

State College Area School District

Financial Statements and Supplementary Information

June 30, 2015



BAKER TILLY

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As disclosed in Notes 1 and 19 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the year ended June 30, 2015 to conform with accounting principles generally accepted in the United States of America. The District recognized its net pension liability, restated its beginning net position for this adoption, expanded its note disclosures and included required supplementary information with respect to employees' pension benefits. Our opinion was not modified with respect to this matter.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 53-54) is presented for purposes of additional analysis and is not a required part of the basic financial statements. In addition, the Schedule of Expenditures of Federal Awards, 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 53-54) and the Schedule of Expenditures of Federal Awards is 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 53-54) 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 December 8, 2015 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
December 8, 2015

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

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, 2015. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

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

Proprietary Funds

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

Notes to Financial Statements

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Government-Wide Financial Analysis

Condensed Statement of Net Deficit

June 30, 2015

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Condensed Statement of Activities For the year ended June 30, 2015

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Condensed Statement of Net Position (As Previously Reported) 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, 2015

Condensed Statement of Activities (As Previously Reported) 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, 2015

Total net position of the District increased \$19,224,362 in 2015. Net position of governmental activities increased by \$19,248,388, while net position of the business-type activity decreased \$24,026.

The District had \$111,524,836 in expenses related to governmental activities in 2015; only \$17,554,507 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$113,218,717 also provided for these programs. The \$19,248,388 increase in governmental activity net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$24,026 as a result of the net loss of the food service operation.

The June 30, 2015 Government-Wide financial statements reflect the District's estimated share of the Public School Employees' Retirement System ("PSERS") liability, as required under GASB 68. The Condensed Statement of Activities reflects the adoption impact as of June 30, 2014. Below is a schedule showing the impact on the unrestricted net position as of June 30, 2014 and 2015.

	Total Net Position	GASB 68 (PSERS liability) Impact	Total Excluding GASB 68 Impact	Unrestricted Net Position Excluding GASB 68 Impact
Governmental Activities:				
At June 30, 2014	\$ 67,433,379	\$ -	\$ 67,433,379	\$ 38,913,477
GASB 68 adoption	<u>(183,086,005)</u>	<u>(183,086,005)</u>	<u>-</u>	<u>-</u>
June 30, 2014, restated	(115,652,626)	(183,086,005)	67,433,379	38,913,477
Change in net position	<u>19,248,388</u>	<u>6,022,539</u>	<u>13,225,849</u>	<u>8,742,607</u>
Ending at June 30, 2015	<u>\$ (96,404,238)</u>	<u>\$ (177,063,466)</u>	<u>\$ 80,659,228</u>	<u>\$ 47,656,084</u>
Business-Type Activities:				
At June 30, 2014	\$ 293,967	\$ -	\$ 293,967	\$ 161,295
GASB 68 adoption	<u>(3,623,995)</u>	<u>(3,623,995)</u>	<u>-</u>	<u>-</u>
June 30, 2014, restated	(3,330,028)	(3,623,995)	293,967	161,295
Change in net position	<u>(24,026)</u>	<u>120,343</u>	<u>(144,369)</u>	<u>(196,920)</u>
Ending at June 30, 2015	<u>\$ (3,354,054)</u>	<u>\$ (3,503,652)</u>	<u>\$ 149,598</u>	<u>\$ (35,625)</u>

As of June 30, 2015, excluding the pension liability recorded based on GASB 68, \$47,656,084 of unrestricted net position of the \$80,659,228 of total net position was available to meet the District's ongoing obligations to employees and creditors. The remaining net position of \$33,003,144, is invested in capital assets and restricted for capital projects and debt service.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2014-2015 fiscal year were \$130,642,862 compared to \$124,679,073 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2014 - 2015</u>	<u>2013 - 2014</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 107,281,646	\$ 103,438,471	\$ 3,843,175	3.7 %
State sources	21,832,411	19,850,154	1,982,257	10.0 %
Federal sources	<u>1,528,805</u>	<u>1,390,448</u>	<u>138,357</u>	10.0 %
Total	<u>\$ 130,642,862</u>	<u>\$ 124,679,073</u>	<u>\$ 5,963,789</u>	4.8 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,843,175 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$3,094,000 with approximately \$1,563,000 related to an increase in the millage rate from 38.75 mills to 39.5056 mills per \$1,000 of assessed value. Earned income tax revenue and real estate transfer tax revenue increased \$510,000 and \$220,000, respectively.

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 \$1,982,257 primarily related to a \$707,000 increase in principal and interest reimbursement. The principal and interest reimbursement includes a \$631,000 retroactive reimbursement received for bonds issued in prior years. The District also received Accountability Grant funds totaling \$246,078, which is an increase of \$117,638 over amounts allocated in the prior year. Reimbursement for social security and retirement costs increased \$1,212,000 primarily due to an increase in the employer contribution rate for the state's retirement plan.

Federal revenues include primarily Title I, II and III grants and the School Based ACCESS program. The increase in federal revenues of \$138,357 is primarily related to increased Title I program funds.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Expenditures

Expenditures for the 2014-2015 fiscal year were \$130,575,367 compared to the 2013-2014 fiscal year of \$124,673,966 or a 4.7% increase. The following table shows the expenditures by object category:

	<u>2014 - 2015</u>	<u>2013 - 2014</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Salaries and benefits	\$ 88,226,003	\$ 83,582,596	\$ 4,643,407	5.6 %
Professional services	4,315,743	3,445,663	870,080	25.3 %
Purchased property services	2,015,860	1,892,466	123,394	6.5 %
Other purchased services	10,075,188	10,162,554	(87,366)	(0.9) %
Supplies	3,309,691	3,560,328	(250,637)	(7.0) %
Property	2,405,579	2,053,950	351,629	17.1 %
Other objects	310,276	311,903	(1,627)	(0.5) %
Other uses of funds	19,917,027	19,664,506	252,521	1.3 %
Total	<u>\$ 130,575,367</u>	<u>\$ 124,673,966</u>	<u>\$ 5,901,401</u>	4.7 %

Salaries and benefits increased \$4,643,407. Salary expense increased approximately \$787,000, related to salary increases offset by a \$605,000 decrease in salaries related to a full year of contracting for substitute staffing that began in February 2014. Benefits increased approximately \$3,856,000 primarily due to a \$2,717,000 increase in retirement expense related to an increase in the employer contribution rate for PSERS from 16.93% to 21.40% (26.4%), and an increase of approximately \$1,100,000 in health insurance expense related to higher insurance rates.

Professional services increased compared to the prior year by \$870,080 primarily due to increased expenses for contracted substitute staffing.

Supplies decreased \$250,637 primarily related to lower fuel costs, and the \$351,629 increase in property costs includes the cost of additional student devices.

Other uses of funds increased \$252,521 primarily related to an increase in capital project fund transfers of approximately \$1,730,000 offset by a decrease in debt service payments of \$1,246,000, and a \$250,000 decrease in the amount due under an interest rate swap settlement agreement.

