

State College Area School District

Financial Statements and
Supplementary Information

June 30, 2020

State College Area School District

Table of Contents

June 30, 2020

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements	
Statement of Net Deficit	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Deficit	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	18
Statement of Net Deficit - Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Net Deficit - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Net Position - Fiduciary Fund, Agency	22
Notes to Financial Statements	23

State College Area School District

Table of Contents

June 30, 2020

	<u>Page</u>
Required Supplementary Information (Unaudited)	
Schedule of the District's Proportionate Share of the PSERS Net Pension Liability	48
Schedule of District's PSERS Pension Contributions	49
Schedule of the District's Proportionate Share of the PSERS Net OPEB Liability	50
Schedule of District's PSERS OPEB Contributions	51
Schedule of Changes in Total OPEB Liability and Related Ratios - District Plan	52
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	53
Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	55
Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund	57
Schedule of Expenditures of Federal Awards	59
Notes to Schedule of Expenditures of Federal Awards	60
Schedule of Findings and Questioned Costs	62

Independent Auditors' Report

To the Board of Education of
State College Area School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of State College Area School District (the District), as of June 30, 2020 and for the year then ended, 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 auditors' 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 over financial reporting relevant to the District'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 District'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 activity, each major fund and the aggregate remaining fund information of the District as of June 30, 2020, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 11, the schedule of district's proportionate share of the PSERS net pension liability on page 48, the schedule of district's PSERS pension contributions on page 49, the schedule of the district's proportionate share of the PSERS net OPEB liability on page 50, the schedule of district's PSERS OPEB contributions on page 51 and the schedule of changes in total OPEB liability and related ratios - district plan 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.

Supplementary 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 57-58) and the Schedule of Expenditures of Federal Awards, as required by OMB's *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Award*] (Uniform Guidance) as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information contained in the Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund (pages 57-58) and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report date December 16, 2020, 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 solely 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 effectiveness of the District's 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 US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
State College, Pennsylvania
December 16, 2020

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2020

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, 2020. 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).

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.

Fund Financial Statements

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

Governmental Funds

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2020

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 nonmajor 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 the business-type activity 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.

Government-Wide Financial Analysis

Condensed Statements of Net Deficit

June 30, 2020 and 2019

	Condensed Statements of Net Deficit					
	Governmental Activities		Business-Type Activity		Total	
	2020	2019	2020	2019	2020	2019
Assets and Deferred Outflows of Resources						
Current and other assets	\$ 50,294,626	\$ 42,478,994	\$ 347,407	\$ 280,644	\$ 50,642,033	\$ 42,759,638
Noncurrent assets	364,603,195	351,111,037	180,767	161,774	364,783,962	351,272,811
Deferred outflows of resources	37,929,097	41,344,169	773,092	813,486	38,702,189	42,157,655
Total	<u>\$ 452,826,918</u>	<u>\$ 434,934,200</u>	<u>\$ 1,301,266</u>	<u>\$ 1,255,904</u>	<u>\$ 454,128,184</u>	<u>\$ 436,190,104</u>
Liabilities, Deferred Inflows of Resources and Net Deficit						
Current liabilities	\$ 28,622,674	\$ 36,777,747	\$ 287,935	\$ 154,058	\$ 28,910,609	\$ 36,931,805
Long-term liabilities:						
Due within one year	8,310,000	7,730,000	-	-	8,310,000	7,730,000
Due after one year	472,069,516	457,524,786	5,153,220	4,996,440	477,222,736	462,521,226
Total liabilities	<u>509,002,190</u>	<u>502,032,533</u>	<u>5,441,155</u>	<u>5,150,498</u>	<u>514,443,345</u>	<u>507,183,031</u>
Deferred inflows of resources	<u>8,692,222</u>	<u>3,990,448</u>	<u>192,287</u>	<u>93,407</u>	<u>8,884,509</u>	<u>4,083,855</u>
Net deficit:						
Net investment in capital assets	65,022,412	61,159,101	180,767	161,774	65,203,179	61,320,875
Restricted (for capital projects and debt service)	64,456,646	65,352,256	-	-	64,456,646	65,352,256
Unrestricted	<u>(194,346,552)</u>	<u>(197,600,138)</u>	<u>(4,512,943)</u>	<u>(4,149,775)</u>	<u>(198,859,495)</u>	<u>(201,749,913)</u>
Total net deficit	<u>(64,867,494)</u>	<u>(71,088,781)</u>	<u>(4,332,176)</u>	<u>(3,988,001)</u>	<u>(69,199,670)</u>	<u>(75,076,782)</u>
Total	<u>\$ 452,826,918</u>	<u>\$ 434,934,200</u>	<u>\$ 1,301,266</u>	<u>\$ 1,255,904</u>	<u>\$ 454,128,184</u>	<u>\$ 436,190,104</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2020

