

**State College Area School District**

Financial Statements and Supplementary Information

June 30, 2014



**BAKER TILLY**

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# State College Area School District

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June 30, 2014

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# State College Area School District

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## Independent Auditors' Report

Board of Education  
State College Area School District

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of State College Area School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 4 through 15 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 is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 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.

*Baker Tilly Viechow Krause, LLP*

State College, Pennsylvania  
October 15, 2014

# **State College Area School District**

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## Management's Discussion and Analysis (Unaudited)

June 30, 2014

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, 2014. 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**

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Management's Discussion and Analysis (Unaudited)

June 30, 2014

## **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, 2014

## Government-Wide Financial Analysis

Condensed Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 59,829,806	\$ 395,478	\$ 60,225,284
Noncurrent assets	85,715,044	132,672	85,847,716
Deferred outflows of resources	<u>1,244,724</u>	<u>-</u>	<u>1,244,724</u>
Total	<u>\$ 146,789,574</u>	<u>\$ 528,150</u>	<u>\$ 147,317,724</u>
Liabilities and Net Position			
Current liabilities	\$ 17,192,277	\$ 162,120	\$ 17,354,397
Long-term liabilities:			
Due within one year	3,575,000	-	3,575,000
Due after one year	<u>58,588,918</u>	<u>72,063</u>	<u>58,660,981</u>
Total liabilities	<u>79,356,195</u>	<u>234,183</u>	<u>79,590,378</u>
Net position:			
Net investment in capital assets	28,461,032	132,672	28,593,704
Restricted	58,870	-	58,870
Unrestricted	<u>38,913,477</u>	<u>161,295</u>	<u>39,074,772</u>
Total net position	<u>67,433,379</u>	<u>293,967</u>	<u>67,727,346</u>
Total	<u>\$ 146,789,574</u>	<u>\$ 528,150</u>	<u>\$ 147,317,724</u>

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

## Condensed Statement of Activities For the year ended June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 954,799	\$ 2,472,812	\$ 3,427,611
Operating grants and contributions	14,164,824	1,164,615	15,329,439
General revenues:			
Taxes levied, net	101,186,536	-	101,186,536
Grants, subsidies and contributions not restricted	7,873,148	-	7,873,148
Other	525,546	-	525,546
Total revenues	<u>124,704,853</u>	<u>3,637,427</u>	<u>128,342,280</u>
Program expenses:			
Instruction	68,387,163	-	68,387,163
Instructional student support	8,966,678	-	8,966,678
Administration and financial support services	12,130,952	-	12,130,952
Operation and maintenance of plant services	10,740,162	-	10,740,162
Pupil transportation	5,648,812	-	5,648,812
Student activities	2,272,958	-	2,272,958
Community services	171,767	-	171,767
Interest on long-term debt	2,454,218	-	2,454,218
Unallocated depreciation	420,568	-	420,568
Food service	-	3,689,740	3,689,740
Total program expenses	<u>111,193,278</u>	<u>3,689,740</u>	<u>114,883,018</u>
Change in net position	13,511,575	(52,313)	13,459,262
Net position, beginning	<u>53,921,804</u>	<u>346,280</u>	<u>54,268,084</u>
Net position, ending	<u>\$ 67,433,379</u>	<u>\$ 293,967</u>	<u>\$ 67,727,346</u>

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

## Condensed Statement of Net Position June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 49,959,567	\$ 392,428	\$ 50,351,995
Noncurrent assets	86,501,418	144,898	86,646,316
Deferred outflows of resources	<u>1,109,995</u>		<u>1,109,995</u>
Total	<u>\$ 137,570,980</u>	<u>\$ 537,326</u>	<u>\$ 138,108,306</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>62,452,987</u>	<u>70,880</u>	<u>62,523,867</u>
Total liabilities	<u>83,649,176</u>	<u>191,046</u>	<u>83,840,222</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>\$ 137,570,980</u>	<u>\$ 537,326</u>	<u>\$ 138,108,306</u>

# State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

## 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, 2014

Total net position of the District increased \$13,459,262 in 2014. Net position of governmental activities increased by \$13,511,575, while net position of the business-type activity decreased \$52,313.

The District had \$111,193,278 in expenses related to governmental activities in 2014; only \$15,119,623 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$109,585,230 also provided for these programs. The \$13,511,575 increase in governmental activity net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$52,313 as a result of the net loss of the food service operation.

As of June 30, 2014, \$38,913,477 of unrestricted net position of the \$67,433,379 of total net position was available to meet the District's ongoing obligations to employees and creditors. The remaining net position, being \$28,519,902, is invested into capital assets and restricted for capital projects and debt service.

### Financial Analysis of the Governmental Funds

#### General Fund

##### Revenues

Revenues for the 2013-2014 fiscal year were \$124,679,073 compared to \$119,045,766 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2013 - 2014</u>	<u>2012 - 2013</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 103,438,471	\$ 99,800,371	\$ 3,638,100	3.6 %
State sources	19,850,154	18,033,935	1,816,219	10.1 %
Federal sources	<u>1,390,448</u>	<u>1,211,460</u>	<u>178,988</u>	14.8 %
Total	<u>\$ 124,679,073</u>	<u>\$ 119,045,766</u>	<u>\$ 5,633,307</u>	4.7 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,638,100 primarily related to increases in real estate taxes. Real estate taxes increased \$3,570,000 with approximately \$2,100,000 related to an increase in the millage rate from 37.73 mills to 38.75 mills per \$1,000 of assessed value. Earned income tax revenue and real estate transfer tax revenue increased \$274,000 and \$319,000, respectively. Delinquent taxes decreased approximately \$493,000.

## State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

State revenues are derived primarily from state subsidies for basic education, special education and transportation. State revenues also include a 50% reimbursement from the state for social security and retirement costs as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues increased \$1,816,219 primarily related to a \$1,235,000 increase in retirement cost reimbursement. Basic education, social security and rental/sinking fund reimbursements also contributed to the increase in state revenues.

Federal revenues include primarily Title I, II and III grants and the School Based ACCESS program. The increase in federal revenues of \$178,988 is primarily related to an increase in receipts of medical assistance revenue from the School Based ACCESS program.