Capital Reserve Fund

The Capital Reserve Fund is used to account for transfers from the General Fund that are to be used to fund future capital projects or debt service. The Capital Reserve Fund's fund balance as of June 30, 2015 is \$31,557,038.

Capital Projects Fund

The Capital Project Fund is used to account for capital projects of the District. The District spent \$10,852,814 for such projects in 2014-15. The majority of expenditures in 2014-15 related to the High School Project and renovation of the Panorama building. Other projects included renovation and improvements throughout the District. The Capital Projects Fund's fund balance is \$79,448,929 at June 30, 2015, of which \$77,822,790 is restricted for the District's high school project.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

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 2015 included \$125,926,243 of revenues and \$126,791,612 of expenditures. The budget was amended by \$594,434 for additional grants and related expenditures.

The actual revenues for 2015 were \$4,120,100 greater than the final budget. Local revenues were \$2,875,924 greater than budget due to favorable variances in real estate taxes of \$1,016,800, earned income tax revenue of \$644,750, real estate transfer tax of \$676,270 and revenue from the intermediate unit of \$164,000. Tuition and delinquent tax also exceeded budgeted amounts. State revenues were \$1,181,130 in excess of budget. Rental/sinking fund payments were \$930,200 in excess of budget, and included retroactive reimbursement of \$631,000 related to prior bond issues. Transportation revenue also exceeded budget by \$235,000. Federal revenues exceeded budget by \$63,047.

Actual expenses were \$3,189,323 greater than the budget. Transfer to the capital reserve fund exceeded budget by \$6,808,000. Expenses in a variety of categories did not meet expected levels by \$3,617,000. Positive budget variances include salary expense, which was lower than budget due to vacant positions, turnover and increases for a portion of the workforce not realized during the fiscal year as a result of the negotiation process. Healthcare and dental insurance were lower than budget due to a lower number of individuals covered. Services, supplies and equipment purchases were not fully expended at budgeted levels through operational efficiencies. Debt service was lower due to refinancing of debt during the year.

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2015 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	\$ 118,568,406	\$ -	\$ 118,568,406
Equipment and other capital assets	41,218,520	1,073,921	42,292,441
Construction in progress	10,328,229	-	10,328,229
Total	170,115,155	1,073,921	171,189,076
Accumulated depreciation	<u>(77,534,480)</u>	<u>(888,698)</u>	<u>(78,423,178)</u>
Net	<u>\$ 92,580,675</u>	<u>\$ 185,223</u>	<u>\$ 92,765,898</u>

Long Term Debt

At June 30, 2015, the District had long-term debt of \$127,980,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$75,120,000 related to the District High School Project. Debt issued based on a voter referendum is excluded when comparing to the legal limit of debt. Debt that is not related to the referendum of \$52,860,000 is significantly below the legal limit of \$280,775,775.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

In February 2015, the District sent a notice of noncompletion of sale to the Department of Community and Economic Development related to General Obligation Bond Series of 2004 and General Obligation Bond Series A of 2006, resulting in the deauthorization of these bonds. These bonds were previously authorized with proceeds designated for the High School renovation and construction project. The District never issued any debt pursuant to these issues.

Factors Expected to Have an Effect on Future Operations

The assessed value used for the 2016 budget preparation is approximately \$2.25 billion, which is up approximately \$28 million or 1.2% from 2015. Amounts available for appropriation in the General Fund budget for 2015-16 are \$137,552,316, an increase of approximately 5.9% over the 2014-15 budget of \$126,791,664. The budget includes \$3,384,493 for payment of the first year of debt service on the 2015 borrowing to fund the High School project. Property taxes will increase 5.49% to 41.674 mills, with 3.59% of this increase assessed for the payment of the referendum debt. The District will use these remaining 1.9% increases in revenues to finance programs currently offered and for additional language arts curriculum resources.

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.

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

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

School districts are now governed by back-end referendum requirements for increases in property tax rates. School districts are prohibited from increasing their tax rates above the annual inflationary percentage and must place referendum questions before the voters to approve further increases. Exceptions for rate increases above the index without going to referendum exist for special education costs, retirement rate changes, debt issuances, and certain other limited areas. The Act 1 Index for 2014-15 is 2.1%.

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.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2015

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.

District Wide Facilities Master Plan

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

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

Design for the high school continued through the summer of 2015. Sitework began in the summer of 2015 and the construction project went to bid in the fall of 2015. Expected completion of the project is summer of 2019.

Contact the District's Financial Management

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

State College Area School District

 Statement of Net Deficit
 June 30, 2015

	Governmental Activities	Business -Type Activities	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 64,811,193	\$ 35,670	\$ 64,846,863
Restricted cash and cash equivalents	79,441,238	-	79,441,238
Taxes receivable, net	2,699,109	-	2,699,109
Due from fiduciary fund	366,615	51,119	417,734
Due from other governments	3,934,347	32,993	3,967,340
Other receivables	79,466	25,548	105,014
Inventories	19,400	69,198	88,598
Other current assets	237	-	237
Total current assets	<u>151,351,605</u>	<u>214,528</u>	<u>151,566,133</u>
Noncurrent Assets			
Land	899,887	-	899,887
Buildings and improvements	117,668,519	-	117,668,519
Equipment and other capital assets	41,218,520	1,073,921	42,292,441
Construction in progress	10,328,229	-	10,328,229
Accumulated depreciation	<u>(77,534,480)</u>	<u>(888,698)</u>	<u>(78,423,178)</u>
Total noncurrent assets	<u>92,580,675</u>	<u>185,223</u>	<u>92,765,898</u>
Total assets	<u>243,932,280</u>	<u>399,751</u>	<u>244,332,031</u>
Deferred Outflows of Resources			
Pension	12,355,001	246,881	12,601,882
Deferred amounts on refunding	<u>1,402,720</u>	<u>-</u>	<u>1,402,720</u>
Total deferred outflows of resources	<u>13,757,721</u>	<u>246,881</u>	<u>14,004,602</u>
Total	<u>\$ 257,690,001</u>	<u>\$ 646,632</u>	<u>\$ 258,336,633</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current Liabilities			
Accounts payable	\$ 2,983,973	\$ 1,338	\$ 2,985,311
Current portion of bonds and notes payable	3,585,000	-	3,585,000
Accrued salaries and benefits	9,902,404	37,125	9,939,529
Payroll deductions and withholdings	5,601,045	-	5,601,045
Unearned revenue	299,019	35,354	334,373
Other current liabilities	1,673,499	104,931	1,778,430
Interest rate swap payable	<u>550,000</u>	<u>-</u>	<u>550,000</u>
Total current liabilities	<u>24,594,940</u>	<u>178,748</u>	<u>24,773,688</u>
Noncurrent Liabilities			
Bonds and notes payable	135,497,139	-	135,497,139
Other postemployment benefits liability	1,562,492	-	1,562,492
Interest rate swap payable	1,100,000	-	1,100,000
Net pension liability	175,904,036	3,514,964	179,419,000
Compensated absences	<u>1,921,201</u>	<u>71,405</u>	<u>1,992,606</u>
Total noncurrent liabilities	<u>315,984,868</u>	<u>3,586,369</u>	<u>319,571,237</u>
Total liabilities	<u>340,579,808</u>	<u>3,765,117</u>	<u>344,344,925</u>
Deferred Inflows of Resources			
Pension	<u>13,514,431</u>	<u>235,569</u>	<u>13,750,000</u>
Net Position (Deficit)			
Net investment in capital assets	32,939,774	185,223	33,124,997
Restricted	63,370	-	63,370
Unrestricted (deficit)	<u>(129,407,382)</u>	<u>(3,539,277)</u>	<u>(132,946,659)</u>
Total net deficit	<u>(96,404,238)</u>	<u>(3,354,054)</u>	<u>(99,758,292)</u>
Total	<u>\$ 257,690,001</u>	<u>\$ 646,632</u>	<u>\$ 258,336,633</u>

