

**State College Area School
District**

Financial Statements and
Supplementary Information

June 30, 2010

State College Area School District

Table of Contents
June 30, 2010

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Government Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	21
Statement of Net Assets - Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Net Assets - Fiduciary Fund - Agency	25
Notes to Financial Statements	26
Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund	45
Combining Balance Sheet - Other Non-Major Funds	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Other Non-Major Funds	48
Schedule of Expenditures of Federal Awards	49
Notes to Schedule of Expenditures of Federal Awards	51
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53

State College Area School District

Table of Contents

June 30, 2010

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	55
Schedule of Findings and Questioned Costs	57

Independent Auditors' Report

Board of Education
State College Area School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State College Area School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State College Area School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 53, Accounting and Financial Reporting for Derivative Instruments in 2010 which required the District to restate its July 1, 2009 net assets to adopt accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

ParenteBeard LLC

State College, Pennsylvania
January 7, 2011

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

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, 2010. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2010

Fund Financial Statements

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

Governmental Funds

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds, which are the General Fund and the Capital Projects Fund. The District's non-major fund, the Special Revenue 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 DistrictManagement's Discussion and Analysis (Unaudited)
June 30, 2010**Government-Wide Financial Analysis**Condensed Statement of Net Assets
June 30, 2010

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

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

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

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

State College Area School DistrictManagement's Discussion and Analysis (Unaudited)
June 30, 2010Condensed Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 48,353,696	\$ 355,487	\$ 48,709,183
Noncurrent assets	<u>58,745,376</u>	<u>197,667</u>	<u>58,943,043</u>
Total	<u>\$ 107,099,072</u>	<u>\$ 553,154</u>	<u>\$ 107,652,226</u>
Liabilities and Net Assets			
Current liabilities	\$ 13,502,928	\$ 94,169	\$ 13,597,097
Long-term liabilities:			
Due within one year	3,746,429	-	3,746,429
Due after one year	<u>53,137,538</u>	<u>54,813</u>	<u>53,192,351</u>
Total liabilities	<u>70,386,895</u>	<u>148,982</u>	<u>70,535,877</u>
Net assets:			
Invested in capital assets, net of related debt	17,192,604	197,667	17,390,271
Restricted	9,504,765	-	9,504,765
Unrestricted	<u>10,014,808</u>	<u>206,505</u>	<u>10,221,313</u>
Total net assets	<u>36,712,177</u>	<u>404,172</u>	<u>37,116,349</u>
Total	<u>\$ 107,099,072</u>	<u>\$ 553,154</u>	<u>\$ 107,652,226</u>

State College Area School DistrictManagement's Discussion and Analysis (Unaudited)
June 30, 2010Condensed Statement of Activities
For the year ended
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 644,590	\$ 2,495,926	\$ 3,140,516
Operating grants and contributions	11,468,564	908,630	12,377,194
General revenues:			
Taxes levied for general purposes, net	69,766,204	-	69,766,204
Grants, subsidies and contributions not restricted	7,712,331	-	7,712,331
Other	15,454,415	5,586	15,460,001
Total revenues	<u>105,046,104</u>	<u>3,410,142</u>	<u>108,456,246</u>
Program expenses			
Instruction	60,218,383	-	60,218,383
Instructional student support	8,141,070	-	8,141,070
Administration and financial support services	12,321,985	-	12,321,985
Operation and maintenance of plant services	8,181,639	-	8,181,639
Pupil transportation	5,612,972	-	5,612,972
Student activities	2,240,897	-	2,240,897
Community services	142,077	-	142,077
Interest on long-term debt	2,377,950	-	2,377,950
Unallocated depreciation	757,701	-	757,701
Loss on disposal of fixed assets	6,354,651	-	6,354,651
Food & printing service	-	3,439,072	3,439,072
Total program expenses	<u>106,349,325</u>	<u>3,439,072</u>	<u>109,788,397</u>
Change in net assets	(1,303,221)	(28,930)	(1,332,151)
Net assets, beginning	<u>38,015,398</u>	<u>433,102</u>	<u>38,448,500</u>
Net assets, ending	<u>\$ 36,712,177</u>	<u>\$ 404,172</u>	<u>\$ 37,116,349</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

Total net assets of the District increased \$681,511 in 2010. Net assets of governmental activities increased by \$650,825, while net assets of the business-type activity increased \$30,686.