### Expenditures

Expenditures for the 2013-2014 fiscal year were \$124,673,966 compared to the 2012-2013 fiscal year of \$119,875,288 or a 4% increase. The following table shows the expenditures by object category:

	<u>2013 - 2014</u>	<u>2012 - 2013</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>	
Salaries and benefits	\$ 83,582,596	\$ 82,533,969	\$ 1,048,627	1.3	%
Professional services	3,445,663	3,139,591	306,072	9.7	%
Purchased property services	1,892,466	2,053,306	(160,840)	(7.8)	%
Other purchased services	10,162,554	9,575,501	587,053	6.1	%
Supplies	3,560,328	3,455,000	105,328	3.0	%
Property	2,053,950	2,105,715	(51,765)	(2.5)	%
Other objects	311,903	299,358	12,545	4.2	%
Other uses of funds	19,664,506	16,712,848	2,951,658	17.7	%
Total	<u>\$ 124,673,966</u>	<u>\$ 119,875,288</u>	<u>\$ 4,798,678</u>	4.0	%

Salaries and benefits increased \$1,048,627. Salary expense decreased \$1,194,000, due to savings of \$2,007,000 from unfilled positions following an early retirement program at the end of the 2012-2013 year, and \$641,000 related to contracting for substitute staffing beginning in February 2014. These savings are offset by a net increase in salary expense of \$1,454,000 primarily related to increases in pay rates. Benefits increased approximately \$2,242,000 primarily due to a \$2,623,000 increase in retirement expense related to an increase in the employer contribution rate for the Public School Employees' Retirement System ("PSERS") from 12.36% to 16.93% (37%), and due to an estimated \$1,351,000 increase in health insurance rates. These increases are offset by decreases of approximately \$1,732,000 related to lower levels of participation in the health plan, and decreases to benefit costs related to unfilled positions.

Professional services increased compared to the prior year by \$306,072 primarily due to increased expenses for contracted substitute staffing.

## **State College Area School District**

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Management's Discussion and Analysis (Unaudited)

June 30, 2014

Other purchased services increased compared to the prior year by \$587,053 primarily related to increases in amounts due to charter schools.

Other uses of funds increased \$2,951,658 primarily related to an increase in capital project fund transfers of approximately \$7,965,000 and debt service payments of \$195,000, offset by a \$5,200,000 decrease in the amount due under an interest rate swap settlement agreement.

### **Capital Projects Funds**

The Capital Project Fund is used to account for capital projects of the District. The District spent \$3,260,092 for such projects in 2013-14. The Capital Projects Fund balance was \$22,431,505 at June 30, 2014. 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 2014 included \$119,678,404 of revenues and expenditures. The budget was amended by \$864,297 for additional federal, state, and local grant revenues and the related additional expenditures for those grants.

The actual revenues for 2014 were \$4,136,372 more than the final budget. Local revenues were \$3,160,536 more than budget primarily due to favorable variances in earned income tax revenue of \$1,595,000, real estate transfer tax of \$456,000 and tuition of \$256,000. Real estate taxes, rental income, revenue from the intermediate unit, and donations also exceeded budgeted amounts. State revenues were \$896,527 in excess of budget due to higher than budgeted revenue from rental/sinking fund, tuition, transportation and the PA Accountability Grant. Reimbursement for retirement and social security also exceeded the budgeted amount. Federal revenues exceeded budget by \$79,309.

Actual expenses were \$2,081,731 less than the budget. Transfers to the capital project fund exceeded budget by approximately \$6.2 million. Salaries were \$740,000 less than budget and benefits were less than budget by \$1,115,000 primarily related to health insurance.

## State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

### Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2014 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	\$ 117,515,160	\$ -	\$ 117,515,160
Equipment and other capital assets	40,196,370	992,993	41,189,363
Construction in progress	1,082,650	-	1,082,650
Total	158,794,180	992,993	159,787,173
Accumulated depreciation	<u>(73,079,136)</u>	<u>(860,321)</u>	<u>(73,939,457)</u>
Net	<u>\$ 85,715,044</u>	<u>\$ 132,672</u>	<u>\$ 85,847,716</u>

### Long Term Debt

At June 30, 2014, the District had long-term debt of \$56,050,000 (see details in Note 9 to the financial statements) issued and outstanding. The District also authorized General Obligation Bond Series of 2004 ("2004 Bonds") in the amount of \$58,050,000 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, 2014 related to the 2004 and 2006 Bonds are \$45,300,000 and \$20,530,000, respectively. Total authorized debt of \$121,880,000 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 2015 budget preparation is approximately \$2.2 billion, which is up approximately \$28 million or 1.3% from 2014. Amounts available for appropriation in the General Fund budget for 2014-15 are \$126,791,664, an increase of approximately 5.9% over the 2013-14 budget of \$119,678,404. Property taxes will increase 1.95% to 39.5056 mills. The District will use these increases in revenues to finance programs currently offered and for the expansion of the alternative education program (Delta) to include grades 5 - 8.

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

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



## **State College Area School District**

Management's Discussion and Analysis (Unaudited)

June 30, 2014

### **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 2013-14 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 school districts to develop, implement and monitor a strategic/comprehensive plan. The 2014-2017 strategic plan was developed based on input from a broad cross-section of the State College Area School District community including nearly 150 students, parents, teachers, administrators, district staff, board members, community/higher education partners and community representatives.

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

### **District Growth**

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.

## **State College Area School District**

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Management's Discussion and Analysis (Unaudited)

June 30, 2014

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

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

In 2012, the District hired an architectural firm and educational planner to begin the design process for a high school project. Planning for this project continued through 2013, leading to a voter referendum in 2014. The estimated project cost is \$115 million. The referendum asked voters of the District to pay for \$85 million of the cost of the project through a referendum tax increase. The voters of the State College Area School District approved the referendum by an unprecedented margin of 74% to 26%. This is the second referendum in the Commonwealth of Pennsylvania to be passed by voters. Design for the high school will continue through the spring of 2015. The project is expected to go to bid in late spring with construction expected to begin in the summer of 2015 with completion in approximately 30 months.

