

State College Area School District

Financial Statements and
Supplementary Information

June 30, 2013



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, 2013, 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.

Auditor's 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 14 and Schedule of Funding Progress on page 46 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 47-48) 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, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 47-48) and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other 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 47-48) and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 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* in considering the District's internal control over financial reporting and compliance.



State College, Pennsylvania
December 19, 2013

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

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, 2013. 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 position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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, 2013

Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Funds

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

Notes to Financial Statements

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Government-Wide Financial Analysis

Condensed Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 49,959,567	\$ 392,428	\$ 50,351,995
Noncurrent assets	<u>86,501,418</u>	<u>144,898</u>	<u>86,646,316</u>
Total	<u>\$ 136,460,985</u>	<u>\$ 537,326</u>	<u>\$ 136,998,311</u>
Liabilities and Net Position			
Current liabilities	\$ 16,015,409	\$ 120,166	\$ 16,135,575
Long-term liabilities:			
Due within one year	5,180,780	-	5,180,780
Due after one year	<u>61,342,992</u>	<u>70,880</u>	<u>61,413,872</u>
Total liabilities	<u>82,539,181</u>	<u>191,046</u>	<u>82,730,227</u>
Net position:			
Net investment in capital assets	27,507,607	144,898	27,652,505
Restricted	1,976,833	-	1,976,833
Unrestricted	<u>24,437,364</u>	<u>201,382</u>	<u>24,638,746</u>
Total net position	<u>53,921,804</u>	<u>346,280</u>	<u>54,268,084</u>
Total	<u>\$ 136,460,985</u>	<u>\$ 537,326</u>	<u>\$ 136,998,311</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Condensed Statement of Activities For the year ended June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 810,113	\$ 2,395,551	\$ 3,205,664
Operating grants and contributions	12,544,595	1,184,994	13,729,589
General revenues:			
Taxes levied, net	97,317,452	-	97,317,452
Grants, subsidies and contributions not restricted	7,727,279	-	7,727,279
Other	289,122	-	289,122
Total revenues	<u>118,688,561</u>	<u>3,580,545</u>	<u>122,269,106</u>
Program expenses			
Instruction	67,570,192	-	67,570,192
Instructional student support	8,925,862	-	8,925,862
Administration and financial support services	12,603,643	-	12,603,643
Operation and maintenance of plant services	9,996,903	-	9,996,903
Pupil transportation	5,557,264	-	5,557,264
Student activities	2,186,686	-	2,186,686
Community services	231,703	-	231,703
Interest on long-term debt	2,248,855	-	2,248,855
Unallocated depreciation	421,594	-	421,594
Food service	-	3,619,601	3,619,601
Total program expenses	<u>109,742,702</u>	<u>3,619,601</u>	<u>113,362,303</u>
Change in net position	8,945,859	(39,056)	8,906,803
Net position, beginning	<u>44,975,945</u>	<u>385,336</u>	<u>45,361,281</u>
Net position, ending	<u>\$ 53,921,804</u>	<u>\$ 346,280</u>	<u>\$ 54,268,084</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Condensed Statement of Net Position June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 48,299,371	\$ 404,789	\$ 48,704,160
Noncurrent assets	<u>87,466,486</u>	<u>166,190</u>	<u>87,632,676</u>
Total	<u>\$ 135,765,857</u>	<u>\$ 570,979</u>	<u>\$ 136,336,836</u>
Liabilities and Net Position			
Current liabilities	\$ 20,732,194	\$ 118,940	\$ 20,851,134
Long-term liabilities:			
Due within one year	4,080,461	-	4,080,461
Due after one year	<u>65,977,257</u>	<u>66,703</u>	<u>66,043,960</u>
Total liabilities	<u>90,789,912</u>	<u>185,643</u>	<u>90,975,555</u>
Net position:			
Net investment in capital assets	22,821,631	166,190	22,987,821
Restricted	1,973,279	-	1,973,279
Unrestricted	<u>20,181,035</u>	<u>219,146</u>	<u>20,400,181</u>
Total net position	<u>44,975,945</u>	<u>385,336</u>	<u>45,361,281</u>
Total	<u>\$ 135,765,857</u>	<u>\$ 570,979</u>	<u>\$ 136,336,836</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Condensed Statement of Activities For the year ended June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 593,029	\$ 2,465,475	\$ 3,058,504
Operating grants and contributions	11,928,943	1,022,097	12,951,040
General revenues:			
Taxes levied, net	92,618,058	-	92,618,058
Grants, subsidies and contributions not restricted	7,734,611	-	7,734,611
Other	2,061,993	142	2,062,135
Total revenues	<u>114,936,634</u>	<u>3,487,714</u>	<u>118,424,348</u>
Program expenses			
Instruction	65,230,896	-	65,230,896
Instructional student support	8,642,740	-	8,642,740
Administration and financial support services	13,956,495	-	13,956,495
Operation and maintenance of plant services	7,380,721	-	7,380,721
Pupil transportation	5,555,176	-	5,555,176
Student activities	2,151,314	-	2,151,314
Community services	141,280	-	141,280
Interest on long-term debt	3,135,795	-	3,135,795
Unallocated depreciation	422,089	-	422,089
Food service	-	3,522,494	3,522,494
Total program expenses	<u>106,616,506</u>	<u>3,522,494</u>	<u>110,139,000</u>
Change in net position	8,320,128	(34,780)	8,285,348
Net position, beginning	<u>36,655,817</u>	<u>420,116</u>	<u>37,075,933</u>
Net position, ending	<u>\$ 44,975,945</u>	<u>\$ 385,336</u>	<u>\$ 45,361,281</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Total net position of the District increased \$8,906,803 in 2013. Net position of governmental activities increased by \$8,945,859, while net position of the business-type activity decreased \$39,056.

The District had \$109,742,702 in expenses related to governmental activities in 2013; only \$13,354,708 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$105,333,853 also provided for these programs. The \$8,945,859 increase in governmental activity net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$39,056 as a result of the net loss of the food service operation.

As of June 30, 2013, \$24,638,746 of unrestricted net position of the \$54,268,084 of total net position was available to meet the District's ongoing obligations to employees and creditors. The remaining net position, being \$29,629,338, are invested into capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2012-2013 fiscal year were \$119,045,766 compared to \$113,159,666 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 99,800,371	\$ 94,419,369	\$ 5,381,002	5.7 %
State sources	18,033,935	17,194,378	839,557	4.9 %
Federal sources	<u>1,211,460</u>	<u>1,545,919</u>	<u>(334,459)</u>	(21.6) %
Total	<u>\$ 119,045,766</u>	<u>\$ 113,159,666</u>	<u>\$ 5,886,100</u>	5.2 %

Local revenues are derived primarily from levying taxes such as the real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$5,381,002 primarily related to increases in real estate taxes and earned income tax. Real estate taxes increased approximately \$2,825,000 with approximately \$1,800,000 related to an increase in the millage rate from 36.85 mills to 37.73 mills per \$1,000 of assessed value. Earned income tax revenue increased \$1,527,000 and delinquent taxes increased approximately \$680,000. Transfer tax, donations and receipts as part of a settlement of a swap contract also contributed to this increase.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

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 \$839,557 primarily related to approximately a \$1,287,000 increase in retirement cost reimbursement. This is offset by a decrease of approximately \$455,000 in state revenue for rental/sinking fund payments due to timing differences.