Condensed Statements of Activities For the Years Ended June 30, 2020 and 2019

	Condensed Statements of Activities					
	Governmental Activities		Business-Type Activity		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 1,319,512	\$ 1,595,642	\$ 1,958,647	\$ 2,708,464	\$ 3,278,159	\$ 4,304,106
Operating grants and contributions	22,848,393	21,540,675	1,718,136	1,535,168	24,566,529	23,075,843
Capital grants	606,921	6,799,671	-	-	606,921	6,799,671
General revenues:						
Taxes levied, net	130,729,912	126,225,922	-	-	130,729,912	126,225,922
Grants, subsidies and contributions not restricted	9,830,508	9,344,307	-	-	9,830,508	9,344,307
Other	3,877,307	3,897,576	-	-	3,877,307	3,897,576
Total revenues	169,212,553	169,403,793	3,676,783	4,243,632	172,889,336	173,647,425
Program Expenses:						
Instruction	95,394,132	91,248,469	-	-	95,394,132	91,248,469
Instructional student support	13,544,884	13,000,519	-	-	13,544,884	13,000,519
Administration and financial support services	17,375,448	16,188,122	-	-	17,375,448	16,188,122
Operation and maintenance of plant services	18,732,582	16,464,476	-	-	18,732,582	16,464,476
Pupil transportation	6,431,133	6,550,189	-	-	6,431,133	6,550,189
Student activities	2,806,980	2,868,956	-	-	2,806,980	2,868,956
Community services	76,041	94,904	-	-	76,041	94,904
Interest on long-term debt	7,796,388	6,501,461	-	-	7,796,388	6,501,461
Unallocated depreciation	367,192	373,934	-	-	367,192	373,934
Loss on disposal of capital assets	-	1,131,247	-	-	-	1,131,247
Transfers	466,486	-	(466,486)	-	-	-
Food service	-	-	4,487,444	4,159,587	4,487,444	4,159,587
Total program expenses	162,991,266	154,422,277	4,020,958	4,159,587	167,012,224	158,581,864
Change in net position	6,221,287	14,981,516	(344,175)	84,045	5,877,112	15,065,561
Net Deficit, Beginning	(71,088,781)	(86,070,297)	(3,988,001)	(4,072,046)	(75,076,782)	(90,142,343)
Net Deficit, Ending	\$ (64,867,494)	\$ (71,088,781)	\$ (4,332,176)	\$ (3,988,001)	\$ (69,199,670)	\$ (75,076,782)

Total net position of the District increased \$5,877,112 in 2020. Net position of governmental activities increased by \$6,221,287, while net position of the business-type activity decreased \$344,175.

The District had \$162,991,266 in expenses and transfers related to governmental activities in 2020; only \$24,774,826 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$144,437,727 also provided for these programs. The \$6,221,287 increase in governmental activities net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$344,175 as a result of the net loss of the food service operation after a transfer in from the General Fund of \$466,486.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2020

The June 30, 2020 government-wide financial statements reflect the District's estimated share of the PSERS liability and related deferred outflows and inflows of resources, as required under the Governmental Accounting Standards Board (GASB) 68. GASB 75 reflects the liability and deferred outflows and inflows of resources related to postemployment benefits other than pension (OPEB), primarily health insurance. Below is a schedule showing the impact of GASB 68 and 75 on the unrestricted net position as of June 30, 2019 and 2020.