See notes to financial statements

State College Area School District

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position (Deficit)		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:						
Instruction	\$ (68,140,704)	\$ 959,540	\$ 12,004,894	\$ (55,176,270)		\$ (55,176,270)
Instructional student support	(8,919,363)	-	1,064,620	(7,854,743)		(7,854,743)
Administration and financial support services	(12,148,005)	-	781,389	(11,366,616)		(11,366,616)
Operation and maintenance of plant services	(11,304,970)	122,648	438,696	(10,743,626)		(10,743,626)
Pupil transportation	(5,505,935)	-	1,023,503	(4,482,432)		(4,482,432)
Student activities	(2,307,814)	95,151	48,060	(2,164,603)		(2,164,603)
Community services	(129,383)	-	5,800	(123,583)		(123,583)
Interest on long-term debt	(2,658,994)	-	1,010,206	(1,648,788)		(1,648,788)
Depreciation - unallocated	(409,668)	-	-	(409,668)		(409,668)
Total governmental activities	(111,524,836)	1,177,339	16,377,168	(93,970,329)		(93,970,329)
Business-type Activity						
Food service	(3,564,840)	2,367,491	1,173,323	-	\$ (24,026)	(24,026)
Total	\$ (115,089,676)	\$ 3,544,830	\$ 17,550,491	(93,970,329)	(24,026)	(93,994,355)
General Revenues						
Property taxes, levied for general purposes, net				88,471,601	-	88,471,601
Other taxes levied for specific purposes				16,570,952	-	16,570,952
Grants, subsidies and contributions not restricted				7,855,959	-	7,855,959
Investment earnings:						
Interest and dividends				150,102	-	150,102
Miscellaneous income				170,103	-	170,103
Total general revenues				113,218,717	-	113,218,717
Change in Net Position				19,248,388	(24,026)	19,224,362
Net Position (Deficit), Beginning						
As previously reported				67,433,379	293,967	67,727,346
Effect of adoption of GASB No. 68				(183,086,005)	(3,623,995)	(186,710,000)
As restated				(115,652,626)	(3,330,028)	(118,982,654)
Net Deficit, Ending				\$ (96,404,238)	\$ (3,354,054)	\$ (99,758,292)

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds
June 30, 2015

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
Assets					
Assets					
Cash and cash equivalents	\$ 45,492,834	\$ 19,318,359	\$ -	\$ -	\$ 64,811,193
Restricted cash and cash equivalents	-	-	79,441,238	-	79,441,238
Taxes receivable, net	2,699,109	-	-	-	2,699,109
Due from other funds	401,815	12,238,679	2,115,912	4,638	14,761,044
Due from other governments	3,934,347	-	-	-	3,934,347
Other receivables	79,466	-	-	-	79,466
Inventories	1,785,035	-	-	-	1,785,035
Other current assets	237	-	-	-	237
Total	<u>\$ 54,392,843</u>	<u>\$ 31,557,038</u>	<u>\$ 81,557,150</u>	<u>\$ 4,638</u>	<u>\$ 167,511,669</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Due to other funds	\$ 14,441,769	\$ -	\$ 4,638	\$ -	\$ 14,446,407
Accounts payable	877,557	-	2,103,583	-	2,981,140
Accrued salaries and benefits	9,902,404	-	-	-	9,902,404
Payroll deductions and withholdings	5,601,045	-	-	-	5,601,045
Unearned revenue	299,019	-	-	-	299,019
Other liabilities	269,458	-	-	-	269,458
Total liabilities	<u>31,391,252</u>	<u>-</u>	<u>2,108,221</u>	<u>-</u>	<u>33,499,473</u>
Deferred Inflows of Resources					
Unavailable revenues - taxes	<u>715,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>715,640</u>
Fund Balances					
Nonspendable	1,785,035	-	-	-	1,785,035
Restricted	-	63,370	77,822,790	-	77,886,160
Committed	10,222,000	31,493,668	1,626,139	4,638	43,346,445
Unassigned	10,278,916	-	-	-	10,278,916
Total fund balances	<u>22,285,951</u>	<u>31,557,038</u>	<u>79,448,929</u>	<u>4,638</u>	<u>133,296,556</u>
Total	<u>\$ 54,392,843</u>	<u>\$ 31,557,038</u>	<u>\$ 81,557,150</u>	<u>\$ 4,638</u>	<u>\$ 167,511,669</u>

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Deficit June 30, 2015

Total Fund Balance - Governmental Funds	\$ 133,296,556
Amounts reported for governmental activities in the statement of net deficit are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$170,115,155 and the accumulated depreciation is \$77,534,480.	92,580,675
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.	715,640
Inventory of books and supplies was reclassified.	(1,785,035)
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.	53,737
Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds.	(1,650,000)
Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit.	12,355,001
Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit.	(13,514,431)
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	(139,082,139)
Deferred amounts on refunding	1,402,720
Accrued interest on long-term debt	(1,404,041)
Other postemployment benefits liability	(1,562,492)
Net pension liability	(175,904,036)
Compensated absences	(1,906,393)
Total Net Deficit - Governmental Activities	\$ (96,404,238)

See notes to financial statements

State College Area School District

Statement of Revenues, Expenditures and Changes In Fund Balances - Governmental Funds
Year Ended June 30, 2015