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

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

**State College Area School District**Statement of Net Position  
June 30, 2014

	<b>Governmental Activities</b>	<b>Business -Type Activities</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 53,615,520	\$ 225,423	\$ 53,840,943
Restricted cash and cash equivalents	5,040	-	5,040
Taxes receivable, net	1,840,205	-	1,840,205
Due from fiduciary fund	43,514	56,618	100,132
Due from other governments	3,128,432	33,993	3,162,425
Other receivables	139,685	19,275	158,960
Inventories	18,526	60,169	78,695
Other current assets	1,038,884	-	1,038,884
Total current assets	<u>59,829,806</u>	<u>395,478</u>	<u>60,225,284</u>
<b>Noncurrent assets</b>			
Land	899,887	-	899,887
Buildings and improvements	116,615,273	-	116,615,273
Equipment and other capital assets	40,196,370	992,993	41,189,363
Construction in progress	1,082,650	-	1,082,650
Accumulated depreciation	<u>(73,079,136)</u>	<u>(860,321)</u>	<u>(73,939,457)</u>
Total noncurrent assets	<u>85,715,044</u>	<u>132,672</u>	<u>85,847,716</u>
Total assets	145,544,850	528,150	146,073,000
<b>Deferred Outflows of Resources</b>			
Deferred amounts on refunding	<u>1,244,724</u>	<u>-</u>	<u>1,244,724</u>
Total assets and deferred outflows of resources	<u>\$ 146,789,574</u>	<u>\$ 528,150</u>	<u>\$ 147,317,724</u>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 1,646,725	\$ 3,317	\$ 1,650,042
Current portion of bonds and notes payable	3,575,000	-	3,575,000
Accrued salaries and benefits	9,274,067	35,639	9,309,706
Payroll deductions and withholdings	4,751,544	-	4,751,544
Unearned revenue	272,943	37,227	310,170
Other current liabilities	696,998	85,937	782,935
Interest rate swap payable	550,000	-	550,000
Total current liabilities	<u>20,767,277</u>	<u>162,120</u>	<u>20,929,397</u>
<b>Noncurrent liabilities</b>			
Bonds and notes payable	53,684,052	-	53,684,052
Other postemployment benefits liability	1,353,078	-	1,353,078
Interest rate swap payable	1,650,000	-	1,650,000
Compensated absences	1,901,788	72,063	1,973,851
Total noncurrent liabilities	<u>58,588,918</u>	<u>72,063</u>	<u>58,660,981</u>
Total liabilities	<u>79,356,195</u>	<u>234,183</u>	<u>79,590,378</u>
<b>Net Position</b>			
Net investment in capital assets	28,461,032	132,672	28,593,704
Restricted	58,870	-	58,870
Unrestricted	38,913,477	161,295	39,074,772
Total net position	<u>67,433,379</u>	<u>293,967</u>	<u>67,727,346</u>
Total	<u>\$ 146,789,574</u>	<u>\$ 528,150</u>	<u>\$ 147,317,724</u>

See notes to financial statements

**State College Area School District**

Statement of Activities  
Year Ended June 30, 2014

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	\$ (68,387,163)	\$ 726,854	\$ 10,894,311	\$ (56,765,998)		\$ (56,765,998)
Instructional student support	(8,966,678)	-	912,859	(8,053,819)		(8,053,819)
Administration and financial support services	(12,130,952)	-	667,128	(11,463,824)		(11,463,824)
Operation and maintenance of plant services	(10,740,162)	138,625	370,705	(10,230,832)		(10,230,832)
Pupil transportation	(5,648,812)	-	970,086	(4,678,726)		(4,678,726)
Student activities	(2,272,958)	89,320	41,032	(2,142,606)		(2,142,606)
Community services	(171,767)	-	4,952	(166,815)		(166,815)
Interest on long-term debt	(2,454,218)	-	303,751	(2,150,467)		(2,150,467)
Depreciation - unallocated	(420,568)	-	-	(420,568)		(420,568)
Total governmental activities	(111,193,278)	954,799	14,164,824	(96,073,655)		(96,073,655)
<b>Business-type Activity</b>						
Food service	(3,689,740)	2,472,812	1,164,615	-	\$ (52,313)	(52,313)
Total	<u>\$ (114,883,018)</u>	<u>\$ 3,427,611</u>	<u>\$ 15,329,439</u>	(96,073,655)	(52,313)	(96,125,968)
<b>General revenues</b>						
Property taxes, levied for general purposes, net				85,129,837	-	85,129,837
Other taxes levied for specific purposes				16,056,699	-	16,056,699
Grants, subsidies and contributions not restricted				7,873,148	-	7,873,148
Investment earnings:						
Interest and dividends				198,876	-	198,876
Miscellaneous income				326,670	-	326,670
Total general revenues				<u>109,585,230</u>	-	<u>109,585,230</u>
<b>Change in net position</b>				13,511,575	(52,313)	13,459,262
<b>Net position, beginning</b>				53,921,804	346,280	54,268,084
<b>Net position, ending</b>				<u>\$ 67,433,379</u>	<u>\$ 293,967</u>	<u>\$ 67,727,346</u>

See notes to financial statements

**State College Area School District**

Balance Sheet - Governmental Funds

June 30, 2014

	<b>Major Funds</b>			<b>Total</b>
	<b>General</b>	<b>Capital Projects</b>	<b>Debt Service</b>	
<b>Assets</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 46,245,958	\$ 7,369,562	\$ -	\$ 53,615,520
Restricted cash and cash equivalents	-	5,040	-	5,040
Taxes receivable, net	1,840,205	-	-	1,840,205
Due from other funds	90,397	15,542,144	4,638	15,637,179
Due from other governments	3,128,432	-	-	3,128,432
Other receivables	139,685	-	-	139,685
Inventories	1,701,632	-	-	1,701,632
Other current assets	1,038,884	-	-	1,038,884
	<u>\$ 54,185,193</u>	<u>\$ 22,916,746</u>	<u>\$ 4,638</u>	<u>\$ 77,106,577</u>
<b>Total</b>				
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Due to other funds	\$ 15,596,318	\$ 4,638	\$ -	\$ 15,600,956
Accounts payable	1,163,676	480,603	-	1,644,279
Accrued salaries and benefits	9,274,067	-	-	9,274,067
Payroll deductions and withholdings	4,751,544	-	-	4,751,544
Unearned revenue	272,943	-	-	272,943
Other liabilities	258,968	-	-	258,968
	<u>31,317,516</u>	<u>485,241</u>	<u>-</u>	<u>31,802,757</u>
<b>Total liabilities</b>				
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - taxes	649,221	-	-	649,221
	<u>649,221</u>	<u>-</u>	<u>-</u>	<u>649,221</u>
<b>Fund Balances</b>				
Nonspendable	1,701,632	-	-	1,701,632
Restricted	-	58,870	-	58,870
Committed	10,772,000	22,372,635	4,638	33,149,273
Unassigned	9,744,824	-	-	9,744,824
	<u>22,218,456</u>	<u>22,431,505</u>	<u>4,638</u>	<u>44,654,599</u>
<b>Total fund balances</b>				
<b>Total</b>	<u>\$ 54,185,193</u>	<u>\$ 22,916,746</u>	<u>\$ 4,638</u>	<u>\$ 77,106,577</u>

