1,885,449	\$ -	\$ -	\$ -	\$ 1,885,449
Restricted for, Capital projects	\$ -	\$ 75,620	\$ 62,476,529	\$ -	\$ 62,552,149
Committed for:					
PSERS	\$ 7,313,719	\$ -	\$ -	\$ -	\$ 7,313,719
Interest rate swap settlement	1,100,000	-	-	-	1,100,000
Capital projects	-	43,315,928	121,585	-	43,437,513
Debt service	-	-	-	4,638	4,638
Total	<u>\$ 8,413,719</u>	<u>\$ 43,315,928</u>	<u>\$ 121,585</u>	<u>\$ 4,638</u>	<u>\$ 51,855,870</u>

**11. Construction Commitments**

The District had several active construction projects as of June 30, 2016. Outstanding construction commitments on these projects amounted to approximately \$108,778,000 at June 30, 2016.

**12. Retirement Plan****Plan Description**

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

**Benefits Provided**

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

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

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

## **State College Area School District**

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### Notes to Financial Statements

June 30, 2016

#### **Contributions**

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

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

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

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

#### **Employer Contributions**

The District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 25.84% (25% for pension portion and .84% for healthcare insurance premium assistance portion) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were \$14,674,941 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$197,020,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .4547%, which was an increase of .0014% from its proportion measured as of June 30, 2014.

## State College Area School District

### Notes to Financial Statements

June 30, 2016

For the year ended June 30, 2016, the District recognized pension expense of \$17,030,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 813,000
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments	-	399,000
Changes in proportion and differences between District contributions and proportionate share of contributions	475,000	701,000
District contributions subsequent to the measurement date	14,674,941	-
Total	<u>\$ 15,149,941</u>	<u>\$ 1,913,000</u>

\$14,674,941 reported as deferred outflows of resources, related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Years ending June 30:	
2017	\$ 1,211,000
2018	1,211,000
2019	1,211,000
2020	(2,195,000)
Total	<u>\$ 1,438,000</u>

# State College Area School District

## Notes to Financial Statements

June 30, 2016

### Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the District's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011 meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5 %	4.8 %
Private markets (equity)	15.0	6.6
Private real estate	12.0	4.5
Global fixed income	7.5	2.4
U.S. long treasuries	3.0	1.4
TIPS	12.0	1.1
High yield bonds	6.0	3.3
Cash	3.0	0.7
Absolute return	10.0	4.9
Risk parity	10.0	3.7
MLPs/Infrastructure	5.0	5.2
Commodities	8.0	3.1
Financing (LIBOR)	(14.0)	1.1
	100.0 %	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

## State College Area School District

### Notes to Financial Statements

June 30, 2016

#### Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 242,766,000	\$ 197,020,000	\$ 158,451,000

#### 13. Defined Contribution Plan

The District provides a 403(b) defined contribution plan for its employees, administered by the District. The plan is defined within the teachers' contract (State College Area Education Association); however, all employees are eligible to participate. With the exception of retiring teachers and certain contracted employees, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2016, total contributions (including retirement bonus and sick payouts) were \$1,318,940.

#### 14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government and was used by the District for fiscal year 2016 totaled \$218,265.



## State College Area School District

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### Notes to Financial Statements

June 30, 2016

#### 15. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under an operating lease expiring June 2017.

Rent expense for 2016 was \$102,000. Future minimum rental payments required under this operating lease are \$102,000 for the year ended June 30, 2017.

#### 16. Interest Rate Swap Settlement Agreement

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

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

Years ending June 30:	
2017	\$ 550,000
2018	<u>550,000</u>
Total	<u>\$ 1,100,000</u>

This outstanding liability is recorded on the Statement of Net Deficit related to governmental activities at June 30, 2016.

#### 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 overage 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*.

## State College Area School District

### Notes to Financial Statements

June 30, 2016

#### 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, 2016. Total retiree contributions made by plan members were \$536,278 for the year ended June 30, 2016.

#### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	421,136
Interest on net OPEB obligation		70,312
Adjustment to annual required contribution		<u>(95,924)</u>
Annual OPEB cost (expense)		395,524
Contributions made		<u>(215,010)</u>
Increase in net OPEB obligation		180,514
Net OPEB obligation at July 1, 2015		<u>1,562,492</u>
Net OPEB obligation at June 30, 2016	\$	<u><u>1,743,006</u></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, 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 395,524	54.4 %	\$ 1,743,006
June 30, 2015	398,958	47.5	1,562,492
June 30, 2014	384,520	48.3	1,353,078
June 30, 2013	388,621	35.6	1,154,165

## State College Area School District

### Notes to Financial Statements

June 30, 2016

#### Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2014, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 3,382,323
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,382,323</u>
Funded ratio (actuarial value of plan assets/UAAL)	0%
Covered payroll	<u>\$ 55,781,105</u>
UAAL as a percentage of covered payroll	6.06%

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.