Federal revenues include primarily Title I, II and III grants. The decrease in Federal revenues of \$334,459 is primarily related to decreases in medical assistance revenue from the School Based ACCESS program.

Expenditures

Expenditures for the 2012-2013 fiscal year were \$119,875,288 compared to 2011-2012 fiscal year of \$108,712,142 or a 10.3% increase. The current year adjusted budget was \$117,467,253 resulting in a favorable variance of \$2,408,035. The following table shows the expenditures by object category:

	<u>2012-13</u>	<u>2011-12</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>	
Salaries and benefits	\$ 82,533,969	\$ 80,606,875	\$ 1,927,094	2.4	%
Professional services	3,139,591	2,969,414	170,177	5.7	%
Purchased property services	2,053,306	1,926,172	127,134	6.6	%
Other purchased services	9,575,501	9,034,994	540,507	6.0	%
Supplies	3,455,000	3,056,082	398,918	13.1	%
Property	2,105,715	2,244,155	(138,440)	(6.2)	%
Other objects	299,358	260,659	38,699	14.8	%
Other uses of funds	<u>16,712,848</u>	<u>8,613,791</u>	<u>8,099,057</u>	94.0	%
Total	<u>\$ 119,875,288</u>	<u>\$ 108,712,142</u>	<u>\$ 11,163,146</u>	10.3	%

Salaries and benefits increased \$1,927,094. Salary expense increased \$1,334,000, due in part to \$527,000 in early retirement expense. Benefits increased \$593,000 primarily due to a \$2,427,000 increase in retirement expense which is offset by a reduction in medical insurance of \$2,002,000.

Professional services increased compared to the prior year by \$170,177 primarily due to increased expenses for legal and tax collection services.

Purchased property services increased \$127,134 over the prior year due to increases in repairs and maintenance and electricity costs.

Other purchased services increased compared to the prior year by \$540,507 primarily related to increases in student tuition.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Supplies expense increased compared to the prior year by \$398,918. Utility cost increased \$102,000. General and technology supplies, administrative software, and books and periodical costs increased \$335,000 in total.

Property expenditures decreased \$138,440 compared to the prior year due to a \$111,000 reduction in non-capitalized property expenditures.

Other uses of funds increased \$8,099,057 primarily related to a \$6,000,000 payment under an interest rate swap settlement agreement. Debt service expense also increased \$441,000 and capital project fund transfers increased \$1,657,000.

Capital Projects Funds

The Capital Project Fund is used to account for capital projects of the District. The District spent \$3,297,086 for such projects in 2012-13. The Capital Projects Fund balance was \$13,109,303 at June 30, 2013. The capital projects included renovations and improvements throughout the District, primarily consisting of the bleachers and synthetic turf at Memorial Field, asbestos removal at various sites and planning costs related to the District's High School building 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 2013 included \$116,574,909 of revenues and \$116,869,826 of expenditures. The budget was amended by \$597,426 for additional federal, state, and local grant revenues and the related additional expenditures for those grants.

The actual revenues for 2013 were \$1,873,431 more than the final budget. Local revenues were \$2,992,412 more than budget primarily due to earned income tax revenue of \$1,400,000 over the budgeted amount. Tuition, rental, and occupation tax revenue also exceeded the budget. State revenues were \$491,064 less than budget due to lower than budgeted rental/sinking fund and social security revenues. Federal revenues were less than budget by \$627,917 primarily due to lower than budgeted Title I and medical assistance payments.

The final actual expenses were \$2,408,035 more than the budget. An increase in expense related to a \$6,000,000 payment under an interest rate swap settlement agreement was offset by lower than budgeted expense most notably in health insurance expense resulting from a change in employee contribution rates and the health plan insurance provider.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2013 is summarized below (see details in Note 7 to the financial statements).

	<u>Governmental Activities</u>	<u>Business-type Activity</u>	<u>Total</u>
Land, buildings and improvements	\$ 113,260,806	\$ -	\$ 113,260,806
Equipment and other capital assets	39,044,911	984,953	40,029,864
Construction in progress	2,189,981	-	2,189,981
Total	154,495,698	984,953	155,480,651
Accumulated depreciation	<u>(68,536,419)</u>	<u>(840,055)</u>	<u>(69,376,474)</u>
Net	<u>\$ 85,959,279</u>	<u>\$ 144,898</u>	<u>\$ 86,104,177</u>

Long Term Debt

At June 30, 2013, the District had long-term debt of \$60,260,000 (see details in Note 9 to the financial statements) issued and outstanding. The District also authorized General Obligation Bond Series of 2004 ("2004 Bonds") which have not yet been issued, with the net proceeds designated for the High School renovation and construction project. In addition, the District also authorized, but has not yet issued, General Obligation Bond Series A of 2006 ("2006 Bonds") in the amount of \$24,000,000, again with the net proceeds to be used for the High School renovation and construction project. The balances available as of June 30, 2013 related to the 2004 and 2006 Bonds are \$47,600,000 and \$21,375,000, respectively. Total authorized debt of \$129,235,000 is significantly below the legal limit of \$258,497,800.

Factors Expected to Have an Effect on Future Operations

The assessed value used for the 2014 budget preparation is approximately \$2.1 billion, which is up approximately \$18 million, or 1%, from 2013. Amounts available for appropriation in the General Fund budget for 2013-14 are \$119,678,204, an increase of approximately 2.4% over the 2012-13 original budget of \$116,874,909. Property taxes will increase 2.7% to 38.75 mills. The District will use these increases in revenues to finance programs currently offered.

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

The District continually strives to enhance the cost-effectiveness of its operations and of its program delivery without sacrificing quality. The Citizens Advisory Committee on School Finance assists the District in this endeavor. Annually, the committee reviews the District's budget and planning process and is instrumental in developing the budget document. The District's financial planning process includes a 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.

Referendum/Property Tax Relief – Special Session Act 1 of 2006

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

School districts are now governed by back-end referendum requirements for increases in property tax rates. School districts are prohibited from increasing their tax rates above the annual inflationary percentage and must place referendum questions before the voters to approve further increases. Exceptions for rate increases above the index without going to referendum exist for special education costs, retirement rate changes, debt issuance, and certain other limited areas. The Act 1 Index for 2012-13 is 1.7%.

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 districts to develop, implement and monitor a strategic comprehensive plan. The District is required to submit a board-approved three-year plan by November 30, 2013. The Board approved the Comprehensive Planning Steering Committee membership ("Steering Committee") at its meeting on January 28, 2013. The Steering Committee consists of parents, students, teachers, administrators, and community representatives. In February of 2013 the District began drafting a district-level plan with clear goals focusing on the most important aspects of our role as a school district. The goal of the process is to create a results-focused plan that enables the District to operationalize its mission and goals.

The Steering Committee met multiple times during the spring of 2013 and engaged with 146 stakeholders to develop a draft strategic plan for our Board's consideration.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Each school in our District is also required by PDE to develop and implement a school level comprehensive improvement plan on an annual basis. Principals and teachers lead that work in a manner that aligns with and is supported by the District plan.