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
Revenues					
Local sources	\$ 107,281,646	\$ 30,679	\$ 8,534	\$ -	\$ 107,320,859
State sources	21,832,411	-	-	-	21,832,411
Federal sources	1,528,805	-	-	-	1,528,805
Total revenues	130,642,862	30,679	8,534	-	130,682,075
Expenditures					
Instruction	71,961,887	-	-	-	71,961,887
Support services	36,058,793	-	523,105	-	36,581,898
Noninstructional services	2,587,968	-	-	-	2,587,968
Facilities acquisition, construction and improvement services	764	-	10,329,709	-	10,330,473
Debt service	598,930	-	-	5,081,310	5,680,240
Total expenditures	111,208,342	-	10,852,814	5,081,310	127,142,466
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)	19,434,520	30,679	(10,844,280)	(5,081,310)	3,539,609
Other Financing Sources (Uses)					
Debt proceeds	-	-	84,725,000	-	84,725,000
Bond premium	-	-	9,995,129	-	9,995,129
Refinancing of bonds	-	-	(9,617,781)	-	(9,617,781)
Transfer in	-	12,230,000	2,055,715	5,081,310	19,367,025
Transfer out	(19,367,025)	-	-	-	(19,367,025)
Total other financing (uses) sources	(19,367,025)	12,230,000	87,158,063	5,081,310	85,102,348
Net Change in Fund Balances	67,495	12,260,679	76,313,783	-	88,641,957
Fund Balance, Beginning	22,218,456	19,296,359	3,135,146	4,638	44,654,599
Fund Balance, Ending	\$ 22,285,951	\$ 31,557,038	\$ 79,448,929	\$ 4,638	\$ 133,296,556

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, 2015

Total Change in Fund Balances-Governmental Funds		\$ 88,641,957
Amounts reported for governmental activities in the statement of net deficit are different because:		
Some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year.		66,419
Capital outlays are reported in governmental funds as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation and loss in this period:		
Depreciation expense	\$ (4,668,104)	
Loss on disposal of assets	(2,431)	
Capital outlays	<u>11,536,166</u>	8,865,631
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.		(83,403)
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, 2015 are as follows:		
Issuance of bonds payable	(84,725,000)	
Bond premium	(9,995,129)	
Refund of bonds payable	9,370,000	
Deferred amount on refunding	247,781	
Scheduled principal payments on long-term debt	<u>3,425,000</u>	(81,677,348)
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.		(953,754)
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.		53,709
Other post employment benefits that are reflected on the statement of net deficit but are not considered a current expenditures in governmental funds.		(209,414)
Change in the interest rate swap payable:		
Installment payment made on interest rate swap payable		550,000
Net pension liability is considered long-term in nature, and is not reported as a liability within the funds. Such a liability is, however, reported with in the statement of net deficit, and changes in the liability is reflected within the statement of net deficit. This represents the change in pension liability and the deferred outflows and inflows related to the pension.		6,022,539
In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.		<u>(27,948)</u>
Change in Net Position of Governmental Activities		<u>\$ 19,248,388</u>

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2015

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 104,376,200	\$ 104,403,638	\$ 107,281,646	\$ 2,878,008
State sources	20,505,043	20,651,281	21,832,411	1,181,130
Federal sources	1,045,000	1,465,759	1,528,805	63,046
Total revenues	125,926,243	126,520,678	130,642,862	4,122,184
Expenditures				
Instruction:				
Regular programs	53,819,819	53,434,101	52,679,802	754,299
Special programs	15,327,120	15,734,213	15,206,177	528,036
Vocational education programs	2,849,852	3,039,936	3,024,302	15,634
Other instructional programs	877,955	976,355	949,763	26,592
Adult education programs	208,026	185,608	87,386	98,222
Nonpublic school programs	14,397	19,763	14,457	5,306
Total instruction	73,097,169	73,389,976	71,961,887	1,428,089
Support services:				
Pupil personnel	4,174,008	4,181,233	4,122,808	58,425
Instructional staff	4,413,389	4,691,981	4,372,988	318,993
Administration	6,749,023	6,742,678	6,374,607	368,071
Pupil health	1,271,624	1,280,664	1,273,641	7,023
Business	1,095,189	1,140,028	1,017,512	122,516
Operation and maintenance of plant services	8,607,127	8,650,962	8,467,486	183,476
Student transportation services	5,907,933	5,962,848	5,599,551	363,297
Central	5,059,332	5,172,514	4,830,200	342,314
Total support services	37,277,625	37,822,908	36,058,793	1,764,115
Noninstructional services:				
Student activities	2,335,363	2,376,736	2,451,932	(75,196)
Community services	83,129	108,448	84,501	23,947
Scholarships and awards	50,000	51,535	51,535	-
Total noninstructional services	2,468,492	2,536,719	2,587,968	(51,249)
Facilities acquisition, construction and improvement services	-	764	764	-
Debt service	642,000	642,000	598,930	43,070
Total expenditures	113,485,286	114,392,367	111,208,342	3,184,025
Excess of Revenues Over Expenditures Before Other Financing Uses				
	12,440,957	12,128,311	19,434,520	7,306,209
Other Financing Uses				
Budgetary reserve	(480,000)	(167,354)	-	(167,354)
Transfer out	(12,826,326)	(12,826,326)	(19,367,025)	(6,540,699)
Total other financing uses	(13,306,326)	(12,993,680)	(19,367,025)	(6,708,053)
Changes in Fund Balance	\$ (865,369)	\$ (865,369)	67,495	\$ 932,864
Fund Balance, Beginning			22,218,456	
Fund Balance, Ending			\$ 22,285,951	

See notes to financial statements

State College Area School District

Statement of Net Deficit - Proprietary Funds

June 30, 2015

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 35,670	\$ -
Due from other funds	51,119	51,978
Due from other governments	32,993	-
Other receivables	25,548	-
Inventories	69,198	19,400
	<u>214,528</u>	<u>71,378</u>
Total current assets	<u>214,528</u>	<u>71,378</u>
Noncurrent Assets		
Equipment	1,073,921	284,098
Accumulated depreciation	(888,698)	(284,098)
	<u>185,223</u>	<u>-</u>
Total noncurrent assets	<u>185,223</u>	<u>-</u>
Deferred Outflows of Resources		
Pension	246,881	31,556
	<u>246,881</u>	<u>31,556</u>
Total	<u>\$ 646,632</u>	<u>\$ 102,934</u>
Liabilities, Deferred Inflows of Resources and Net Deficit		
Current Liabilities		
Accounts payable	\$ 1,338	\$ 2,833
Accrued salaries and benefits	37,125	-
Other liabilities	104,931	-
Unearned revenue	35,354	-
	<u>178,748</u>	<u>2,833</u>
Total current liabilities	<u>178,748</u>	<u>2,833</u>
Noncurrent Liabilities		
Net pension liability	3,514,964	449,281
Compensated absences	71,405	14,808
	<u>3,586,369</u>	<u>464,089</u>
Total noncurrent liabilities	<u>3,586,369</u>	<u>464,089</u>
Total liabilities	<u>3,765,117</u>	<u>466,922</u>
Deferred Inflows of Resources		
Pension	235,569	145,762
	<u>235,569</u>	<u>145,762</u>
Net Deficit		
Net investment in capital assets	185,223	-
Unrestricted deficit	(3,539,277)	(509,750)
	<u>(3,354,054)</u>	<u>(509,750)</u>
Total net deficit	<u>(3,354,054)</u>	<u>(509,750)</u>
Total	<u>\$ 646,632</u>	<u>\$ 102,934</u>