# State College Area School District

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2014

**Total Fund Balance - Governmental Funds** \$ 44,654,599

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 \$158,794,180 and the accumulated depreciation is \$73,079,136. 85,715,044

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. 649,221

Inventory of books and supplies was reclassified. (1,701,632)

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. 28

Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds. (2,200,000)

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	(57,259,052)
Deferred amounts on refunding	1,244,724
Accrued interest on long-term debt	(438,030)
Other postemployment benefits liability	(1,353,078)
Compensated absences	(1,878,445)

**Total Net Position - Governmental Activities** \$ 67,433,379

**State College Area School District**Statement of Revenues, Expenditures and Changes In Fund Balances - Governmental Funds  
Year Ended June 30, 2014

	Major Funds			Total
	General	Capital Projects	Debt Service	
<b>Revenues</b>				
Local sources	\$ 103,438,471	\$ 66,886	\$ -	\$ 103,505,357
State sources	19,850,154	-	-	19,850,154
Federal sources	1,390,448	-	-	1,390,448
Total revenues	124,679,073	66,886	-	124,745,959
<b>Expenditures</b>				
Instruction	67,910,608	-	-	67,910,608
Support services	34,547,876	-	-	34,547,876
Noninstructional services	2,467,166	-	-	2,467,166
Facilities acquisition, construction and improvement services	29,775	3,260,092	-	3,289,867
Debt service	875,680	-	6,327,453	7,203,133
Total expenditures	105,831,105	3,260,092	6,327,453	115,418,650
<b>Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)</b>	18,847,968	(3,193,206)	(6,327,453)	9,327,309
<b>Other Financing Sources (Uses)</b>				
Debt proceeds	-	4,400,000	-	4,400,000
Bond premium	-	48,374	-	48,374
Refinancing of bonds	-	(4,350,080)	-	(4,350,080)
Cost of issuance	-	(98,294)	-	(98,294)
Transfer in	-	12,515,408	6,327,453	18,842,861
Transfer out	(18,842,861)	-	-	(18,842,861)
Total other financing (uses) sources	(18,842,861)	12,515,408	6,327,453	-
<b>Net Change in Fund Balances</b>	5,107	9,322,202	-	9,327,309
<b>Fund Balance, Beginning</b>	22,213,349	13,109,303	4,638	35,327,290
<b>Fund Balance, Ending</b>	\$ 22,218,456	\$ 22,431,505	\$ 4,638	\$ 44,654,599

See notes to financial statements

**State College Area School District**Reconciliation of the Governmental Funds - Statement of Revenues,  
Expenditures and Changes in Fund Balance to the Statement of Activities  
Year Ended June 30, 2014**Total Change in Fund Balances-Governmental Funds** \$ 9,327,309Amounts 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. Unavailable tax revenues decreased by this amount this year. (67,558)

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	\$ (4,542,717)	
Capital outlays	<u>4,298,482</u>	(244,235)

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. (103,649)

The issuance of long term debt (bonds) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. This transaction, however, does not have an effect on net position. Also, governmental funds report the effect of premiums and discounts, and other similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. Reconciling items related to long-term debt activity for the year ended June 30, 2014 are as follows:

Issuance of bonds payable	(4,400,000)	
Bond premium	(48,374)	
Refund of bonds payable	4,205,000	
Deferred amount on refunding	145,080	
Scheduled principal payments on capital lease obligation	15,780	
Scheduled principal payments on long-term debt	<u>4,405,000</u>	4,322,486

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include amortization of bond premiums and deferred interest from advanced refunding bonds. The net additional interest accrued in the statement of activities over the amount due is shown here. (373,571)

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. 11,579

Other post employment benefits that are reflected on the statement of net position but are not considered a current expenditures in governmental funds. (198,913)

Change in the interest rate swap payable:  
Installment payment made on interest rate swap payable 800,000

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. 38,127

**Change in Net Position of Governmental Activities** \$ 13,511,575



**State College Area School District**

 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund  
 Year Ended June 30, 2014

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 100,063,311	\$ 100,277,935	\$ 103,438,471	\$ 3,160,536
State sources	18,920,093	18,953,627	19,850,154	896,527
Federal sources	695,000	1,311,139	1,390,448	79,309
Total revenues	119,678,404	120,542,701	124,679,073	4,136,372
<b>Expenditures</b>				
Instruction:				
Regular programs	49,870,269	50,152,298	49,184,989	967,309
Special programs	13,848,628	14,972,517	14,822,146	150,371
Vocational education programs	2,750,830	2,780,670	2,780,582	88
Other instructional programs	642,952	793,547	793,547	-
Adult education programs	349,309	362,014	316,107	45,907
Nonpublic school programs	7,566	17,959	13,237	4,722
Total instruction	67,469,554	69,079,005	67,910,608	1,168,397
Support services:				
Pupil personnel	4,105,460	4,066,414	3,943,616	122,798
Instructional staff	4,275,923	4,267,469	4,175,778	91,691
Administration	5,845,487	6,026,535	6,023,703	2,832
Pupil health	1,238,020	1,244,866	1,167,953	76,913
Business	952,559	1,101,798	1,094,959	6,839
Operation and maintenance of plant services	8,761,147	8,417,097	8,152,562	264,535
Student transportation services	5,708,655	5,999,901	5,713,055	286,846
Central	4,410,387	4,279,336	4,276,250	3,086
Total support services	35,297,638	35,403,416	34,547,876	855,540
Noninstructional services:				
Student activities	2,300,779	2,320,362	2,295,350	25,012
Community services	77,568	192,276	171,816	20,460
Total noninstructional services	2,378,347	2,512,638	2,467,166	45,472
Facilities acquisition, construction and improvement services				
	-	29,777	29,775	2
Debt service				
	40,000	888,000	875,680	12,320
Total expenditures	105,185,539	107,912,836	105,831,105	2,081,731
<b>Excess of Revenues over Expenditures before Other Financing Uses</b>				
	14,492,865	12,629,865	18,847,968	6,218,103
<b>Other Financing Uses</b>				
Budgetary reserve	(815,000)	-	-	-
Transfer out	(13,677,865)	(12,629,865)	(18,842,861)	(6,212,996)
Total other financing uses	(14,492,865)	(12,629,865)	(18,842,861)	(6,212,996)
<b>Changes in Fund Balance</b>				
	\$ -	\$ -	\$ 5,107	\$ 5,107
<b>Fund Balance, Beginning</b>			22,213,349	
<b>Fund Balance, Ending</b>			\$ 22,218,456	