Planning will continue into the fall of 2013 and will result in a District strategic plan for implementation during the 2013-2014 school year. The official PDE requirement of the District level plan is to be implemented in July 2014; the PDE requirement for school level action plan implementation is to occur for the 2013-2014 school year.

District Growth

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

A number of different scenarios were considered by Dr. Stewman. In nearly all of them, the District will experience flat enrollment for the next 10 years.

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 will continue in 2013, leading to a voter referendum in 2014 asking the voters of the district to pay for the cost of the project through a referendum tax increase.

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 DistrictStatement of Net Position
June 30, 2013

	Governmental Activities	Business -Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 42,920,685	\$ 245,124	\$ 43,165,809
Restricted cash and cash equivalents	1,976,833	-	1,976,833
Taxes receivable, net	1,960,677	-	1,960,677
Due from fiduciary fund	41,057	23,673	64,730
Due from other governments	2,890,058	31,930	2,921,988
Other receivables	146,575	34,825	181,400
Inventories	20,559	56,876	77,435
Other current assets	3,123	-	3,123
Total current assets	<u>49,959,567</u>	<u>392,428</u>	<u>50,351,995</u>
Noncurrent assets			
Land	899,887	-	899,887
Buildings and improvements	112,360,919	-	112,360,919
Equipment and other capital assets	39,044,911	984,953	40,029,864
Construction in progress	2,189,981	-	2,189,981
Accumulated depreciation	(68,536,419)	(840,055)	(69,376,474)
Other noncurrent assets	542,139	-	542,139
Total noncurrent assets	<u>86,501,418</u>	<u>144,898</u>	<u>86,646,316</u>
Total assets	<u>\$ 136,460,985</u>	<u>\$ 537,326</u>	<u>\$ 136,998,311</u>
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 1,673,343	\$ 3,797	\$ 1,677,140
Current portion of bonds and notes payable	4,365,000	-	4,365,000
Current portion of capital lease obligation	15,780	-	15,780
Accrued salaries and benefits	9,063,177	2,325	9,065,502
Payroll deductions and withholdings	4,223,909	-	4,223,909
Deferred revenue	240,221	28,338	268,559
Other current liabilities	814,759	85,706	900,465
Interest rate swap payable	800,000	-	800,000
Total current liabilities	<u>21,196,189</u>	<u>120,166</u>	<u>21,316,355</u>
Noncurrent liabilities			
Bonds and notes payable	56,047,725	-	56,047,725
Other postemployment benefits liability	1,154,165	-	1,154,165
Interest rate swap payable	2,200,000	-	2,200,000
Compensated absences	1,941,102	70,880	2,011,982
Total noncurrent liabilities	<u>61,342,992</u>	<u>70,880</u>	<u>61,413,872</u>
Total liabilities	<u>82,539,181</u>	<u>191,046</u>	<u>82,730,227</u>
Net Position			
Net investment in capital assets	27,507,607	144,898	27,652,505
Restricted	1,976,833	-	1,976,833
Unrestricted	24,437,364	201,382	24,638,746
Total net position	<u>53,921,804</u>	<u>346,280</u>	<u>54,268,084</u>
Total	<u>\$ 136,460,985</u>	<u>\$ 537,326</u>	<u>\$ 136,998,311</u>

See notes to financial statements

State College Area School District

Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:						
Instruction	\$ (67,570,192)	\$ 486,155	\$ 9,793,886	\$ (57,290,151)		\$ (57,290,151)
Instructional student support	(8,925,862)	-	882,491	(8,043,371)		(8,043,371)
Administration and financial support services	(12,603,643)	-	536,407	(12,067,236)		(12,067,236)
Operation and maintenance of plant services	(9,996,903)	228,416	298,067	(9,470,420)		(9,470,420)
Pupil transportation	(5,557,264)	-	925,263	(4,632,001)		(4,632,001)
Student activities	(2,186,686)	95,542	32,992	(2,058,152)		(2,058,152)
Community services	(231,703)	-	3,982	(227,721)		(227,721)
Interest on long-term debt	(2,248,855)	-	71,507	(2,177,348)		(2,177,348)
Depreciation - unallocated	(421,594)	-	-	(421,594)		(421,594)
Total governmental activities	(109,742,702)	810,113	12,544,595	(96,387,994)		(96,387,994)
Business-type Activity						
Food service	(3,619,601)	2,395,551	1,184,994	-	\$ (39,056)	(39,056)
Total	\$ (113,362,303)	\$ 3,205,664	\$ 13,729,589	(96,387,994)	(39,056)	(96,427,050)
General revenues						
Property taxes, levied for general purposes, net				81,507,369	-	81,507,369
Other taxes levied for specific purposes				15,810,083	-	15,810,083
Grants, subsidies and contributions not restricted				7,727,279	-	7,727,279
Investment earnings:						
Interest and dividends				142,245	-	142,245
Miscellaneous income				146,877	-	146,877
Total general revenues				105,333,853	-	105,333,853
Change in net position				8,945,859	(39,056)	8,906,803
Net position, beginning				44,975,945	385,336	45,361,281
Net position, ending				\$ 53,921,804	\$ 346,280	\$ 54,268,084

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds

June 30, 2013

	Major Funds			
	General	Capital Projects	Debt Service	Total
Assets				
Assets				
Cash and cash equivalents	\$ 35,557,460	\$ 7,363,225	\$ -	\$ 42,920,685
Restricted cash and cash equivalents	-	1,976,833	-	1,976,833
Taxes receivable, net	1,960,677	-	-	1,960,677
Due from other funds	63,913	4,351,645	4,638	4,420,196
Due from other governments	2,890,058	-	-	2,890,058
Other receivables	146,575	-	-	146,575
Inventories	1,597,983	-	-	1,597,983
Other current assets	3,123	-	-	3,123
	<u>35,557,460</u>	<u>13,691,703</u>	<u>4,638</u>	<u>55,916,130</u>
Total	<u>\$ 42,219,789</u>	<u>\$ 13,691,703</u>	<u>\$ 4,638</u>	<u>\$ 55,916,130</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 4,369,631	\$ 4,638	\$ -	\$ 4,374,269
Accounts payable	1,092,871	577,762	-	1,670,633
Accrued salaries and benefits	9,063,177	-	-	9,063,177
Payroll deductions and withholdings	4,223,909	-	-	4,223,909
Deferred revenue	957,000	-	-	957,000
Other liabilities	299,852	-	-	299,852
	<u>20,006,440</u>	<u>582,400</u>	<u>-</u>	<u>20,588,840</u>
Total liabilities	<u>20,006,440</u>	<u>582,400</u>	<u>-</u>	<u>20,588,840</u>
Fund Balances				
Nonspendable	1,597,983	-	-	1,597,983
Restricted	-	1,976,833	-	1,976,833
Committed	11,515,818	11,132,470	4,638	22,652,926
Unassigned	9,099,548	-	-	9,099,548
	<u>22,213,349</u>	<u>13,109,303</u>	<u>4,638</u>	<u>35,327,290</u>
Total fund balances	<u>22,213,349</u>	<u>13,109,303</u>	<u>4,638</u>	<u>35,327,290</u>
Total	<u>\$ 42,219,789</u>	<u>\$ 13,691,703</u>	<u>\$ 4,638</u>	<u>\$ 55,916,130</u>