	<u>Total Net Position</u>	<u>GASB 68 and 75 (Pension and OPEB Impact)</u>	<u>Total Excluding GASB 68 and 75 Impact</u>	<u>Net Position Available to Fund Operations and Debt Service</u>
Governmental Activities:				
At June 30, 2019	\$ (71,088,781)	\$ (210,183,861)	\$ 139,095,080	\$ 77,935,979
Change in net position	<u>6,221,287</u>	<u>(6,164,866)</u>	<u>12,386,153</u>	<u>8,522,842</u>
Ending at June 30, 2020	<u>\$ (64,867,494)</u>	<u>\$ (216,348,727)</u>	<u>\$ 151,481,233</u>	<u>\$ 86,458,821</u>
Business-Type Activities:				
At June 30, 2019	\$ (3,988,001)	\$ (4,259,897)	\$ 271,896	\$ 110,122
Change in net position	<u>(344,175)</u>	<u>(263,926)</u>	<u>(80,249)</u>	<u>(99,242)</u>
Ending at June 30, 2020	<u>\$ (4,332,176)</u>	<u>\$ (4,523,823)</u>	<u>\$ 191,647</u>	<u>\$ 10,880</u>

As of June 30, 2020, excluding the impact of changes in position recorded based on GASB 68 and 75, \$22,002,175 of unrestricted net position of the \$151,481,233 of total net position was available to meet the District's ongoing obligations to employees and creditors for governmental activities. In addition, \$64,456,646 of restricted net position was available to meet debt service obligations or to fund future capital projects. The remaining net position of \$65,022,412 is invested in capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2019 - 2020 fiscal year were \$167,918,285 compared to \$167,122,998 for the previous fiscal year. The revenues are derived from four main sources, as follows:

	<u>2019 - 2020</u>	<u>2018 - 2019</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 134,183,786	\$ 130,199,415	\$ 3,984,371	3.1 %
State sources	29,981,916	35,452,532	(5,470,616)	(15.4) %
Federal sources	2,454,158	1,471,051	983,107	66.8 %
Other financing sources	<u>1,298,425</u>	<u>-</u>	<u>1,298,425</u>	<u>100.0 %</u>
Total	<u>\$ 167,918,285</u>	<u>\$ 167,122,998</u>	<u>\$ 795,287</u>	<u>0.5 %</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2020

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,984,371 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$4,082,918 with approximately \$2,041,000 related to an increase in the millage rate from 45.206 mills to 46.0875 mills per \$1,000 of assessed value. Supplemental tax rebates totaling \$85,200 offset real estate tax revenue. The District implemented a Supplemental Tax Rebate Program in the 2015-2016 fiscal year, which provides property tax rebates to senior citizens, widows, widowers and disabled persons who meet certain income eligibility guidelines and who are homeowners. Earned income tax increased approximately \$414,000. Investment earnings decreased approximately \$179,000 and tuition decreased approximately \$216,000 related primarily to closing schools in March due to the COVID-19 pandemic.

State revenues are derived primarily from state subsidies for basic education and special education and a 50 percent reimbursement for social security and retirement costs. State revenues decreased \$5,470,616 primarily related to a larger amount of Alternative and Clean Energy grants received in the prior year from the Pennsylvania Department of Community and Economic Development (DCED) which funded a portion of three elementary construction projects and the high school construction project. DCED grant funds totaling \$6,799,671 were received in 2018-19 and the balance of \$606,921 was received in 2019-20. The Basic Education subsidy increased approximately \$486,000 and reimbursement for retirement costs increased approximately \$558,000 due to an increase in salaries and an increase in the employer contribution rate for the state's retirement plan. Social security reimbursement decreased approximately \$161,000 due to a delay in funding from the state, and the transportation subsidy decreased approximately \$123,000.

Federal revenues increased \$983,107 primarily related to an increase in revenue from the School Based ACCESS program of approximately \$342,000 and receipt of CARES Act funding, including \$597,581 of Elementary and Secondary School Emergency Relief (ESSER) Funds and \$48,336 of PCCD School Safety Grant COVID-19 relief funding.