#### Actuarial Methods and Assumptions

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

The District's ARC was determined through an actuarial valuation performed as of January 1, 2014 using the following assumptions:

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to .25%
Health care cost trend rate	6.5% in 2014, then decreasing by 0.5% per year to 5.5% in 2016
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. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. To the extent applicable, the District is required to adopt Statement No. 74 for its fiscal 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. To the extent applicable, the District is required to adopt Statement No. 75 for its fiscal 2018 financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. To the extent applicable, the District is required to adopt Statement No. 75 for its fiscal 2017 financial statements.

In December 2015, the GASB issued Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have specific characteristics. To the extent applicable, the District is required to adopt Statement No. 78 for its 2017 fiscal year financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. To the extent applicable, the District is required to adopt Statement No. 80 for its 2017 fiscal year financial statements.

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

## State College Area School District

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

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

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

**State College Area School District**

Schedule of the District's Proportionate Share of the Net Pension Liability (Unaudited)  
Year Ended June 30, 2016

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	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's proportion of the net pension liability	0.4547%	0.4533%	0.4561%
District's proportionate share of the net pension liability	\$ 197,020,000	\$ 179,419,000	\$ 186,710,000
District's covered-employee payroll	60,943,553	58,513,294	57,842,220
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.93%	32.61%	30.98%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%

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

**State College Area School District**

Schedule of District's Contributions (Unaudited)

Year Ended June 30, 2016

	Last 10 Fiscal Years									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 14,674,941	\$ 12,601,882	\$ 9,827,603	\$ 7,245,739	\$ 4,768,262	\$ 3,537,772	\$ 2,873,898	\$ 2,542,530	\$ 3,945,782	\$ 3,533,527
Contributions in relation to the contractually required contribution	<u>(14,674,941)</u>	<u>(12,601,882)</u>	<u>(9,827,603)</u>	<u>(7,245,739)</u>	<u>(4,768,262)</u>	<u>(3,537,772)</u>	<u>(2,873,898)</u>	<u>(2,542,530)</u>	<u>(3,945,782)</u>	<u>(3,533,527)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 60,943,553	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626	\$ 54,512,187	\$ 53,134,376
Contributions as a percentage of covered-employee payroll	24.08%	21.54%	16.99%	12.40%	8.27%	5.89%	4.87%	4.51%	7.24%	6.65%

## State College Area School District

### Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund Year Ended June 30, 2016

#### Revenues

##### Local sources:

##### Current taxation:

Real estate	\$ 89,901,493
Earned income tax	16,756,613
Local service tax	377,122
Real estate transfers	2,923,942
Payments in lieu of taxes	555,011
Public utility realty tax	116,691

Total current taxation 110,630,872

Delinquent taxation 1,257,788

Total from taxation 111,888,660

Earnings from temporary investments and deposits 133,743

Receipts from other LEA's 77,485

Miscellaneous revenue 2,976,738

Total local sources 115,076,626

##### State sources:

Basic instructional subsidy	6,903,016
Private placement tuition	169,929
Vocational education	90,891
Special education	3,255,597
Transportation	884,352
Rental and sinking fund payments	120,931
Medical and dental services	150,906
Property tax reduction	1,422,441
Social Security subsidy	2,077,074
Retirement subsidy	7,777,494
Other state grants	322,077

Total state sources 23,174,708

##### Federal sources:

Title I	807,776
Title II A	175,465
Title II C	68,195
Title III	59,155
Medical Assistance	10,303
ACCESS	390,000

Total federal sources 1,510,894

Total revenues 139,762,228



**State College Area School District**

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**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**  
**Year Ended June 30, 2016****Expenditures**

## Instruction:

Regular programs	\$ 56,534,866
Special programs	16,090,055
Vocational education programs	3,242,498
Other instructional programs	1,499,779
Adult education programs	10,608
Nonpublic school programs	15,040

Total instruction	<u>77,392,846</u>
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## Support services:

Pupil personnel	4,444,952
Instructional staff	4,598,410
Administration	7,135,958
Pupil health	1,395,600
Business	1,157,771
Operation and maintenance of plant services	8,473,417
Student transportation services	6,071,699
Central	4,709,572

Total support services	<u>37,987,379</u>
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## Noninstructional services:

Student activities	2,561,073
Community services	121,258

Total noninstructional services	<u>2,682,331</u>
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Facilities acquisition, construction and improvement services	<u>306,892</u>
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Debt service	<u>567,090</u>
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Total expenditures	<u>118,936,538</u>
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Excess of revenues over expenditures before other before other financing uses	20,825,690
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**Other Financing Uses**