See notes to financial statements

**State College Area School District**

## Statement of Net Position - Proprietary Funds

June 30, 2014

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 225,423	\$ -
Due from other funds	56,618	7,291
Due from other governments	33,993	-
Other receivables	19,275	-
Inventories	60,169	18,526
	<u>395,478</u>	<u>25,817</u>
Total current assets		
<b>Noncurrent assets</b>		
Equipment	992,993	284,098
Accumulated depreciation	(860,321)	(284,098)
	<u>132,672</u>	<u>-</u>
Total noncurrent assets		
Total	<u>\$ 528,150</u>	<u>\$ 25,817</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,317	\$ 2,446
Accrued salaries and benefits	35,639	-
Other liabilities	85,937	-
Unearned revenue	37,227	-
	<u>162,120</u>	<u>2,446</u>
Total current liabilities		
<b>Noncurrent liabilities</b>		
Compensated absences	72,063	23,343
	<u>234,183</u>	<u>25,789</u>
Total liabilities		
<b>Net Position</b>		
Net investment in capital assets	132,672	-
Unrestricted	161,295	28
	<u>293,967</u>	<u>28</u>
Total net position		
Total	<u>\$ 528,150</u>	<u>\$ 25,817</u>

See notes to financial statements

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

Year Ended June 30, 2014

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
<b>Operating Revenues</b>		
Food service revenue	\$ 2,472,812	\$ -
Charges for services	-	579,787
	<u>2,472,812</u>	<u>579,787</u>
Total operating revenues		
	<u>2,472,812</u>	<u>579,787</u>
<b>Operating Expenses</b>		
Salaries and employee benefits	1,920,722	283,878
Food, milk and supplies	1,697,174	88,470
Other objects	25,135	1,218
Depreciation	20,267	4,253
Other purchased services	10,720	-
Professional and technical services	8,781	96
Purchased property services	6,941	194,546
	<u>3,689,740</u>	<u>572,461</u>
Total operating expenses		
	<u>3,689,740</u>	<u>572,461</u>
<b>Operating (Loss) Income</b>	<u>(1,216,928)</u>	<u>7,326</u>
<b>Nonoperating Revenues</b>		
State sources	224,431	-
Federal sources	940,184	-
	<u>1,164,615</u>	<u>-</u>
Total nonoperating revenues		
	<u>1,164,615</u>	<u>-</u>
<b>Change in Net Position</b>	(52,313)	7,326
<b>Net Position (Deficit), Beginning</b>	<u>346,280</u>	<u>(7,298)</u>
<b>Net Position, Ending</b>	<u>\$ 293,967</u>	<u>\$ 28</u>

See notes to financial statements

**State College Area School District**

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2014

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 2,455,648	\$ 576,908
Cash paid to employees	(1,886,225)	(285,065)
Cash paid to vendors	(1,752,524)	(291,843)
Net cash used in operating activities	(1,183,101)	-
<b>Cash Flows used in Investing Activities</b>		
Purchase of equipment	(8,041)	-
<b>Cash Flows from Noncapital Financing Activities</b>		
State sources	224,094	-
Federal sources	947,347	-
Net cash provided by noncapital financing activities	1,171,441	-
<b>Decrease in Cash and Cash Equivalents</b>	(19,701)	-
<b>Cash and Cash Equivalents, Beginning</b>	245,124	-
<b>Cash and Cash Equivalents, Ending</b>	\$ 225,423	\$ -
<b>Reconciliation of Operating (Loss) Income to Net Cash used in Operating Activities</b>		
Operating (loss) income	\$ (1,216,928)	\$ 7,326
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Depreciation	20,267	4,253
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(3,293)	2,033
Other receivables	15,550	-
Due to/from other funds	(32,945)	(12,161)
Accounts payable	(480)	(264)
Accrued salaries and benefits	33,314	(1,187)
Other liabilities	231	-
Compensated absences	1,183	-
<b>Net Cash Used in Operating Activities</b>	\$ (1,183,101)	\$ -

See notes to financial statements

# State College Area School District

## Statement of Net Position - Fiduciary Fund - Agency

June 30, 2014

### Assets

#### Current Assets

Cash	\$ 526,664
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### Liabilities

#### Current liabilities

Due to other funds	\$ 100,132
Accounts payable	38,920
Other current liabilities	387,612

Total	\$ 526,664
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See notes to financial statements

# State College Area School District

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Notes to Financial Statements

June 30, 2014

## 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

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Notes to Financial Statements

June 30, 2014

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 and debt service payments. The Capital Projects Fund is a major fund.

#### **Debt Service Fund**

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

# State College Area School District

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Notes to Financial Statements

June 30, 2014

## 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.

## 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.



# State College Area School District

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Notes to Financial Statements

June 30, 2014

## **Fund Financial Statements**

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

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

## **Basis of Accounting**

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

### **Accrual Basis**

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

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

### **Modified Accrual Basis**

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

## **Budgets and Budgetary Accounting**

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

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

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

# State College Area School District

Notes to Financial Statements

June 30, 2014

## 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

The District classifies its governmental fund balances as follows:

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

# State College Area School District

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## Notes to Financial Statements

June 30, 2014

- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District, but not through a formal action of the School Board
  - The School Board of the District authorized the District Business Administrator to assign funds to specific purposes, and
  - The School Board passed a board motion authorizing assignments for activities as contemplated by the Board.
- *Unassigned* - includes position fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

### **Restricted Net Position/Fund Balances**

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

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

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is deferred amounts on refunding reported in the government-wide statement of net position.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from taxes which are deferred and recognized as an inflow of resources in the period that the amounts become available.