Other financing sources in 2019-20 consists of approximately \$1,300,000 of proceeds from the sale of the Lemont school building.

Expenditures

Expenditures and other financing uses for the 2019 - 2020 fiscal year were \$158,464,022 compared to the 2018 - 2019 fiscal year of \$167,197,657 or a 5.2 percent decrease. The following table shows the expenditures by object category:

	<u>2019 - 2020</u>	<u>2018 - 2019</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Salaries and benefits	\$ 115,301,565	\$ 111,414,106	\$ 3,887,459	3.5	%
Professional services	2,831,599	3,150,563	(318,964)	(10.1)	%
Purchased property services	1,320,379	1,781,117	(460,738)	(25.9)	%
Other purchased services	12,068,366	12,479,055	(410,689)	(3.3)	%
Supplies and property	7,579,832	8,024,018	(444,186)	(5.5)	%
Other objects	703,311	283,622	419,689	148.0	%
Other uses of funds	18,658,970	30,065,176	(11,406,206)	(37.9)	%
Total	<u>\$ 158,464,022</u>	<u>\$ 167,197,657</u>	<u>\$ (8,733,635)</u>	(5.2)	%

Salaries and benefits increased \$3,887,459. Salary expense increased approximately \$1,780,000, and benefits increased approximately \$2,100,000, primarily related to an approximate \$910,000 increase in health insurance and an approximate \$1,210,000 retirement expense.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2020

The decreases in professional services and other purchased services were related to reduced spending effective with the closing of schools in March due to the COVID-19 pandemic. Supplies and property decreased related to reductions in spending implemented in response to COVID-19 and related to one-time costs associated with the change in the elementary school day in 2018-19. Purchased property services decreased related to the mold repair remediation in multiple school buildings in the prior year. Other objects increased related to a transfer to the Food Service Fund required due to the impact of COVID-19 on food service operations.

Other uses of funds decreased \$11,406,206. The transfer to the capital projects fund decreased approximately \$6,193,000 related to the reduction in DCED grants funds which funded a portion of building projects. The transfer to the capital reserve fund and debt service fund decreased approximately \$5,100,000 and \$156,000, respectively.

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 balance as of June 30, 2020 is \$64,456,646.

Capital Projects Fund

The Capital Projects Fund is used to account for capital projects of the District. The District spent \$25,378,651 for such projects in 2019-2020. The majority of expenditures in 2019-2020 related to the three elementary school building projects, Memorial Field, playgrounds and the high school building project. Other projects included renovations and improvements throughout the District. The Capital Projects fund balance is \$8,821,240 at June 30, 2020. Restricted cash of \$13,611,044 at June 30, 2020 represents bond funds available to fund the remaining portion of the building and playground projects.

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 2020 included \$163,412,382 of revenues and \$163,938,228 of expenditures. The budget was amended by \$331,345 for additional grants and related expenditures.

The actual revenues for 2020 were \$2,876,133 greater than the final budget. Local revenues were \$2,789,773 greater than budget primarily due to favorable variances in real estate tax revenue of approximately \$1,690,000, real estate transfer tax revenue of approximately \$846,000 and interest on investments of \$690,000. Tuition was less than budget by \$475,000 related to the closing of schools in March due to the COVID-19 pandemic. State revenues were \$896,322 less than budget primarily related to approximately \$563,000 less than budgeted receipts of DCED grants due to greater than anticipated receipts in the prior year. Retirement, social security and bond reimbursement was also below budget, offset by basic education subsidy which exceeded budget. Federal revenues were greater than budget by \$982,682 related primarily to ACCESS and CARES Act revenue. Other financing sources were greater than greater than budget primarily due to unbudgeted proceeds from the sale of the Lemont elementary building of approximately \$1,300,000.