Transfer out	<u>(21,697,872)</u>
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Change in fund balance	(872,182)
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<b>Fund Balance, Beginning</b>	<u>22,285,951</u>
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<b>Fund Balance, Ending</b>	<u><u>\$ 21,413,769</u></u>
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**State College Area School District**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Passed Through Grantor's Number	Grant Period Code	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2016	Expenditures to Subrecipients
<b>U.S. Department of Education</b>											
Passed through the PA Department of Education:											
Title I, Part A:											
Title I	I	84.010	013-150418	B	\$ 825,242	\$ 249,180	\$ 104,338	\$ 144,842	\$ 144,842	\$ -	\$ -
Title I	I	84.010	013-160418	C	758,570	503,653	-	662,934	662,934	159,281	-
Total Title I, Part A						752,833	104,338	807,776	807,776	159,281	-
Secondary Allocation	I	84.048	380-160079	C	68,195	61,996	-	68,195	68,195	6,199	-
Title III - Language	I	84.365	010-150418	B	53,037	35,358	8,185	27,173	27,173	-	-
Title III - Language	I	84.365	010-160418	C	79,770	53,180	-	31,983	31,983	(21,197)	-
Total Title III						88,538	8,185	59,156	59,156	(21,197)	-
Title II	I	84.367	020-150418	B	189,397	37,454	18,461	18,993	18,993	-	-
Title II	I	84.367	020-160418	C	187,556	125,313	-	156,472	156,472	31,159	-
Total Title II						162,767	18,461	175,465	175,465	31,159	-
Total PA Department of Education						1,066,134	130,984	1,110,592	1,110,592	175,442	-
Passed through Central Intermediate Unit #10:											
Special Education Cluster (IDEA):											
Special Education - Grants to States	I	84.027	062-15-0-010	B	742,416	742,416	742,416	-	-	-	-
Special Education - Grants to States	I	84.027	062-16-0-010	C	733,999	-	-	733,999	733,999	733,999	-
Preschool/Early Intervention Funds (619)		84.173	131-15-0-010	C	4,021	-	-	4,021	4,021	4,021	-
Preschool/Early Intervention Funds (619)	I	84.173	131-14-0-010	B	7,718	7,718	7,718	-	-	-	-
Total Special Education Cluster (IDEA)						750,134	750,134	738,020	738,020	738,020	-
Total U.S. Department of Education						1,816,268	881,118	1,848,612	1,848,612	913,462	-
<b>U.S. Department of Health and Human Services</b>											
Passed through Pennsylvania Department of Public Welfare											
Administrative Claiming Quarterly Program	I	93.778	044-007418	C		7,390	933	10,303	10,303	3,846	-

See notes to schedule of expenditures of federal awards

**State College Area School District**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Passed Through Grantor's Number	Grant Period Code	Program or Award Amount	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2016	Expenditures to Subrecipients
<b>U.S. Department of Agriculture</b>											
<b>Child Nutrition Cluster:</b>											
Passed through PA Department of Education:											
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 6	\$ 24,952	\$ 24,952	\$ -	\$ -	\$ -	\$ -
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	558,473	-	660,225	660,225	101,752	-
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	4,680	4,680	-	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	106,240	-	127,531	127,531	21,291	-
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 6	3,423	-	3,423	3,423	-	-
Passed through the PA Department of Agriculture, National School Lunch Program	I	10.555				210,586	(35,354)	218,265	218,265	(27,675)	-
Total Child Nutrition Cluster and Total U.S. Department of Agriculture						908,354	(5,722)	1,009,444	1,009,444	95,368	-
Total						\$ 2,732,012	\$ 876,329	\$ 2,868,359	\$ 2,868,359	\$ 1,012,676	\$ -

See notes to schedule of expenditures of federal awards

# **State College Area School District**

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

## **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the federal award activity of State College Area School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a select portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

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

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

## **3. Access Reimbursements**

Access reimbursements for direct medical services are classified as fee-for-service revenues and are not considered federal awards. The General Fund federal revenues include \$390,000 of Access reimbursements for direct medical services.

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

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

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

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

## **State College Area School District**

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

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

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

I = Indirect funding  
F = Federal share

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

B = 07/01/14 - 06/30/15  
C = 07/01/15 - 06/30/16

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

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

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

Board of Education  
State College Area School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2016.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Baker Tilly Viechow Krause, LLP*

State College, Pennsylvania  
October 28, 2016

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

Board of Education  
State College Area School District

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

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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



## Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

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

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

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

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

*Baker Tilly Viechow Krause, LLP*

State College, Pennsylvania  
October 28, 2016

# State College Area School District

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016

## Section I - Summary of Auditors' Results

### Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

           yes       X       no

### Federal Awards

Internal control over major program:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?

           yes       X       no

Identification of major federal program:

                    CFDA Number(s)                    

                    Name of Federal Program or Cluster                    

84.010

Title 1, Part A Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

      X       yes            no

## **State College Area School District**

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Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016

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

None.

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

None.

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

There were no findings related to the financial statement audit or major federal award programs noted in the June 30, 2015 Single Audit.