### **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.

# State College Area School District

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Notes to Financial Statements

June 30, 2014

## Recent Accounting Standards

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement changes the manner in which nonexchange transactions, sales of future revenues, accounting for leases and the term “deferred” are presented in the financial statements. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements, deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The adoption of this standard during fiscal 2014 did not have a material impact on the District’s financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012*. This statement amends Statement No. 10, *Use of Special Revenue Funds to Report Risk Financing Activities* and Statement No. 62, *Operating Lease, Purchase of a Loan or Group of Loans, and Servicing Fees*. These statements were amended to remove language that conflicts with other statements. The requirements of this statement will resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The adoption of this standard during fiscal 2014 did not have any impact on the District’s financial statements.

In June 2012, the GASB issued Statement No. 67, *Accounting and Financial Reporting for Pensions*. 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. The District’s adoption of this standard did not have an impact on the District’s fiscal year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more-likely-than-not that the government will be required to make a payment on the guarantee. The adoption of this standard did not have an impact on the District’s fiscal year 2014 financial statements.

## 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, 2014, \$52,062,778 of the District’s bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$52,062,778 was collateralized with securities held by the pledging financial institution, but not in the District’s name.

# State College Area School District

## Notes to Financial Statements

June 30, 2014

### Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. 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, 2014, the carrying amount and bank balances of the District's investment in PSDLAF were \$1,359,324.

### 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 tax rolls are maintained by Centre County, Pennsylvania, and are collected by elected tax collectors. Centre County also collects delinquent real estate taxes for the District.

### 4. Interfund Receivables, Payables and Transfers

At June 30, 2014, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 90,397
Capital Projects Fund	15,542,144
Debt Service Fund	4,638
Food Service Fund	56,618
Internal Service Fund	7,291

Total	<u>\$ 15,701,088</u>
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Amounts due to other funds:

General Fund	\$ 15,596,318
Capital Projects Fund	4,638
Agency Fund	100,132

Total	<u>\$ 15,701,088</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, 2014 is as follows:

Transfers in:

Capital Projects Fund	\$ 12,515,408
Debt Service Fund	6,327,453

Total	<u>\$ 18,842,861</u>
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Transfers out,

General Fund	<u>\$ 18,842,861</u>
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# State College Area School District

## Notes to Financial Statements

June 30, 2014

### 5. Due from Other Governments

The amount reported in the governmental funds at June 30, 2014 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 16,999	\$ 2,376,674	\$ 734,759	\$ 3,128,432
Food Service Fund	<u>30,659</u>	<u>3,334</u>	<u>-</u>	<u>33,993</u>
Total	<u>\$ 47,658</u>	<u>\$ 2,380,008</u>	<u>\$ 734,759</u>	<u>\$ 3,162,425</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, 2014. 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, 2014.

### 6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2014 follows:

Delinquent real estate taxes receivable	\$ 1,220,169
Earned income taxes receivable	757,896
Real estate transfer tax receivable	213,573
Local service	<u>13,352</u>
Total	2,204,990
Estimated uncollectible taxes at June 30, 2014	<u>(364,785)</u>
Total	<u>\$ 1,840,205</u>

# State College Area School District

## Notes to Financial Statements

June 30, 2014

### 7. Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Increases	Transfers/ Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	2,189,981	3,246,132	(4,353,463)	1,082,650
Total capital assets, not being depreciated	3,089,868	3,246,132	(4,353,463)	1,982,537
Capital assets being depreciated:				
Buildings and improvements	112,360,919	-	4,254,354	116,615,273
Equipment and other capital assets	38,760,813	1,052,350	99,109	39,912,272
Equipment-internal service	284,098	-	-	284,098
Total capital assets, being depreciated	151,405,830	1,052,350	4,353,463	156,811,643
Accumulated depreciation for:				
Buildings and improvements	(37,690,179)	(3,134,214)	-	(40,824,393)
Equipment and other capital assets	(30,566,396)	(1,404,249)	-	(31,970,645)
Equipment, internal service	(279,844)	(4,254)	-	(284,098)
Total accumulated depreciation	(68,536,419)	(4,542,717)	-	(73,079,136)
Total capital assets being depreciated, net	82,869,411	(3,490,367)	4,353,463	83,732,507
Governmental activities capital assets, net	\$ 85,959,279	\$ (244,235)	\$ -	\$ 85,715,044
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 984,952	\$ 8,041	\$ -	\$ 992,993
Accumulated depreciation, Equipment and other capital assets	(840,054)	(20,267)	-	(860,321)
Business-type activity capital assets, net	\$ 144,898	\$ (12,226)	\$ -	\$ 132,672

# State College Area School District

## Notes to Financial Statements

June 30, 2014

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

Government activities:	
Unallocated	\$ 420,568
Instruction	1,159,890
Instructional support services	3,848
Administrative and financial support services	4,391
Operation and maintenance of plant services	<u>2,954,020</u>
 Total depreciation expenses for governmental activities	 <u>\$ 4,542,717</u>
 Business-type activities, Food service	 <u>\$ 20,267</u>

### 8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$9,274,067 represent salaries of \$7,409,951, the District's share of Social Security taxes of \$566,861 for teachers' services during the 2013-2014 school term, which are paid during July and August 2014, and retirement plan expense of \$1,246,264 applicable to the accrued salaries at June 30, 2014, and accrued workers' compensation of \$50,991.

### 9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2014 are as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts due within one year</u>
Bond Series - 2009 General Obligation	\$ 8,645,000	\$ -	\$ (4,685,000)	\$ 3,960,000	\$ 1,080,000
Note - Series of 2008	3,265,000	-	(1,305,000)	1,960,000	635,000
Bond Series - 2010A	12,020,000	-	(1,525,000)	10,495,000	410,000
Bond Series - 2010B	7,990,000	-	(415,000)	7,575,000	505,000
Bond Series - 2010C	5,420,000	-	(10,000)	5,410,000	10,000
Bond Series - 2011B	8,160,000	-	(435,000)	7,725,000	445,000
Bond Series - 2012	14,760,000	-	(195,000)	14,565,000	430,000
Bond Series - 2013	<u>-</u>	<u>4,400,000</u>	<u>(40,000)</u>	<u>4,360,000</u>	<u>60,000</u>
 Total bonds and notes payable	 60,260,000	 4,400,000	 (8,610,000)	 56,050,000	 <u>\$ 3,575,000</u>
 Bond premium	 <u>1,262,720</u>	 <u>48,374</u>	 <u>(102,042)</u>	 <u>1,209,052</u>	
 Total long-term debt	 <u>\$ 61,522,720</u>	 <u>\$ 4,448,374</u>	 <u>\$ (8,712,042)</u>	 <u>\$ 57,259,052</u>	