See notes to financial statements

State College Area School District**Statement of Revenues, Expenses and Changes in Net Deficit - Proprietary Funds**
Year Ended June 30, 2015

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Food service revenue	\$ 2,367,491	\$ -
Charges for services	-	561,360
	<u>2,367,491</u>	<u>561,360</u>
Operating Expenses		
Salaries and employee benefits	1,864,098	232,456
Food, milk and supplies	1,632,710	96,913
Depreciation	28,378	-
Other purchased services	11,819	-
Purchased property services	10,434	153,244
Other objects	9,201	776
Professional and technical services	8,200	8,881
	<u>3,564,840</u>	<u>492,270</u>
Operating (Loss) Income	<u>(1,197,349)</u>	<u>69,090</u>
Nonoperating Revenues		
State sources	253,395	-
Federal sources	919,928	-
	<u>1,173,323</u>	<u>-</u>
Change in Net Position	<u>(24,026)</u>	<u>69,090</u>
Net Position (Deficit), beginning		
As previously reported	293,967	28
Effect of adoption of GASB No. 68	(3,623,995)	(578,868)
	<u>(3,330,028)</u>	<u>(578,840)</u>
Net Deficit, Ending	<u>\$ (3,354,054)</u>	<u>\$ (509,750)</u>

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2015

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,385,711	\$ 516,673
Cash paid to employees	(1,983,614)	(256,372)
Cash paid to vendors	(1,683,371)	(260,301)
Net cash used in operating activities	<u>(1,281,274)</u>	<u>-</u>
Cash Flows Used in Investing Activities		
Purchase of equipment	<u>(80,929)</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities		
State sources	253,369	-
Federal sources	<u>919,081</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,172,450</u>	<u>-</u>
Decrease in Cash and Cash Equivalents	(189,753)	-
Cash and Cash Equivalents, Beginning	<u>225,423</u>	<u>-</u>
Cash and Cash Equivalents, Ending	<u>\$ 35,670</u>	<u>\$ -</u>
Reconciliation of Operating (Loss) Income to Net Cash used in Operating Activities		
Operating (loss) income	\$ (1,197,349)	\$ 69,090
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Depreciation	28,378	-
Pension changes	(120,343)	(15,381)
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(9,029)	(874)
Other receivables	(6,273)	-
Due to/from other funds	5,499	(44,687)
Accounts payable	(1,979)	387
Accrued salaries and benefits	1,486	(8,535)
Other liabilities	18,994	-
Compensated absences	(658)	-
Net Cash Used in Operating Activities	<u>\$ (1,281,274)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Position - Fiduciary Fund - Agency

June 30, 2015

Assets	
Current Assets	
Cash	\$ 867,614
Liabilities	
Current Liabilities	
Due to other funds	\$ 417,734
Accounts payable	13,920
Other current liabilities	435,960
	<hr/>
Total	\$ 867,614
	<hr/> <hr/>

See notes to financial statements

State College Area School District

Notes to Financial Statements

June 30, 2015

1. Nature of Operations and Summary of Significant Accounting Policies

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

Nature of Operations

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

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

Reporting Entity

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

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

Basic Financial Statements - Government-Wide Statements

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

In the government-wide Statement of Net Deficit, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets 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 (deficit). The District first utilizes restricted resources to finance qualifying activities.

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

State College Area School District

Notes to Financial Statements

June 30, 2015

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

The District does not allocate indirect costs.

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

Basic Financial Statements - Fund Financial Statements

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

The following fund types are 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 Reserve Fund

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

Capital Projects Fund

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

Debt Service Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2015

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

Notes to Financial Statements

June 30, 2015

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, 2015

Capital Assets

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

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

The District does not have any infrastructure capital assets.

Inventories

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

Compensated Absences

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

Governmental Fund Balances

The District classifies its governmental fund balances as follows:

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

State College Area School District

Notes to Financial Statements

June 30, 2015

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

Restricted Net Position/Fund Balances

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

Deferred Outflows/Inflows of Resources

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

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

Pension

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

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

State College Area School District

Notes to Financial Statements

June 30, 2015

Use of Estimates

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

New Accounting Principles

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the year ended June 30, 2015. This statement establishes accounting and financial reporting standards for the activities of pension plans that are administered through trusts and meet certain criteria. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain requirements. The effect of this adoption decreased the District's governmental activities net position at July 1, 2014 by \$186,710,000 and expanded note disclosures and required supplementary information.

The District adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for the year ended June 30, 2015. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB No. 71 are to be applied simultaneously with the provisions of GASB No. 68.

2. Cash and Cash Equivalents

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

Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. Custodial credit risk is addressed in the District's policy number 608, Bank Accounts. At June 30, 2015, \$140,237,147 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$140,237,147 was collateralized with securities held by the pledging financial institution, but not in the District's name.

Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. 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, 2015, the carrying amount and bank balances of the District's investment in PSDLAF were \$4,943,850.

State College Area School District

Notes to Financial Statements

June 30, 2015

3. Property Taxes

Property taxes are levied on July 1. Taxes were collected at a 2% discount until September 15, at their face amount from September 16 until November 15, 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, 2015, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 401,815
Capital Reserve Fund	12,238,679
Capital Projects Fund	2,115,912
Debt Service Fund	4,638
Food Service Fund	51,119
Internal Service Fund	51,978
	<hr/>
Total	\$ 14,864,141

Amounts due to other funds:

General Fund	\$ 14,441,769
Capital Projects Fund	4,638
Agency Fund	417,734
	<hr/>
Total	\$ 14,864,141

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, 2015 is as follows:

Transfers in:

Capital Reserve Fund	\$ 12,230,000
Capital Projects Fund	2,055,715
Debt Service Fund	5,081,310
	<hr/>
Total	\$ 19,367,025

Transfers out,

General Fund	\$ 19,367,025
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State College Area School District

Notes to Financial Statements

June 30, 2015

5. Due from Other Governments

The amount reported in the governmental funds at June 30, 2015 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 131,916	\$ 3,052,297	\$ 750,134	\$ 3,934,347
Food Service Fund	<u>29,632</u>	<u>3,361</u>	<u>-</u>	<u>32,993</u>
Total	<u>\$ 161,548</u>	<u>\$ 3,055,658</u>	<u>\$ 750,134</u>	<u>\$ 3,967,340</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, 2015. 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, 2015.