State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2013

Total Fund Balance - Governmental Funds \$ 35,327,290

Amounts reported for governmental activities in the statement of net position 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 \$154,495,698 and the accumulated depreciation is \$68,536,419. 85,959,279

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. 716,779

Inventory of books and supplies was reclassified. (1,597,983)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund are reported with governmental activities. (11,551)

Unamortized bond issuance costs are not reported as non-current assets in the governmental funds. 542,139

Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds. (3,000,000)

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	(60,412,725)
Accrued interest on long-term debt	(514,907)
Capital lease obligation	(15,780)
Other postemployment benefits liability	(1,154,165)
Compensated absences	(1,916,572)

Total Net Position - Governmental Activities \$ 53,921,804

State College Area School District

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

Year Ended June 30, 2013

	Major Funds			Total
	General	Capital Projects	Debt Service	
Revenues				
Local sources	\$ 99,800,371	\$ 16,773	\$ -	\$ 99,817,144
State sources	18,033,935	-	-	18,033,935
Federal sources	1,211,460	-	-	1,211,460
Total revenues	<u>119,045,766</u>	<u>16,773</u>	<u>-</u>	<u>119,062,539</u>
Expenditures				
Instruction	66,597,506	-	-	66,597,506
Support services	34,014,948	-	-	34,014,948
Noninstructional services	2,458,900	-	-	2,458,900
Facilities acquisition, construction and improvement services	52,188	3,297,086	-	3,349,274
Debt service	6,069,359	-	6,132,255	12,201,614
Total expenditures	<u>109,192,901</u>	<u>3,297,086</u>	<u>6,132,255</u>	<u>118,622,242</u>
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)	<u>9,852,865</u>	<u>(3,280,313)</u>	<u>(6,132,255)</u>	<u>440,297</u>
Other Financing Sources (Uses)				
Transfer in	-	4,550,132	6,132,255	10,682,387
Transfer out	(10,682,387)	-	-	(10,682,387)
Total other financing (uses) sources	<u>(10,682,387)</u>	<u>4,550,132</u>	<u>6,132,255</u>	<u>-</u>
Net Change in Fund Balances	(829,522)	1,269,819	-	440,297
Fund Balance, Beginning	<u>23,042,871</u>	<u>11,839,484</u>	<u>4,638</u>	<u>34,886,993</u>
Fund Balance, Ending	<u>\$ 22,213,349</u>	<u>\$ 13,109,303</u>	<u>\$ 4,638</u>	<u>\$ 35,327,290</u>

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, 2013

Total Change in Fund Balances-Governmental Funds	\$ 440,297
Amounts reported for governmental activities in the statement of net position are different because:	
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.	(265,904)
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 depreciation exceeds capital outlays in this period:	
Depreciation expense	\$ (4,620,957)
Capital outlays	<u>4,161,171</u> (459,786)
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.	49,761
The issuance of long term debt (bond) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. This transaction, however, does not have an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and other similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. Reconciling items related to long-term debt activity for the year ended June 30, 2013 are as follows:	
Scheduled principal payments on long-term debt	4,050,000
Scheduled principal payments on capital lease obligation	<u>30,461</u> 4,080,461
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include amortization of bond premiums, bond issue costs, and deferred interest from advanced refunding bonds. The net additional interest accrued in the statement of activities over the amount due is shown here.	(127,702)
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.	20,256
Other post employment benefits that are reflected on the statement of net position but are not considered a current expenditures in governmental funds.	(250,180)
Change in the interest rate swap payable and related settlement payment receivable:	
Installment payment made on interest rate swap payable	6,000,000
Lump sum payments received	<u>(160,000)</u> 5,840,000
In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	<u>(381,344)</u>
Change in Net Position of Governmental Activities	<u>\$ 8,945,859</u>

See notes to financial statements

State College Area School District

 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
 Year Ended June 30, 2013

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 96,754,910	\$ 96,807,959	\$ 99,800,371	\$ 2,992,412
State sources	18,519,999	18,524,999	18,033,935	(491,064)
Federal sources	1,300,000	1,839,377	1,211,460	(627,917)
Total revenues	116,574,909	117,172,335	119,045,766	1,873,431
Expenditures				
Instruction:				
Regular programs	48,548,466	49,041,694	49,041,804	(110)
Special programs	14,257,471	13,955,905	13,955,905	-
Vocational education programs	2,833,452	2,636,552	2,636,529	23
Other instructional programs	662,263	613,352	613,352	-
Adult education programs	359,799	334,600	335,600	(1,000)
Nonpublic school programs	7,793	15,397	14,316	1,081
Total instruction	66,669,244	66,597,500	66,597,506	(6)
Support services:				
Pupil personnel	4,228,769	3,824,401	3,829,692	(5,291)
Instructional staff	4,404,353	4,019,298	4,019,298	-
Administration	6,011,058	6,146,045	6,146,045	-
Pupil health	1,275,204	1,255,610	1,249,453	6,157
Business	981,170	839,833	858,573	(18,740)
Operation and maintenance of plant services	8,979,770	7,771,157	7,771,157	-
Student transportation services	5,727,569	5,576,633	5,577,498	(865)
Central	4,237,214	4,563,240	4,563,232	8
Total support services	35,845,107	33,996,217	34,014,948	(18,731)
Noninstructional services:				
Student activities	2,310,737	2,283,758	2,227,197	56,561
Community services	79,898	231,703	231,703	-
Total noninstructional services	2,390,635	2,515,461	2,458,900	56,561
Facilities acquisition, construction and improvement services				
	-	52,188	52,188	-
Debt service				
	39,663	3,773,500	6,069,359	(2,295,859)
Total expenditures	104,944,649	106,934,866	109,192,901	(2,258,035)
Excess of Revenues over Expenditures before Other Financing Uses				
	11,630,260	10,237,469	9,852,865	(384,604)
Other Financing Uses				
Budgetary reserve	(815,818)	-	-	-
Transfer out	(11,109,359)	(10,532,387)	(10,682,387)	(150,000)
Total other financing uses	(11,925,177)	(10,532,387)	(10,682,387)	(150,000)
Changes in Fund Balance	\$ (294,917)	\$ (294,918)	(829,522)	\$ (534,604)
Fund Balance, Beginning			23,042,871	
Fund Balance, Ending			\$ 22,213,349	

See notes to financial statements

State College Area School District

Statement of Net Position (Deficit) - Proprietary Funds

June 30, 2013

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 245,124	\$ -
Due from other funds	23,673	4,412
Due from other governments	31,930	-
Other receivables	34,825	-
Inventories	56,876	20,559
	<u>392,428</u>	<u>24,971</u>
Total current assets		
Noncurrent assets		
Equipment	984,953	284,098
Accumulated depreciation	(840,055)	(279,845)
	<u>144,898</u>	<u>4,253</u>
Total noncurrent assets		
Total	<u>\$ 537,326</u>	<u>\$ 29,224</u>
Liabilities and Net Position (Deficit)		
Current Liabilities		
Due to other funds	\$ -	\$ 9,282
Accounts payable	3,797	2,710
Accrued salaries and benefits	2,325	-
Other liabilities	85,706	-
Deferred revenue	28,338	-
	<u>120,166</u>	<u>11,992</u>
Total current liabilities		
Noncurrent liabilities		
Compensated absences	70,880	24,530
	<u>191,046</u>	<u>36,522</u>
Total liabilities		
Net Position		
Net investment in capital assets	144,898	4,253
Unrestricted (deficit)	201,382	(11,551)
	<u>346,280</u>	<u>(7,298)</u>
Total net position (deficit)		
Total	<u>\$ 537,326</u>	<u>\$ 29,224</u>