The District had \$104,230,128 in expenses related to governmental activities in 2010; only \$13,687,003 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$91,193,950 also provided for these programs. The \$650,825 increase in governmental activity net assets represents the excess of revenues over expenses.

In the District's business-type activity, net assets increased by \$30,686 as a result of the net income of the food service operation.

As of June 30, 2010, \$1,943,832 of unrestricted net assets of the \$31,760,623 of total net assets were available to meet the District's ongoing obligations to employees and creditors. This amount reflects the payable in the amount of \$9,954,087 for the interest rate swap value at June 30, 2010. The remaining net assets, being \$29,816,791, are invested into capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2009-2010 fiscal year were \$108,398,819 compared to \$104,412,107 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 88,858,519	\$ 85,805,617	\$ 3,052,902	3.6 %
State sources	16,827,379	17,379,888	(552,509)	(3.2) %
Federal sources	<u>2,712,921</u>	<u>1,226,602</u>	<u>1,486,319</u>	<u>121.2 %</u>
Total	<u>\$ 108,398,819</u>	<u>\$ 104,412,107</u>	<u>\$ 3,986,712</u>	

Local revenues are derived mostly from levying taxes such as the real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,052,902 primarily due to an increase in the real estate tax millage rate from 33.722 mills to 34.850 mills per \$1,000 of assessed value of real estate. This millage increase resulted in an increase in revenues of \$2,786,279.

The earned income tax remained flat due to economic conditions and personal income levels. The real estate transfer tax revenue increased \$131,000. Earnings on investments decreased \$502,136 due to lower interest rates. Changes in amounts collected for delinquent taxes, local services taxes, and tuition from other educational agencies account for the remaining change in local revenues.

State revenues are derived mostly 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 in the above mentioned areas decreased \$552,509. State grants and other revenues remained constant.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

Federal revenues include primarily Title I, II and V grants from the federal government. The increase in Federal revenues of \$1,486,319 is primarily due to stimulus funds being received and expended in Title I, IDEA, and basic education.

Expenditures

Expenditures for the 2009-2010 fiscal year were \$103,968,750 compared to 2008-2009 fiscal year were \$103,424,456 or a .5% increase. The current year adjusted budget was \$100,467,268 resulting in a positive variance of \$2,738,616. The following table shows the expenditures by object category:

	<u>2009-10</u>	<u>2008-09</u>	<u>Increase (Decrease)</u>	<u>Favorable (Unfavorable) Variance</u>
Salaries and benefits	\$ 77,351,875	\$ 73,441,286	\$ 3,910,589	5.3 %
Professional services	2,423,835	2,600,987	(177,152)	(6.8) %
Purchased property services	2,088,696	2,051,360	37,336	1.8 %
Other purchased services	8,320,362	8,317,986	2,376	%
Supplies	3,397,987	3,672,992	(275,005)	(7.5) %
Property	3,315,074	2,699,625	615,449	22.8 %
Other objects	794,656	264,863	529,793	200.0 %
Other uses of funds	6,276,265	10,375,357	(4,099,092)	(39.5) %
Total	<u>\$ 103,968,750</u>	<u>\$ 103,424,456</u>	<u>\$ 544,294</u>	

Salaries and benefits increased due to scheduled salary increases \$3,910,589, increases in health insurance costs \$1,057,028, increases in retirement costs \$319,668, and an increase in other benefits due to the increased salaries.

Purchased professional services decreased \$177,152 from the prior year due to an abnormally high level in professional education costs primarily related to Special Education.

Purchased property services increased \$37,336 primarily due to increased costs of electricity.

Other purchased services increased over the prior year by \$2,376. Of this amount, student transportation costs increased \$160,421 and student tuition increased \$132,387, while other costs such as charter schools, telephone service, travel, and advertising expense all decreased.

Expenses for supplies decreased primarily due to lower gasoline and natural gas costs. In addition, the purchase of supplies decreased significantly. Property expenditures increased significantly because of the replacement of a roof at the Park Forest Middle School, funded through stimulus funds.

Other objects and financing sources decreased \$2,185,208 due to savings from a bond refinancing and principal payments made from the capital reserve fund, while real estate tax refunds increased \$ 535,514.