## State College Area School District

### Notes to Financial Statements

June 30, 2014

Long-term debt at June 30, 2014 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%	\$ 3,960,000
\$9,515,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	1,960,000
\$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%	10,495,000
\$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%	7,575,000
\$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%	5,410,000
\$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%	7,725,000
\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	14,565,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	4,360,000
Unamortized bond premium	<u>1,209,052</u>
Total	57,259,052
Current portion	<u>(3,575,000)</u>
Long-term debt	<u>\$ 53,684,052</u>

# State College Area School District

Notes to Financial Statements  
June 30, 2014

Debt service requirements at June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	\$ 3,575,000	\$ 1,787,867	\$ 5,362,867
2016	3,682,042	1,675,696	5,357,738
2017	3,877,042	1,561,800	5,438,842
2018	3,742,042	1,466,674	5,208,716
2019	3,832,042	1,369,183	5,201,225
2020 - 2024	19,998,335	5,223,641	25,221,976
2025 - 2029	17,297,550	1,772,968	19,070,518
2030	1,255,000	21,963	1,276,963
Total	<u>\$ 57,259,053</u>	<u>\$ 14,879,792</u>	<u>\$ 72,138,845</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.

In 2013, the District issued \$4,400,000 in General Obligation Bonds with varying interest rates from .3% to 2.75%. The proceeds of the bonds were used to advance refund \$4,205,000 of the District's Series 2009 Bonds.

This advanced refunding decreased the District's total debt service payments over the next eight years by approximately \$127,000 and provided an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$114,000.

## 10. Fund Balance Classifications

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total</u>
Non-spendable for, Inventories	\$ 1,701,632	\$ -	\$ -	\$ 1,701,632
Restricted for, Capital projects	\$ -	\$ 58,870	\$ -	\$ 58,870
Committed for:				
PSERS	\$ 8,572,000	\$ -	\$ -	\$ 8,572,000
Interest rate swap settlement	2,200,000	-	-	2,200,000
Capital projects	-	22,372,635	-	22,372,635
Debt service	-	-	4,638	4,638
Total	<u>\$ 10,772,000</u>	<u>\$ 22,372,635</u>	<u>\$ 4,638</u>	<u>\$ 33,149,273</u>

# State College Area School District

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Notes to Financial Statements

June 30, 2014

## 11. Construction Commitments

The District had several active minor construction projects as of June 30, 2014. Outstanding construction commitments on these projects amounted to approximately \$186,000 at June 30, 2014.

## 12. Defined Benefit Pension Plan

All full-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the "System"), a governmental cost sharing multiple-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2014 was \$57,938,077.

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 16.93% in 2014, 12.36% in 2013, and 8.65% in 2012 of annual covered payroll. The District's contribution requirement for the years ended June 30, 2014 was \$9,607,872, June 30, 2013 was \$7,095,629, and June 30, 2012 was \$4,768,262.

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.

# State College Area School District

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Notes to Financial Statements

June 30, 2014

## 13. Defined Contribution Plan

The District provides a 403(b) defined contribution plan for its employees, administered by the District. The plan is defined within the teachers' contract (State College Area Education Association); however, all employees are eligible to participate. With the exception of retiring teachers and certain contracted employees, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2014, total contributions (including retirement bonus and sick payouts) were \$1,359,743.

## 14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government and was used by the District for fiscal year 2014 totaled \$170,674.

## 15. Operating Lease

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

Years ending June 30:	
2015	<u>\$ 107,750</u>

Rent expense for 2014 was \$107,750.

## 16. 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, 2014 of \$45,300,000 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, 2014 of \$20,530,000 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, 2014

## 17. 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:		
2015	\$	550,000
2016		550,000
2017		550,000
2018		<u>550,000</u>
Total	\$	<u>2,200,000</u>

This outstanding liability is recorded on the Statement of Net Position related to governmental activities at June 30, 2014.

## 18. 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, 2014. Total retiree contributions made by plan members were \$624,673 for the year ended June 30, 2014.

# State College Area School District

Notes to Financial Statements

June 30, 2014

## 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	51,937
Adjustment to annual required contribution	<u>(70,856)</u>
Annual OPEB cost (expense)	384,520
Contributions made	<u>(185,607)</u>
Increase in net OPEB obligation	198,913
Net OPEB obligation at July 1, 2013	<u>1,154,165</u>
Net OPEB obligation at June 30, 2014	<u><u>\$ 1,353,078</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 384,520	48.3 %	\$ 1,353,078
June 30, 2013	388,621	35.6	1,154,165
June 30, 2012	386,817	51.7	903,985

# State College Area School District

## Notes to Financial Statements

June 30, 2014

### 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%

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

### Actuarial Methods and Assumptions

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

The District's ARC was determined through an actuarial valuation performed as of January 1, 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

## State College Area School District

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Notes to Financial Statements

June 30, 2014

### 19. 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.

### 20. Pending Changes in Accounting Principles

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 January 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities. To the extent applicable, GASB 71 is effective for the District's 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, 2010	-	3,066,971	3,066,971	0.00%	54,590,199	5.6%
January 1, 2008	-	3,212,176	3,212,176	0.00%	50,791,629	6.3%

Note: The 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, 2014

### Revenues

#### Local sources:

##### Current taxation:

Real estate	\$ 81,322,799
Earned income tax	15,694,478
Local service tax	362,221
Real estate transfers	1,956,425
Payments in lieu of taxes	489,649
Public utility realty tax	116,739

Total current taxation 99,942,311

Delinquent taxation 1,311,783

Total from taxation 101,254,094

Earnings from temporary investments and deposits	131,990
Receipts from other LEA's	87,671
Miscellaneous revenue	1,964,716

Total local sources 103,438,471

#### State sources:

Basic instructional subsidy	6,440,459
Private placement tuition	153,006
Vocational education	111,867
Special education	3,221,641
Transportation	809,494
Rental and sinking fund payments	303,751
Medical and dental services	141,089
Property tax reduction	1,432,689
Social Security subsidy	2,248,122
Retirement subsidy	4,826,410
Other state grants	161,626