See notes to financial statements

State College Area School District**Statement of Revenues, Expenses and Changes in Net Position (Deficit) - Proprietary Funds**
Year Ended June 30, 2013

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Food service revenue	\$ 2,395,551	\$ -
Charges for services	-	575,144
	<u>2,395,551</u>	<u>575,144</u>
Total operating revenues	<u>2,395,551</u>	<u>575,144</u>
Operating Expenses		
Salaries and employee benefits	1,831,559	266,775
Professional and technical services	6,369	-
Purchased property services	14,029	192,008
Other purchased services	16,322	1,048
Food, milk and supplies	1,715,254	94,752
Depreciation	21,292	5,874
Other objects	14,776	305
	<u>3,619,601</u>	<u>560,762</u>
Total operating expenses	<u>3,619,601</u>	<u>560,762</u>
Operating (Loss) Income	<u>(1,224,050)</u>	<u>14,382</u>
Nonoperating Revenues		
State sources	202,381	-
Federal sources	982,613	-
	<u>1,184,994</u>	<u>-</u>
Total nonoperating revenues	<u>1,184,994</u>	<u>-</u>
Change in Net Position	(39,056)	14,382
Net Position (Deficit), Beginning	<u>385,336</u>	<u>(21,680)</u>
Net Position (Deficit), Ending	<u>\$ 346,280</u>	<u>\$ (7,298)</u>

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2013

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,458,789	\$ 572,867
Cash paid to employees	(1,827,142)	(265,468)
Cash paid to vendors	(1,766,765)	(307,399)
Net cash used in operating activities	<u>(1,135,118)</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities		
State sources	214,143	-
Federal sources	1,050,449	-
Net cash provided by noncapital financing activities	<u>1,264,592</u>	<u>-</u>
Increase in Cash and Cash Equivalents	129,474	-
Cash and Cash Equivalents, Beginning	<u>115,650</u>	<u>-</u>
Cash and Cash Equivalents, Ending	<u>\$ 245,124</u>	<u>\$ -</u>
Reconciliation of Operating (Loss) Income to Net Cash used in Operating Activities		
Operating (loss) income	\$ (1,224,050)	\$ 14,382
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Depreciation	21,292	5,874
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(1,241)	4,377
Other receivables	(19,602)	-
Due to/from other funds	79,720	(27,166)
Accounts payable	1,226	1,226
Accrued salaries and benefits	240	-
Other liabilities	3,120	-
Compensated absences	4,177	1,307
Net Cash Used in Operating Activities	<u>\$ (1,135,118)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Position - Fiduciary Fund - Agency

June 30, 2013

Assets

Current Assets

Cash	<u>\$ 511,082</u>
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Liabilities

Current liabilities

Due to other funds	\$ 64,730
Accounts payable	25,187
Other current liabilities	<u>421,165</u>

Total	<u>\$ 511,082</u>
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State College Area School District

Notes to Financial Statements

June 30, 2013

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 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 Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts—net investment in capital assets; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities.

State College Area School District

Notes to Financial Statements

June 30, 2013

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

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

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net 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 use by the District:

Governmental Funds

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

General Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2013

Debt Service Fund

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

Proprietary Funds

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

Food Service Fund

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

Internal Service Fund

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

Fiduciary Funds

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

State College Area School District

Notes to Financial Statements

June 30, 2013

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

Basis of Accounting

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

Accrual Basis

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

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

Modified Accrual Basis

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

State College Area School District

Notes to Financial Statements

June 30, 2013

Budgets and Budgetary Accounting

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

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

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

Capital Assets

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

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

The District does not have any infrastructure capital assets.

Inventories

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

Compensated Absences

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

Governmental Fund Balances

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies its governmental fund balances as follows:

- *Non-spendable* – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints

State College Area School District

Notes to Financial Statements

June 30, 2013

- *Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the School Board which do not lapse at year-end
 - The School Board of the District is its highest level of decision-making authority, and
 - The School Board commits funds through a formal board motion.
- *Assigned* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District, but not through a formal action of the School Board
 - The School Board of the District authorized the District Business Administrator to assign funds to specific purposes, and
 - The School Board passed a board motion authorizing assignments for activities as contemplated by the Board.
- *Unassigned* – includes 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.

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.

Recent Accounting Standards

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus*, for the year ended June 30, 2013. GASB No. 61 addresses certain issues with distinguishing a government's control over another government in the reporting of component units. The District implemented GASB 61 as of July 1, 2012. This implementation did not change the District's accounting and reporting policies.

State College Area School District

Notes to Financial Statements

June 30, 2013

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, for the year ended June 30, 2013. GASB No. 62 directly incorporates the applicable guidance from those FASB and AICPA pronouncements, issued prior to November 30, 1989, into the state and local government accounting and financial reporting standards. The District implemented the accounting and reporting requirement of GASB 62 as of July 1, 2012. This implementation did not materially change the District's accounting and reporting policies.

The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, for the year ended June 30, 2013. GASB No. 63 standardized the presentation of deferred outflows of resources and deferred inflows of resources and their effect on net position. The District implemented the presentation requirements of GASB No. 63 as of July 1, 2012.

2. Cash and Cash Equivalents

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

Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At June 30, 2013, \$39,768,573 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$39,768,573 was collateralized with securities held by the pledging financial institution, but not in the District's name.

Pennsylvania School District Liquid Asset Fund

The Pennsylvania School District Liquid Asset Fund ("PSDLAF") contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Since PSDLAF has the characteristics of a mutual fund, it is not subject to the disclosure requirements promulgated by GASB Nos. 3 and 40. At June 30, 2013, the carrying amount and bank balances of the District's investment in PSDLAF was \$329,083.

3. Property Taxes

Property taxes are levied on July 1. Taxes were collected at a 2% discount until September 17, at their face amount from September 18 until November 16, and include a 10% penalty thereafter. The taxes are billed by Centre County, Pennsylvania, and are collected by elected tax collectors. Centre County also collects delinquent real estate taxes for the District.

State College Area School District

Notes to Financial Statements

June 30, 2013

4. Interfund Receivables, Payables and Transfers

At June 30, 2013, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 63,913
Capital Projects Fund	4,351,645
Debt Service Fund	4,638
Food Service Fund	23,673
Internal Service Fund	4,412

Total	<u>\$ 4,448,281</u>
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Amounts due to other funds:

General Fund	\$ 4,369,631
Capital Projects Fund	4,638
Agency Fund	64,730
Internal Service Fund	9,282

Total	<u>\$ 4,448,281</u>
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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 composition of interfund transfers, used to move cash between funds at June 30, 2013 is as follows:

Transfers in:

Capital Projects Fund	\$ 4,550,132
Debt Service Fund	6,132,255

Total	<u>\$ 10,682,387</u>
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Transfers out,

General Fund	<u>\$ 10,682,387</u>
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State College Area School District

Notes to Financial Statements

June 30, 2013

5. Due from Other Governments

The amount reported in the governmental funds at June 30, 2013 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 169,996	\$ 1,871,563	\$ 848,499	\$ 2,890,058
Food Service Fund	<u>28,933</u>	<u>2,997</u>	<u>-</u>	<u>31,930</u>
Total	<u>\$ 198,929</u>	<u>\$ 1,874,560</u>	<u>\$ 848,499</u>	<u>\$ 2,921,988</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, 2013. 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, 2013.