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2015 follows:

Earned income taxes receivable	\$ 1,479,199
Delinquent real estate taxes receivable	1,202,012
Real estate transfer tax receivable	258,194
Interim real estate tax	27,430
Local service	<u>470</u>
Total	2,967,305
Estimated uncollectible taxes at June 30, 2015	<u>(268,196)</u>
Total	<u>\$ 2,699,109</u>

State College Area School District

Notes to Financial Statements

June 30, 2015

7. Capital Assets

Capital asset activity for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Increases	Transfers/ Decreases	Balance June 30, 2015
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	1,082,650	10,052,692	(807,113)	10,328,229
Total capital assets, not being depreciated	1,982,537	10,052,692	(807,113)	11,228,116
Capital assets being depreciated:				
Buildings and improvements	116,615,273	249,606	803,640	117,668,519
Equipment and other capital assets	39,912,272	1,233,868	(211,718)	40,934,422
Equipment-internal service	284,098	-	-	284,098
Total capital assets, being depreciated	156,811,643	1,483,474	591,922	158,887,039
Accumulated depreciation for:				
Buildings and improvements	(40,824,393)	(3,193,466)	-	(44,017,859)
Equipment and other capital assets	(31,970,645)	(1,474,638)	212,760	(33,232,523)
Equipment, internal service	(284,098)	-	-	(284,098)
Total accumulated depreciation	(73,079,136)	(4,668,104)	212,760	(77,534,480)
Total capital assets being depreciated, net	83,732,507	(3,184,630)	804,682	81,352,559
Governmental activities capital assets, net	\$ 85,715,044	\$ 6,868,062	\$ (2,431)	\$ 92,580,675
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 992,992	\$ 80,929	\$ -	\$ 1,073,921
Accumulated depreciation, Equipment and other capital assets	(860,320)	(28,378)	-	(888,698)
Business-type activity capital assets, net	\$ 132,672	\$ 52,551	\$ -	\$ 185,223

State College Area School District

Notes to Financial Statements

June 30, 2015

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

Government activities:	
Unallocated	\$ 409,668
Instruction	1,166,912
Instructional support services	4,300
Administrative and financial support services	5,334
Operation and maintenance of plant services	<u>3,081,890</u>
Total depreciation expenses for governmental activities	<u>\$ 4,668,104</u>
Business-type activities,	
Food service	<u>\$ 28,378</u>

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$9,902,404 represent salaries of \$7,631,029, the District's share of Social Security taxes of \$583,774 for teachers' services during the 2014-2015 school term, which are paid during July and August 2015, and retirement plan expense of \$1,633,040 applicable to the accrued salaries at June 30, 2015, and accrued workers' compensation of \$54,561.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Amounts due within one year
Bond Series - 2009 General Obligation	\$ 3,960,000	\$ -	\$ 3,960,000	\$ -	\$ -
Note - Series of 2008	1,960,000	-	635,000	1,325,000	655,000
Bond Series - 2010A	10,495,000	-	410,000	10,085,000	435,000
Bond Series - 2010B	7,575,000	-	505,000	7,070,000	515,000
Bond Series - 2010C	5,410,000	-	5,410,000	-	-
Bond Series - 2011B	7,725,000	-	445,000	7,280,000	460,000
Bond Series - 2012	14,565,000	-	430,000	14,135,000	445,000
Bond Series - 2013	4,360,000	-	60,000	4,300,000	610,000
Bond Series - 2014A	-	3,875,000	940,000	2,935,000	465,000
Bond Series - 2014B	-	5,730,000	-	5,730,000	-
Bond Series - 2015	-	75,120,000	-	75,120,000	-
Total bonds and notes payable	56,050,000	84,725,000	12,795,000	127,980,000	<u>\$ 3,585,000</u>
Bond premium	1,209,052	9,995,129	102,042	11,102,139	
Total long-term debt	<u>\$ 57,259,052</u>	<u>\$ 94,720,129</u>	<u>\$ 12,897,042</u>	<u>\$ 139,082,139</u>	

State College Area School District

Notes to Financial Statements

June 30, 2015

Long-term debt at June 30, 2015 consists of the following:

\$9,515,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	\$ 1,325,000
\$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%	10,085,000
\$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%	7,070,000
\$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%	7,280,000
\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	14,135,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	4,300,000
\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	2,935,000
\$5,730,000 General Obligation Bonds, Series B of 2014, due in varying annual installments beginning March 2021 through March 2028, interest rates of 2% to 2.5%	5,730,000
\$75,120,000 General Obligation Bonds, Series of 2015, due in varying annual installments beginning March 2017 through March 2040, interest rates of 3% to 5%	75,120,000
Unamortized bond premium	<u>11,102,139</u>
Total	139,082,139
Current portion	<u>(3,585,000)</u>
Long-term debt	<u><u>\$ 135,497,139</u></u>

State College Area School District

Notes to Financial Statements

June 30, 2015

Debt service requirements at June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2016	\$ 3,585,000	\$ 4,964,601	\$ 8,549,601
2017	5,565,000	4,942,088	10,507,088
2018	5,480,000	4,798,942	10,278,942
2019	5,635,000	4,630,202	10,265,202
2020	5,745,000	4,438,488	10,183,488
2021 - 2025	31,945,000	18,865,801	50,810,801
2026 - 2030	28,910,000	12,460,694	41,370,694
2031 - 2035	18,355,000	7,935,576	26,290,576
2036 - 2040	22,760,000	3,524,750	26,284,750
Total	<u>\$ 127,980,000</u>	<u>\$ 66,561,142</u>	<u>\$ 194,541,142</u>

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

In November 2014, the District issued \$5,730,000 in General Obligation Bonds with varying interest rates from 2% to 2.5%. The proceeds of the bonds were used to advance refund \$5,410,000 of the District's Series 2010C Bonds.

This advanced refunding decreased the District's total debt service payments over the next thirteen years by approximately \$637,000 and provided an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$551,000.

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 Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total</u>
Non-spendable for, Inventories	\$ 1,785,035	\$ -	\$ -	\$ -	\$ 1,785,035
Restricted for, Capital projects	\$ -	\$ 63,370	\$ 77,822,790	\$ -	\$ 77,886,160
Committed for:					
PSERS	\$ 8,572,000	\$ -	\$ -	\$ -	\$ 8,572,000
Interest rate swap settlement	1,650,000	-	-	-	1,650,000
Capital projects	-	31,493,668	1,626,139	-	33,119,807
Debt service	-	-	-	4,638	4,638
Total	<u>\$ 10,222,000</u>	<u>\$ 31,493,668</u>	<u>\$ 1,626,139</u>	<u>\$ 4,638</u>	<u>\$ 43,346,445</u>

State College Area School District

Notes to Financial Statements

June 30, 2015

11. Construction Commitments

The District had several active construction projects as of June 30, 2015. Outstanding construction commitments on these projects amounted to approximately \$3,973,000 at June 30, 2015.

12. Retirement Plan

Plan Description

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

Benefits Provided

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

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

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

State College Area School District

Notes to Financial Statements

June 30, 2015

Contributions

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

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

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

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

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2015 was 21.4% (20.5% for pension portion and .9% for healthcare insurance premium assistance portion) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were \$12,601,882 for the year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$179,419,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was .4533%, which was a decrease of .0028% from its proportion measured as of June 30, 2013.