Actual expenditures, excluding transfers to the Capital Reserve Fund, were \$7,103,874 less than the amended budget. Positive budget variances include salaries and benefits, professional services and supplies are all primarily related to the impacts of COVID-19. Charter school expense is less than budget by approximately \$932,000 due to a lower than budgeted number of charter school students. Budgetary reserves of approximately \$1,100,000 were not utilized. The budgeted transfer to the Food Service Fund was in excess of budget by approximately \$376,000 due to the impact of the COVID-19 pandemic. Transfers to the Capital Reserve Fund were in excess of budget by \$1,298,325.

The District established a committed fund balance of \$10,158,600 to fund projected revenue decreases and expense increases in future years related to the anticipated impacts of the COVID-19 pandemic.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2020

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2020 is summarized below (see details in Note 7 to the financial statements).

	Governmental Activities	Business-Type Activity	Total
Land, buildings and improvements	\$ 310,325,331	\$ -	\$ 310,325,331
Equipment and other capital assets	54,145,033	1,171,722	55,316,755
Construction in progress	19,606,590	-	19,606,590
Total	384,076,954	1,171,722	385,248,676
Accumulated depreciation	(95,694,609)	(990,955)	(96,685,564)
Net	\$ 288,382,345	\$ 180,767	\$ 288,563,112

Long-Term Debt

At June 30, 2020, the District had long-term debt of \$211,095,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$67,575,000 related to the District's 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 \$143,520,000 is significantly below the legal limit of \$366,150,792.

Factors Expected to Have an Effect on Future Operations

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. As a result, the Governor of the Commonwealth of Pennsylvania declared an emergency requiring closure of businesses, schools and other institutions, resulting in job losses throughout the Commonwealth. The impact on businesses and the job losses may have the potential to affect District operations due to the loss of tax revenues.

The assessed value used for the 2021 budget preparation is approximately \$2.4 billion, which is up approximately \$24 million, or 1 percent from 2020. Amounts available for appropriation in the General Fund budget for 2020-2021 are \$158,057,667, a decrease of approximately 3.6 percent over the 2019-2020 original budget of \$163,938,230. There will be no increase in the property tax rate, therefore the rate will remain at 46.0875 mills. The District's budget includes expense reductions resulting from freezing salary rates, maintaining some vacant positions, deferring purchases of supplies, equipment and professional services, deferring curriculum development, negotiating a freeze for contracted transportation carriers and deferring a transfer to the Capital Reserve Fund.

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2020

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 percent for a total EIT rate of 1.65 percent. 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 2019-2020 is 2.3 percent.

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

Strategic Plan

The PDE requires all school districts to develop a plan to prioritize goals, focusing on improving student learning in accordance with its community's experiences and desires. The 2018-2023 strategic plan was created based on input from a broad cross-section of the State College Area School District community and included formation of a steering committee of 72 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 each year.

District Growth

DecisionInsite, enrollment impact specialists, were engaged to provide enrollment projections for the District. DecisionInsite used historical enrollment data, recent trends and projected new residential development to forecast student enrollment from 2016 to 2026. Both moderate and conservative projections forecast an increase in enrollment of approximately 1 percent to 2 percent, respectively, across the forecasted period. Enrollment projections were updated in 2020 and annually thereafter.

District Wide Facilities Master Plan

In 2014, an update to the District Wide Facilities Master Plan was completed to include construction and renovations at the high school. The total cost, net of DCED grants, is estimated at \$138 million, with \$85 million being funded with referendum debt bonds issued in July 2017. Work on the project began in 2015 culminating with occupancy in the 2019-20 school year.

The District began a Facilities Master Plan Elementary Update in April of 2016 to take advantage of external funding resources through DCED and reimbursement of debt service expenses through the PDE PlanCon process. Construction began in January 2018 at Radio Park, Corl Street and Spring Creek elementary schools. The total cost, net of DCED grants, is estimated at \$60 million. Occupancy at each of the schools occurred in the 2019-20 school year.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2020

The District is currently improving playgrounds district-wide through a master planning process. The first step is to install new playgrounds at Corl Street, Radio Park and Spring Creek elementary schools. The total cost is estimated at \$950,000. The completion of the three playgrounds will be during the 2020-21 school year. Once the three initial projects are finished, the District will consider the other elementary and middle school playgrounds.