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2013 follows:

Delinquent real estate taxes receivable	\$ 1,340,841
Earned income taxes receivable	739,307
Real estate transfer tax receivable	205,437
Supplemental real estate tax	32,212
Local service	<u>12,382</u>
Total	2,330,179
Estimated uncollectible taxes at June 30, 2013	<u>(369,502)</u>
Total	<u>\$ 1,960,677</u>

State College Area School District

Notes to Financial Statements

June 30, 2013

7. Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance June 30, 2013</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	1,748,607	3,297,086	(2,855,712)	2,189,981
Total capital assets, not being depreciated	<u>2,648,494</u>	<u>3,297,086</u>	<u>(2,855,712)</u>	<u>3,089,868</u>
Capital assets being depreciated:				
Buildings and improvements	109,596,621	-	2,764,298	112,360,919
Equipment and other capital assets	37,869,385	864,085	27,343	38,760,813
Equipment-internal service	287,913	-	(3,815)	284,098
Total capital assets, being depreciated	<u>147,753,919</u>	<u>864,085</u>	<u>2,787,826</u>	<u>151,405,830</u>
Accumulated depreciation for:				
Buildings and improvements	(34,753,884)	(2,936,295)	-	(37,690,179)
Equipment and other capital assets	(28,951,679)	(1,678,788)	64,071	(30,566,396)
Equipment-internal service	(277,785)	(5,874)	3,815	(279,844)
Total accumulated depreciation	<u>(63,983,348)</u>	<u>(4,620,957)</u>	<u>67,886</u>	<u>(68,536,419)</u>
Total capital assets being depreciated, net	<u>83,770,571</u>	<u>(3,756,872)</u>	<u>2,855,712</u>	<u>82,869,411</u>
Governmental activities capital assets, net	<u>\$ 86,419,065</u>	<u>\$ (459,786)</u>	<u>\$ -</u>	<u>\$ 85,959,279</u>
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 984,953	\$ -	\$ -	\$ 984,953
Accumulated depreciation, Equipment and other capital assets	<u>(818,763)</u>	<u>(21,292)</u>	<u>-</u>	<u>(840,055)</u>
Business-type activity capital assets, net	<u>\$ 166,190</u>	<u>\$ (21,292)</u>	<u>\$ -</u>	<u>\$ 144,898</u>

State College Area School District

Notes to Financial Statements

June 30, 2013

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

Government activities:	
Unallocated	\$ 421,594
Instruction	1,178,879
Instructional support services	1,654
Operation and maintenance of plant services	3,015,489
Administrative and financial support services	<u>3,341</u>
 Total depreciation expenses for governmental activities	 \$ 4,620,957
Business-type activities,	
Food service	<u>\$ 21,292</u>

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$9,063,177 represent salaries of \$7,513,263, the District's share of Social Security taxes of \$574,764 for teachers' services during the 2012-2013 school term, which are paid during July and August 2013, and retirement plan expense of \$930,070 applicable to the accrued salaries at June 30, 2013, and accrued workers' compensation of \$45,080.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2013 are as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Amounts due within one year
Bond Series - 2009 General Obligation Note	\$ 9,110,000		\$ (465,000)	\$ 8,645,000	\$ 480,000
- Series of 2008	4,520,000		(1,255,000)	3,265,000	1,305,000
Bond Series - 2010A	13,530,000		(1,510,000)	12,020,000	1,525,000
Bond Series - 2010B	8,380,000		(390,000)	7,990,000	415,000
Bond Series - 2010C	5,430,000		(10,000)	5,420,000	10,000
Bond Series - 2011B	8,575,000		(415,000)	8,160,000	435,000
Bond Series - 2012	<u>14,765,000</u>		<u>(5,000)</u>	<u>14,760,000</u>	<u>195,000</u>
 Total bonds and notes payable	 64,310,000		 (4,050,000)	 60,260,000	 <u>\$ 4,365,000</u>
 Bond premium	 1,359,387		 (96,667)	 1,262,720	
Deferred amounts on refunding	<u>(1,120,346)</u>		<u>10,351</u>	<u>(1,109,995)</u>	
 Total long-term debt	 <u>\$ 64,549,041</u>	 <u>\$ -</u>	 <u>\$ (4,136,316)</u>	 <u>\$ 60,412,725</u>	

State College Area School District

Notes to Financial Statements

June 30, 2013

Long-term debt at June 30, 2013 consists of the following:

\$9,995,000 General Obligation Bonds, Series of 2009, due in varying annual installments through March 2022, interest rates of 2% to 4%	\$ 8,645,000
\$9,515,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	3,265,000
\$15,675,000 General Obligation Bonds, Series of 2010A, due in varying annual installments through May 2025, interest rates of 2.5% to 4.0%	12,020,000
\$8,875,000 General Obligation Bonds, Series of 2010B, due in varying annual installments through May 2026, interest rates of 2.5% to 4.0%	7,990,000
\$5,450,000 General Obligation Bonds, Series of 2010C, due in varying annual installments through May 2028, interest rates of 2.5% to 4.0%	5,420,000
\$8,740,000 General Obligation Bonds, Series B of 2011, due in varying annual installments through May 2028, interest rates of .65% to 4.0%	8,160,000
\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	14,760,000
Unamortized bond premium	1,262,720
Unamortized prepaid bond interest	<u>(1,109,995)</u>
Total	60,412,725
Current portion	<u>(4,365,000)</u>
Long-term debt	<u>\$ 56,047,725</u>

State College Area School District

Notes to Financial Statements

June 30, 2013

Debt service requirements at June 30, 2013 are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,365,000	\$ 1,968,322	\$ 6,333,322
2015	3,532,381	1,847,760	5,380,141
2016	3,642,381	1,735,888	5,378,269
2017	3,747,381	1,611,492	5,358,873
2018	3,617,381	1,509,166	5,126,547
2019 – 2023	19,181,910	5,863,307	25,045,217
2024 – 2028	19,858,260	2,506,085	22,364,345
2029 – 2030	2,468,031	87,063	2,555,094
Total	<u>\$ 60,412,725</u>	<u>\$ 17,129,083</u>	<u>\$ 77,541,808</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 Position.