State College Area School District

Notes to Financial Statements

June 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$(6,022,539). At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected an actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	12,826,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	924,000
District contributions subsequent to the measurement date	<u>12,601,882</u>	<u>-</u>
Total	<u>\$ 12,601,882</u>	<u>\$ 13,750,000</u>

\$12,601,882 reported as deferred outflows of resources, related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

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

Years ending June 30:	
2016	\$ 3,429,000
2017	3,429,000
2018	3,429,000
2019	3,429,000
2020	<u>34,000</u>
Total	<u>\$ 13,750,000</u>

State College Area School District

Notes to Financial Statements

June 30, 2015

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the District's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2012. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011 meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19 %	5.0 %
Private markets (equity)	21	6.5
Private real estate	13	4.7
Global fixed income	8	2.0
U.S. long treasuries	3	1.4
TIPS	12	1.2
High yield bonds	6	1.7
Cash	3	0.9
Absolute return	10	4.8
Risk parity	5	3.9
MLPs/Infrastructure	3	5.3
Commodities	6	3.3
Financing (LIBOR)	(9)	1.1
	<u>100 %</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

State College Area School District

Notes to Financial Statements

June 30, 2015

Discount Rate

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 223,801,000	\$ 179,419,000	\$ 141,530,000

13. Defined Contribution Plan

The District provides a 403(b) defined contribution plan for its employees, administered by the District. The plan is defined within the teachers' contract (State College Area Education Association); however, all employees are eligible to participate. With the exception of retiring teachers and certain contracted employees, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2015, total contributions (including retirement bonus and sick payouts) were \$1,314,690.

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 2015 totaled \$174,214.

State College Area School District

Notes to Financial Statements

June 30, 2015

15. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under a three-year operating lease expiring July 2015.

Rent expense for 2015 was \$107,750.

16. Interest Rate Swap Settlement Agreement

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

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

Years ending June 30:	
2016	\$ 550,000
2017	550,000
2018	<u>550,000</u>
Total	<u>\$ 1,650,000</u>

This outstanding liability is recorded on the Statement of Net Deficit related to governmental activities at June 30, 2015.

17. Other Postemployment Benefits

Plan Description

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

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

State College Area School District

Notes to Financial Statements

June 30, 2015

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, 2015. Total retiree contributions made by plan members were \$624,078 for the year ended June 30, 2015.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	421,136
Interest on net OPEB obligation		60,889
Adjustment to annual required contribution		<u>(83,067)</u>
Annual OPEB cost (expense)		398,958
Contributions made		<u>(189,544)</u>
Increase in net OPEB obligation		209,414
Net OPEB obligation at July 1, 2014		<u>1,353,078</u>
Net OPEB obligation at June 30, 2015	\$	<u><u>1,562,492</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, 2015 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 398,958	47.5 %	\$ 1,562,492
June 30, 2014	384,520	48.3	1,353,078
June 30, 2013	388,621	35.6	1,154,165

State College Area School District

Notes to Financial Statements

June 30, 2015

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

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

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to .25%
Health care cost trend rate	6.5% in 2014, then decreasing by 0.5% per year to 5.5% in 2016
Amortization method	Level dollar 30 year open period

18. Transactions with Other LEAs

The District is a member of Central Intermediate Unit 10. Through the membership, the District is able to secure various special services, including special education.

State College Area School District

Notes to Financial Statements

June 30, 2015

19. Effect of Adoption of GASB Statement No. 68

The District adopted GASB Statement No. 68 for its fiscal year ended June 30, 2015 which requires that the effects be applied to the earliest period presented. The changes within the District's June 30, 2015 governmental and business-type activities, liabilities, and net deficit are as follows:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Net position, as previously reported, at July 1, 2014	\$ 67,433,379	\$ 293,967	\$ 67,727,346
Net pension liability	<u>(183,086,005)</u>	<u>(3,623,995)</u>	<u>(186,710,000)</u>
Restated net deficit at July 1, 2014	<u>\$ (115,652,626)</u>	<u>\$ (3,330,028)</u>	<u>\$ (118,982,654)</u>

20. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. To the extent applicable, the District is required to adopt Statement No. 73 for its fiscal 2017 financial statements.

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

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

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). The "GAAP hierarchy" consists of the sources of accounting principles to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. To the extent applicable, the District is required to adopt Statement No. 76 for its fiscal 2016 financial statements.

State College Area School District

Notes to Financial Statements

June 30, 2015

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

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.

21. Subsequent Event

In July 2015, the District issued \$21,590,000 General Obligation Bonds, Series B of 2015 to refund the General Obligation Bonds, Series A and Series B of 2010 and to advance refund the General Obligation Bonds, Series B of 2011 (with the exception of the May 15, 2016 maturity). The Series B Bonds of 2015 are due in varying annual installments from May 2016 through May 2028, with interest rates of 3.0% to 5.0%.

On November 30, 2015, the Board of Directors awarded construction base bids totaling \$117,023,110 and bid alternates amounting to \$3,479,100 for the State High Project. This action culminates several years of planning and design preparation for a high school renovation and construction project.

In early 2015, the District issued \$75,120,000 in bonds to fund the \$85,000,000 referendum supported by the electors. The District has already committed \$10,000,000 in capital reserve funds to the project. The remaining balance will be paid from debt issued in the future, which will be funded through current tax revenue.

State College Area School District

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

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

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

State College Area School District

Schedule of the District's Proportionate Share of the Net Pension Liability (Unaudited)

Year Ended June 30, 2015

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

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

State College Area School District

Schedule of District's Contributions (Unaudited)

Year Ended June 30, 2015

	Last 10 Fiscal Years									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 12,601,882	\$ 9,827,603	\$ 7,245,739	\$ 4,768,262	\$ 3,537,772	\$ 2,873,898	\$ 2,542,530	\$ 3,945,782	\$ 3,533,527	\$ 2,581,364
Contributions in relation to the contractually required contribution	<u>(12,601,882)</u>	<u>(9,827,603)</u>	<u>(7,245,739)</u>	<u>(4,768,262)</u>	<u>(3,537,772)</u>	<u>(2,873,898)</u>	<u>(2,542,530)</u>	<u>(3,945,782)</u>	<u>(3,533,527)</u>	<u>(2,581,364)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626	\$ 54,512,187	\$ 53,134,376	\$ 50,762,379
Contributions as a percentage of covered-employee payroll	21.54%	16.99%	12.40%	8.27%	5.89%	4.87%	4.51%	7.24%	6.65%	5.09%

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund Year Ended June 30, 2015

Revenues

Local sources:

Current taxation:

Real estate	\$ 84,416,800
Earned income tax	16,204,754
Local service tax	366,198
Real estate transfers	2,176,269
Payments in lieu of taxes	514,670
Public utility realty tax	122,808

Total current taxation 103,801,499

Delinquent taxation 1,174,635

Total from taxation 104,976,134

Earnings from temporary investments and deposits 110,889

Receipts from other LEA's 103,247

Miscellaneous revenue 2,091,376

Total local sources 107,281,646

State sources:

Basic instructional subsidy	6,433,441
Private placement tuition	129,996
Vocational education	74,107
Special education	3,236,908
Transportation	835,406
Rental and sinking fund payments	1,010,206
Medical and dental services	144,589
Property tax reduction	1,422,517
Social Security subsidy	2,119,844
Retirement subsidy	6,166,360
Other state grants	259,037

Total state sources 21,832,411

Federal sources:

Title I	846,003
Title II A	202,051
Title II C	75,657
Title III	51,632
Medical Assistance	5,462
ACCESS	348,000

Total federal sources 1,528,805

Total revenues 130,642,862

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2015

Expenditures

Instruction:	
Regular programs	\$ 52,679,802
Special programs	15,206,177
Vocational education programs	3,024,302
Other instructional programs	949,763
Adult education programs	87,386
Nonpublic school programs	14,457
	<hr/>
Total instruction	71,961,887
	<hr/>
Support services:	
Pupil personnel	4,122,808
Instructional staff	4,372,988
Administration	6,374,607
Pupil health	1,273,641
Business	1,017,512
Operation and maintenance of plant services	8,467,486
Student transportation services	5,599,551
Central	4,830,200
	<hr/>
Total support services	36,058,793
	<hr/>
Noninstructional services:	
Student activities	2,451,932
Community services	136,036
	<hr/>
Total noninstructional services	2,587,968
	<hr/>
Facilities acquisition, construction and improvement services	764
	<hr/>
Debt service	598,930
	<hr/>
Total expenditures	111,208,342
	<hr/>
Excess of revenues over expenditures before other before other financing uses	19,434,520
	<hr/>
Other Financing Uses	
Transfer out	(19,367,025)
	<hr/>
Change in Fund Balance	67,495
	<hr/>
Fund Balance, Beginning	22,218,456
	<hr/>
Fund Balance, Ending	\$ 22,285,951
	<hr/> <hr/>

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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, 2014	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2015
U.S. Department of Education										
Passed through the PA Department of Education:										
Title I, Part A Cluster:										
Title I	I	84.010	013-150418	C	\$ 825,242	\$ 576,062	\$ -	\$ 680,400	\$ 680,400	\$ 104,338
Title I	I	84.010	013-140418	B	712,783	150,320	45,318	105,002	105,002	-
Title I	I	84.010	013-130418	A	786,794	-	(60,600)	60,600	60,600	-
Total Title I, Part A Cluster						<u>726,382</u>	<u>(15,282)</u>	<u>846,002</u>	<u>846,002</u>	<u>104,338</u>
Secondary Allocation	I	84.048	380-150079	C	75,657	75,657	-	75,657	75,657	-
Secondary Allocation	I	84.048	380-100111	B	69,757	(4,629)	(4,629)	-	-	-
Total Secondary Allocation						<u>71,028</u>	<u>(4,629)</u>	<u>75,657</u>	<u>75,657</u>	<u>-</u>
Title III - Language	I	84.365	010-150418	C	53,037	17,679	-	25,864	25,864	8,185
Title III - Language	I	84.365	010-140418	B	48,830	48,830	23,062	25,768	25,768	-
Total Title III						<u>66,509</u>	<u>23,062</u>	<u>51,632</u>	<u>51,632</u>	<u>8,185</u>
Title II	I	84.367	020-150418	C	189,397	151,943	-	170,404	170,404	18,461
Title II	I	84.367	020-140418	B	189,091	37,893	6,246	31,647	31,647	-
Total Title II						<u>189,836</u>	<u>6,246</u>	<u>202,051</u>	<u>202,051</u>	<u>18,461</u>
Total PA Department of Education						<u>1,053,755</u>	<u>9,397</u>	<u>1,175,342</u>	<u>1,175,342</u>	<u>130,984</u>
Passed through Central Intermediate Unit #10:										
Special Education Cluster (IDEA):										
Special Education - Grants to States	I	84.027	062-15-0-010	C	742,416	-	-	742,416	742,416	742,416
Special Education - Grants to States	I	84.027	062-14-0-010	B	726,074	726,074	726,074	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-14-0-010	C	7,718	-	-	7,718	7,718	7,718
Total Special Education Cluster (IDEA)						<u>726,074</u>	<u>726,074</u>	<u>750,134</u>	<u>750,134</u>	<u>750,134</u>
Grants for the Integration of Schools and Mental Health Systems	I	84.215		A	373,704	2,002	2,002	-	-	-
Total U.S. Department of Education						<u>1,781,831</u>	<u>737,473</u>	<u>1,925,476</u>	<u>1,925,476</u>	<u>881,118</u>
U.S. Department of Health and Human Services										
Passed through Pennsylvania Department of Public Welfare										
Administrative Claiming Quarterly Program	I	93.778	044-007418	C		7,429	2,900	5,462	5,462	933

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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, 2014	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2015
U.S. Department of Agriculture										
Child Nutrition Cluster:										
Passed through PA Department of Education:										
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	\$ 602,286	\$ -	\$ 627,238	\$ 627,238	\$ 24,952
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 6	25,820	25,820	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	110,294	-	114,974	114,974	4,680
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	4,839	4,839	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 6	3,502	-	3,502	3,502	-
National School Lunch Program	I (S)	N/A	510-0000	C	NOTE 6	10,672	-	11,119	11,119	447
National School Lunch Program	I (S)	N/A	510-0000	B	NOTE 6	441	441	-	-	-
National School Lunch Program	I (S)	N/A	511-0000	C	NOTE 6	71,578	-	74,492	74,492	2,914
National School Lunch Program	I (S)	N/A	511-0000	B	NOTE 6	2,893	2,893	-	-	-
Passed through the PA Department of Agriculture, National School Lunch Program	I	10.555				172,341	(37,227)	174,214	174,214	(35,354)
Total U.S. Department of Agriculture						1,004,666	(3,234)	1,005,539	1,005,539	(2,361)
Total						\$ 2,793,926	\$ 737,139	\$ 2,936,477	\$ 2,936,477	\$ 879,690

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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 \$348,000 of Access reimbursements for direct medical services.

4. State Matching Funds

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

5. Relationship to Federal Financial Reports

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

6. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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 = 07/01/12 - 06/30/13
B = 07/01/13 - 06/30/14
C = 07/01/14 - 06/30/15

**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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 8, 2015. In our report, an emphasis of a matter paragraph was included, as more fully disclosed in Notes 1 and 19 to the financial statements, to address the District's adoption of a new accounting principle. Our opinion was not modified with respect to this matter.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Baker Tilly Viechow Krause, LLP

State College, Pennsylvania
December 8, 2015

**Independent Auditors' Report on Compliance
for the 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 the Major Federal Program

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2015. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

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
December 8, 2015

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

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>
10.553, 10.555, 10.559	Child Nutrition Cluster

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

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

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

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, 2014 Single Audit.