As part of the District-Wide Facilities Master Plan, the District has completed various phases of renovations at Memorial Field. In 2019, the District commenced a \$14 million renovation project which includes new home bleachers, locker rooms, restrooms and concession stands. This project is expected to be completed in September of 2020.

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, 2020

	Governmental Activities	Business-Type Activity	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 39,192,131	\$ 10,793	\$ 39,202,924
Taxes receivable, net	2,990,850	-	2,990,850
Internal balances	18,535	(18,535)	-
Due from other governments	7,468,749	264,837	7,733,586
Other receivables	450,909	-	450,909
Inventories	17,475	90,312	107,787
Other current assets	155,977	-	155,977
Total current assets	<u>50,294,626</u>	<u>347,407</u>	<u>50,642,033</u>
Noncurrent Assets			
Restricted cash and cash equivalents	76,220,850	-	76,220,850
Capital assets:			
Land	1,140,457	-	1,140,457
Buildings and improvements	309,184,874	-	309,184,874
Equipment and other capital assets	54,145,033	1,171,722	55,316,755
Construction in progress	19,606,590	-	19,606,590
Accumulated depreciation	(95,694,609)	(990,955)	(96,685,564)
Total noncurrent assets	<u>364,603,195</u>	<u>180,767</u>	<u>364,783,962</u>
Total assets	<u>414,897,821</u>	<u>528,174</u>	<u>415,425,995</u>
Deferred Outflows of Resources			
Pension	35,064,600	740,172	35,804,772
Other postemployment benefits (OPEB)	1,910,703	32,920	1,943,623
Deferred amounts on refunding	953,794	-	953,794
Total deferred outflows of resources	<u>37,929,097</u>	<u>773,092</u>	<u>38,702,189</u>
Total	<u>\$ 452,826,918</u>	<u>\$ 1,301,266</u>	<u>\$ 454,128,184</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current Liabilities			
Accounts payable	\$ 5,048,828	\$ 14,414	\$ 5,063,242
Current portion of bonds payable	8,310,000	-	8,310,000
Due from fiduciary fund	167,122	-	167,122
Accrued salaries and benefits	12,626,112	7,317	12,633,429
Payroll deductions and withholdings	8,744,714	-	8,744,714
Unearned revenue	98,026	28,923	126,949
Other current liabilities	1,937,872	237,281	2,175,153
Total current liabilities	<u>36,932,674</u>	<u>287,935</u>	<u>37,220,609</u>
Noncurrent Liabilities			
Bonds payable	225,499,306	-	225,499,306
Other postemployment benefits liability (OPEB)	15,829,548	274,888	16,104,436
Net pension liability	228,802,260	4,829,740	233,632,000
Compensated absences	1,938,402	48,592	1,986,994
Total noncurrent liabilities	<u>472,069,516</u>	<u>5,153,220</u>	<u>477,222,736</u>
Total liabilities	<u>509,002,190</u>	<u>5,441,155</u>	<u>514,443,345</u>
Deferred Inflows of Resources			
Other postemployment benefits (OPEB)	453,139	18,370	471,509
Pension	8,239,083	173,917	8,413,000
Total deferred inflows of resources	<u>8,692,222</u>	<u>192,287</u>	<u>8,884,509</u>
Net Deficit			
Net investment in capital assets	65,022,412	180,767	65,203,179
Restricted (for capital projects and debt service)	64,456,646	-	64,456,646
Unrestricted deficit	(194,346,552)	(4,512,943)	(198,859,495)
Total net deficit	<u>(64,867,494)</u>	<u>(4,332,176)</u>	<u>(69,199,670)</u>
Total	<u>\$ 452,826,918</u>	<u>\$ 1,301,266</u>	<u>\$ 454,128,184</u>