10. Capital Lease Obligation

In 2003-2004, the District entered into a 10-year municipal lease agreement for electrical lighting upgrades at several schools. The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2013:

Year ending June 30:	
2014	\$ 16,158
Less amount representing interest	<u>(378)</u>
Present value of future minimum lease payments	15,780
Current portion	<u>(15,780)</u>
Long-term portion	<u>\$ -</u>

State College Area School District

Notes to Financial Statements

June 30, 2013

11. Fund Balance Classifications

The District presents its governmental fund balances by level of constraint in the aggregate on its balance sheet – governmental funds. The individual specific purposes of each constraint are presented below:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total</u>
Non-spendable for, Inventories	<u>\$ 1,597,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,597,983</u>
Restricted for, Capital projects	<u>\$ -</u>	<u>\$ 1,976,833</u>	<u>\$ -</u>	<u>\$ 1,976,833</u>
Committed for:				
PSERS	\$ 11,515,818	\$ -	\$ -	\$ 11,515,818
Capital projects	-	11,132,470	-	11,132,470
Debt service	-	-	4,638	4,638
Total	<u>\$ 11,515,818</u>	<u>\$ 11,132,470</u>	<u>\$ 4,638</u>	<u>\$ 22,652,926</u>

12. Construction Commitments

The District had several active construction projects as of June 30, 2013. At year-end the District's construction in progress balance consisted of the following:

<u>Project</u>	<u>Expended through June 30, 2013</u>
Memorial Field	\$ 1,752,734
High School Project	247,344
Other renovations	189,903
Total	<u>\$ 2,189,981</u>

Construction in progress at June 30, 2013 primarily related to Memorial Field renovations and deferred maintenance projects throughout the district facilities. Outstanding construction commitments on these projects amounted to approximately \$2.2 million at June 30, 2013.

State College Area School District

Notes to Financial Statements

June 30, 2013

13. Defined Benefit Pension Plan

All full-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the "System"), a governmental cost sharing multiple-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2013 was \$58,446,615.

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

The contribution policy is set by Act 96, dated October 2, 1975, as amended, and requires contributions by active employees, districts and the Commonwealth. The contribution required of districts is based upon an actuarial valuation computed as a percentage of the total compensation. Most active members contribute 7.5 percent of the members qualifying compensation. Members joining the System before July 22, 1983 contribute 5.25% of compensation. The District's contribution rate was 12.36% in 2013, 8.65% in 2012, and 5.64% in 2011 of annual covered payroll. The District's contribution requirement for the year ended June 30, 2013 was \$7,095,629, 2012 was \$4,768,262 and 2011 was \$3,537,772.

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

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

14. 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, 2013, total contributions (including retirement bonus and sick payouts) were \$1,251,330.

State College Area School District

Notes to Financial Statements

June 30, 2013

15. 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 2013 totaled \$190,325.

16. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under a three-year and four-year operating lease expiring July 2014 and July 2015, respectively. The following is a schedule of future minimum rental payments required under the above operating lease as of June 30, 2013:

Years ending June 30:	
2014	\$ 166,073
2015	<u>107,750</u>
Total	<u>\$ 273,823</u>

Rent expense for 2013 was \$175,443.

17. Contingencies and Commitments

In August 2004, the District authorized and incurred variable rate General Obligation Bonds of \$58,050,000 (the "2004 bonds") with an available balance at June 30, 2013 of \$47,600,000 for alterations, additions and improvements to the High School North and High School South secondary buildings planned for 2007. In April 2006, the District authorized and incurred variable rate General Obligation Bonds of \$24,000,000, (the "2006 bonds") with an available balance at June 30, 2013 of \$21,375,000 to provide funds for the High School renovation project and for the paying of the costs and expenses of issuing the bonds. Because the High School renovation project was abandoned at the end of the fiscal year ended June 30, 2007, the District has not issued either set of bonds (although they both remain incurred). Currently, the District has no intention of issuing the 2004 or 2006 bonds, however, they are included in the calculation of the District's legal debt margin.

State College Area School District

Notes to Financial Statements

June 30, 2013

18. 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:		
2014	\$	800,000
2015		550,000
2016		550,000
2017		550,000
2018		550,000
		<hr/>
Total	\$	<u>3,000,000</u>

This outstanding liability is recorded on the Statement of Net Position related to governmental activities at June 30, 2013.

19. Other Postemployment Benefits

Plan Description

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

The District provides postemployment health insurance benefits upon retirement with 30 years of PSERS service or age 60 with 30 years of service, age 62 with 1 year of service or 35 years of service regardless of age. Retired employees are allowed to continue coverage for themselves and their dependents in the group health care plan until the retired employee reaches Medicare age, generally 65. The minimum requirements of the Plan are established by Pennsylvania Act 110 of 1988 and Act 43 of 1989. The School Board could choose to improve upon the minimum requirements in the future. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contributions are equal to the premiums determined for the purpose of COBRA. The District did not pay premiums for the year ended June 30, 2013. Total retiree contributions made by plan members were \$579,261 for the year ended June 30, 2013.

State College Area School District

Notes to Financial Statements

June 30, 2013

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	\$	403,439
Interest on net OPEB obligation		40,679
Adjustment to annual required contribution		<u>(55,497)</u>
Annual OPEB cost (expense)		388,621
Contributions made		<u>(138,441)</u>
Increase in net OPEB obligation		250,180
Net OPEB obligation at July 1, 2012		<u>903,985</u>
Net OPEB obligation at June 30, 2013	\$	<u>1,154,165</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, 2013 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 388,621	35.6 %	\$ 1,154,165

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$	3,136,662
Actuarial value of plan assets		<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u>3,136,662</u>
Funded ratio (actuarial value of plan assets/UAAL)		0%
Covered payroll	\$	<u>54,004,356</u>
UAAL as a percentage of covered payroll		5.8%

State College Area School District

Notes to Financial Statements

June 30, 2013

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 Annual Required Contribution (ARC) was determined through an actuarial valuation performed as of January 1, 2012 using the following assumptions:

Valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 3% to .25%
Health care cost trend rate	11.5% in 2012, 12.5% in 2013, 6.5% in 2014, then decreasing by 0.5% per year to 5.5% in 2016
Amortization method	Level dollar 30 year open period

20. 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.

State College Area School District

Notes to Financial Statements

June 30, 2013

21. Pending Changes in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District is required to adopt Statement No. 65 for its fiscal year 2014 financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District is required to adopt Statement No. 66 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The District is required to adopt Statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. To the extent applicable, the District is required to adopt Statement No. 69 for its fiscal year 2015 financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. To the extent applicable, the District is required to adopt Statement No. 70 for its fiscal year 2015 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
 Other Postemployment Benefits
 (Unaudited)

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, 2012	\$ -	\$ 3,136,662	\$ 3,136,662	0.00%	\$ 54,004,356	5.8%
January 1, 2011	-	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 three years above are the only valuations performed since the adoption of GASB No. 45.