Total state sources 19,850,154

#### Federal sources:

Title I	697,062
Title II A	193,935
Title II C	65,128
Title III	37,165
Medical Assistance	15,265
ACCESS	381,893

Total federal sources 1,390,448

Total revenues 124,679,073

# State College Area School District

## Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund Year Ended June 30, 2014

### Expenditures

Instruction:	
Regular programs	\$ 49,184,989
Special programs	14,822,146
Vocational education programs	2,780,582
Other instructional programs	793,547
Adult education programs	316,107
Nonpublic school programs	13,237
	<hr/>
Total instruction	67,910,608
	<hr/>
Support services:	
Pupil personnel	3,943,616
Instructional staff	4,175,778
Administration	6,023,703
Pupil health	1,167,953
Business	1,094,959
Operation and maintenance of plant services	8,152,562
Student transportation services	5,713,055
Central	4,276,250
	<hr/>
Total support services	34,547,876
	<hr/>
Noninstructional services:	
Student activities	2,295,350
Community services	171,816
	<hr/>
Total noninstructional services	2,467,166
	<hr/>
Facilities acquisition, construction and improvement services	29,775
	<hr/>
Debt service	875,680
	<hr/>
Total expenditures	105,831,105
	<hr/>
<b>Excess of Revenues over Expenditures before Other before Other Financing Uses</b>	18,847,968
	<hr/>
<b>Other Financing Uses</b>	
Transfer out	(18,842,861)
	<hr/>
<b>Change in Fund Balance</b>	5,107
	<hr/>
<b>Fund Balance, Beginning</b>	22,213,349
	<hr/>
<b>Fund Balance, Ending</b>	\$ 22,218,456
	<hr/> <hr/>

**State College Area School District**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

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, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2014
<b>U.S. Department of Education</b>										
Passed through the PA Department of Education:										
Title I, Part A Cluster:										
Title I	I	84.010	013-140418	C	\$ 712,783	\$ 562,463	\$ -	\$ 607,781	\$ 607,781	\$ 45,318
Title I	I	84.010	013-130418	B	786,794	253,602	103,721	89,281	89,281	(60,600)
Total Title I, Part A Cluster						816,065	103,721	697,062	697,062	(15,282)
Secondary Allocation	I	84.048	380-111058	B	77,921	7,084	7,084	-	-	-
Secondary Allocation	I	84.048	380-122016	C	69,757	69,757	-	65,128	65,128	(4,629)
Total Secondary Allocation						76,841	7,084	65,128	65,128	(4,629)
Title III - Language	I	84.365	010-140418	C	48,830	-	-	23,062	23,062	23,062
Title III - Language	I	84.365	010-130418	B	44,812	23,900	9,797	14,103	14,103	-
Total Title III						23,900	9,797	37,165	37,165	23,062
Title II	I	84.367	020-130418	B	199,656	66,213	29,722	36,491	36,491	-
Title II	I	84.367	020-140418	C	189,091	151,198	-	157,444	157,444	6,246
Total Title II						217,411	29,722	193,935	193,935	6,246
Total PA Department of Education						1,134,217	150,324	993,290	993,290	9,397
Passed through Central Intermediate Unit #10:										
Special Education Cluster (IDEA):										
Special Education - Grants to States	I	84.027	062-14-0-010	C	726,074	-	-	726,074	726,074	726,074
Special Education - Grants to States	I	84.027	062-13-0-010	B	827,852	827,852	827,852	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-12-0-010	B	8,808	8,808	8,808	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-13-0-010	C	5,761	5,761	-	5,761	5,761	-
Preschool/Early Intervention Funds (619)	I	84.173	131-12-0-010	B	6,849	6,849	6,849	-	-	-
Total Special Education Cluster (IDEA)						849,270	843,509	731,835	731,835	726,074
Grants for the Integration of Schools and Mental Health Systems	I	84.215		A	373,704	14,968	16,970	-	-	2,002
Total U.S. Department of Education						1,998,455	1,010,803	1,725,125	1,725,125	737,473
<b>U.S. Department of Health and Human Services</b>										
Passed through Pennsylvania Department of Public Welfare										
Administrative Claiming Quarterly Program	I	93.778	044-007418	C	15,265	12,365	-	15,265	15,265	2,900

**State College Area School District**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

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, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2014
<b>U.S. Department of Agriculture</b>										
<b>Child Nutrition Cluster:</b>										
Passed through PA Department of Education:										
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 6	\$ 24,396	\$ 24,396	\$ -	\$ -	\$ -
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	624,641	-	650,461	650,461	25,820
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	4,027	4,027	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	113,304	-	118,143	118,143	4,839
National School Lunch Program	I (F)	10.553	367-0000	B	NOTE 6	149	149	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	B	NOTE 6	1,267	361	906	906	-
National School Lunch Program	I (S)	N/A	510-0000	C	NOTE 6	10,895	-	11,336	11,336	441
National School Lunch Program	I (S)	N/A	510-0000	B	NOTE 6	385	385	-	-	-
National School Lunch Program	I (S)	N/A	511-0000	C	NOTE 6	73,226	-	76,119	76,119	2,893
National School Lunch Program	I (S)	N/A	511-0000	B	NOTE 6	2,612	2,612	-	-	-
Passed through the PA Department of Agriculture,										
National School Lunch Program	I	10.555				179,563	(28,338)	170,674	170,674	(37,227)
Total U.S. Department of Agriculture						<u>1,034,465</u>	<u>3,592</u>	<u>1,027,639</u>	<u>1,027,639</u>	<u>(3,234)</u>
Total						<u>\$ 3,045,285</u>	<u>\$ 1,014,395</u>	<u>\$ 2,768,029</u>	<u>\$ 2,768,029</u>	<u>\$ 737,139</u>

# **State College Area School District**

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

## **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 \$381,893 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**

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

### **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 = 07/01/11 - 06/30/12  
B = 07/01/12 - 06/30/13  
C = 07/01/13 - 06/30/14



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## **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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2014.

### **Internal Control over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Baker Tilly Virchow Krause, LLP*

State College, Pennsylvania  
October 15, 2014



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## **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, 2014. 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.

## 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, 2014.

## 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.

*Baker Tilly Virchow Krause, LLP*

State College, Pennsylvania  
October 15, 2014

# State College Area School District

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

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## 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>
84.027, 84.173	Special Education Cluster (IDEA)
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**

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Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

### **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, 2013 Single Audit.