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2013

Revenues

Local sources:

Current taxation:

Real estate	\$ 77,753,063
Earned income tax	15,420,269
Emergency Municipal service tax	389,813
Real estate transfers	1,637,407
Payments in lieu of taxes	456,418
Public utility realty tax	<u>121,626</u>

Total current taxation 95,778,596

Delinquent taxation 1,804,760

Total from taxation 97,583,356

Earnings from temporary investments and deposits 125,506

Receipts from other LEA's 91,741

Miscellaneous revenue 1,999,768

Total local sources 99,800,371

State sources:

Basic instructional subsidy	6,307,823
Private placement tuition	149,213
Vocational education	107,040
Special education	3,221,641
Transportation	796,138
Rental and sinking fund payments	71,507
Medical and dental services	138,654
Property tax reduction	1,419,455
Social Security subsidy	2,096,277
Retirement subsidy	3,592,029
Other state grants	<u>134,158</u>

Total state sources 18,033,935

Federal sources:

Title I	690,429
Title II A	215,675
Title II C	77,921
Title III	63,037
Medical Assistance	22,302
ACCESS	26,450
Other federal grants	<u>115,646</u>

Total federal sources 1,211,460

Total revenues 119,045,766

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2013

Expenditures

Instruction:	
Regular programs	\$ 49,041,804
Special programs	13,955,905
Vocational education programs	2,636,529
Other instructional programs	613,352
Adult education programs	335,600
Nonpublic school programs	14,316
	<hr/>
Total instruction	66,597,506
Support services:	
Pupil personnel	3,829,692
Instructional staff	4,019,298
Administration	6,146,045
Pupil health	1,249,453
Business	858,573
Operation and maintenance of plant services	7,771,157
Student transportation services	5,577,498
Central	4,563,232
	<hr/>
Total support services	34,014,948
Noninstructional services:	
Student activities	2,227,197
Community services	231,703
	<hr/>
Total noninstructional services	2,458,900
Facilities acquisition, construction and improvement services	<hr/>
	52,188
Debt service	<hr/>
	6,069,359
Total expenditures	<hr/>
	109,192,901
Excess of Revenues over Expenditures before Other before Other Financing Uses	9,852,865
Other Financing Uses	
Transfer out	<hr/>
	(10,682,387)
Change in Fund Balance	(829,522)
Fund Balance, Beginning	<hr/>
	23,042,871
Fund Balance, Ending	<hr/>
	\$ 22,213,349

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

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, 2012	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2013
U.S. Department of Education										
Passed through the PA Department of Education:										
Title I, Part A Cluster:										
Title I	I	84.010	013-120418	B	\$ 626,612	\$ 157,005	\$ 111,693	\$ 45,312	\$ 45,312	\$ -
Title I	I	84.010	013-130418	C	786,794	533,192	-	636,913	636,913	103,721
Title I	I	84.010	013-110418	A	659,100	-	(8,204)	8,204	8,204	-
Total Title I, Part A Cluster						<u>690,197</u>	<u>103,489</u>	<u>690,429</u>	<u>690,429</u>	<u>103,721</u>
Secondary Allocation	I	84.048	380-111058	C	77,921	69,244	-	76,328	76,328	7,084
Secondary Allocation	I	84.048	380-122016	B	69,197	-	(1,593)	1,593	1,593	-
Total Secondary Allocation						<u>69,244</u>	<u>(1,593)</u>	<u>77,921</u>	<u>77,921</u>	<u>7,084</u>
Drug Free Schools	I	84.186	100-100574	B	18,786	2,398	2,398	-	-	-
Title III - Language	I	84.365	010-120418	B	62,910	45,778	13,450	32,328	32,328	-
Title III - Language	I	84.365	010-130418	C	44,812	20,912	-	30,709	30,709	9,797
Total Title III						<u>66,690</u>	<u>13,450</u>	<u>63,037</u>	<u>63,037</u>	<u>9,797</u>
Title II	I	84.367	020-130418	C	199,656	133,443	-	163,165	163,165	29,722
Title II	I	84.367	020-120418	B	198,094	66,284	13,774	52,510	52,510	-
Total Title II						<u>199,727</u>	<u>13,774</u>	<u>215,675</u>	<u>215,675</u>	<u>29,722</u>
Education Jobs Fund - ARRA	I	84.410	140-141757	B	6,834	6,834	6,834	-	-	-
Learn and Serve America	I	94.004	019-11-0007	B	15,000	6,846	4,498	2,348	2,348	-
Total PA Department of Education						<u>1,041,936</u>	<u>142,850</u>	<u>1,049,410</u>	<u>1,049,410</u>	<u>150,324</u>
Passed through Central Intermediate Unit #10:										
Special Education Cluster (IDEA):										
Special Education - Grants to States	I	84.027		B	851,152	841,493	841,493	-	-	-
Special Education - Grants to States	I	84.027		C	827,852	-	-	827,852	827,852	827,852
Preschool/Early Intervention Funds (619)	I	84.173		C	8,808	-	-	8,808	8,808	8,808
Preschool/Early Intervention Funds (619)	I	84.173		C	6,849	-	-	6,849	6,849	6,849
Total Special Education Cluster (IDEA)						<u>841,493</u>	<u>841,493</u>	<u>843,509</u>	<u>843,509</u>	<u>843,509</u>
Grants for the Integration of Schools and Mental Health Systems	I	84.215		B	373,704	153,264	56,937	113,297	113,297	16,970
Total U.S. Department of Education						<u>2,036,693</u>	<u>1,041,280</u>	<u>2,006,216</u>	<u>2,006,216</u>	<u>1,010,803</u>
U.S. Department of Health and Human Services										
Passed through Pennsylvania Department of Public Welfare										
Administrative Claiming Quarterly Program	I	93.778	044-007418	C	22,302	22,302	-	22,302	22,302	-

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

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, 2012	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2013
U.S. Department of Agriculture										
Child Nutrition Cluster:										
Passed through PA Department of Education:										
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	\$ 654,328	\$ -	\$ 678,724	\$ 678,724	\$ 24,396
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 6	83,603	83,603	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	104,515	-	108,542	108,542	4,027
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	15,819	15,819	-	-	-
National School Lunch Program	I (F)	10.553	367-0000	C	NOTE 6	3,248	-	3,397	3,397	149
National School Lunch Program	I (F)	10.553	367-0000	B	NOTE 6	707	707	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 6	1,264	-	1,625	1,625	361
National School Lunch Program	I (S)	N/A	510-0000	B	NOTE 6	1,796	1,796	-	-	-
National School Lunch Program	I (S)	N/A	510-0000	C	NOTE 6	10,214	-	10,599	10,599	385
National School Lunch Program	I (S)	N/A	511-0000	B	NOTE 6	12,963	12,963	-	-	-
National School Lunch Program	I (S)	N/A	511-0000	C	NOTE 6	75,826	-	78,438	78,438	2,612
Passed through the PA Department of Agriculture,										
National School Lunch Program	I	10.555				186,965	(31,698)	190,325	190,325	(28,338)
Total U.S. Department of Agriculture						1,151,248	83,190	1,071,650	1,071,650	3,592
Total						\$ 3,210,243	\$ 1,124,470	\$ 3,100,168	\$ 3,100,168	\$ 1,014,395

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

1. General

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

2. Basis of Accounting

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

3. Access Reimbursements

Access reimbursements for direct medical services are classified as fee-for-service revenues and are not considered federal awards. The General Fund federal revenues include \$26,450 of Access reimbursements for direct medical services.

4. State Matching Funds

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

5. Relationship to Federal Financial Reports

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

6. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

7. Source Code and Grant Period Code

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

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

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

A = 07/01/10 – 06/30/11
B = 07/01/11 – 06/30/12
C = 07/01/12 – 06/30/13

**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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2013.

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.

A handwritten signature in cursive script that reads "Parente Beard LLC".

State College, Pennsylvania
December 19, 2013

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of Education
State College Area School District

Report on Compliance for Each 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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2013.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



State College, Pennsylvania
December 19, 2013

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

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 programs:

- 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 programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

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, 2012 Single Audit.