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Deficit		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants	Governmental Activities	Business-Type Activity	
Governmental activities:							
Instruction	\$ (95,394,132)	\$ 1,215,834	\$ 16,818,738	\$ 440,321	\$ (76,919,239)		\$ (76,919,239)
Instructional student support	(13,544,884)	-	1,787,856	59,842	(11,697,186)		(11,697,186)
Administration and financial support services	(17,375,448)	-	1,945,788	57,233	(15,372,427)		(15,372,427)
Operation and maintenance of plant services	(18,732,582)	103,678	797,499	31,803	(17,799,602)		(17,799,602)
Pupil transportation	(6,431,133)	-	1,127,761	13,777	(5,289,595)		(5,289,595)
Student activities	(2,806,980)	-	82,923	3,520	(2,720,537)		(2,720,537)
Community services	(76,041)	-	10,008	425	(65,608)		(65,608)
Interest on long-term debt	(7,796,388)	-	277,820	-	(7,518,568)		(7,518,568)
Depreciation, unallocated	(367,192)	-	-	-	(367,192)		(367,192)
Total governmental activities	(162,524,780)	1,319,512	22,848,393	606,921	(137,749,954)		(137,749,954)
Business-Type Activity							
Food service	(4,487,444)	1,958,647	1,718,136	-		\$ (810,661)	(810,661)
Total	<u>\$ (167,012,224)</u>	<u>\$ 3,278,159</u>	<u>\$ 24,566,529</u>	<u>\$ 606,921</u>	<u>(137,749,954)</u>	<u>(810,661)</u>	<u>(138,560,615)</u>
General Revenues							
Property taxes, levied for general purposes, net					111,550,808	-	111,550,808
Other taxes					19,179,104	-	19,179,104
Grants, subsidies and contributions not restricted					9,830,508	-	9,830,508
Investment earnings:							
Interest					2,997,552	-	2,997,552
Miscellaneous income					311,537	-	311,537
Gain on sale of property					568,218	-	568,218
Transfers (out) in					(466,486)	466,486	-
Total general revenues					<u>143,971,241</u>	<u>466,486</u>	<u>144,437,727</u>
Changes in net position					6,221,287	(344,175)	5,877,112
Net Deficit, Beginning					<u>(71,088,781)</u>	<u>(3,988,001)</u>	<u>(75,076,782)</u>
Net Deficit, Ending					<u>\$ (64,867,494)</u>	<u>\$ (4,332,176)</u>	<u>\$ (69,199,670)</u>

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds
June 30, 2020

	Major Funds			Total
	General	Capital Reserve	Capital Projects	
Assets				
Assets				
Cash and cash equivalents	\$ 39,192,131	\$ -	\$ -	\$ 39,192,131
Restricted cash and cash equivalents	-	62,609,806	13,611,044	76,220,850
Taxes receivable, net	2,990,850	-	-	2,990,850
Due from other funds	1,673,216	1,846,840	-	3,520,056
Due from other governments	7,468,749	-	-	7,468,749
Other receivables	450,909	-	-	450,909
Inventories	1,855,488	-	-	1,855,488
Other current assets	155,977	-	-	155,977
Total	<u>\$ 53,787,320</u>	<u>\$ 64,456,646</u>	<u>\$ 13,611,044</u>	<u>\$ 131,855,010</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Due to other funds	\$ 2,041,662	\$ -	\$ 1,628,133	\$ 3,669,795
Accounts payable	1,882,192	-	3,161,671	5,043,863
Accrued salaries and benefits	12,626,112	-	-	12,626,112
Payroll deductions and withholdings	8,744,714	-	-	8,744,714
Unearned revenue	98,026	-	-	98,026
Other liabilities	233,937	-	-	233,937
Total liabilities	<u>25,626,643</u>	<u>-</u>	<u>4,789,804</u>	<u>30,416,447</u>
Deferred Inflows of Resources				
Unavailable revenues, taxes	878,703	-	-	878,703
Fund Balances				
Nonspendable	1,855,488	-	-	1,855,488
Restricted (for capital projects and debt service)	-	64,456,646	8,821,240	73,277,886
Committed	12,799,014	-	-	12,799,014
Unassigned	12,627,472	-	-	12,627,472
Total fund balances	<u>27,281,974</u>	<u>64,456,646</u>	<u>8,821,240</u>	<u>100,559,860</u>
Total	<u>\$ 53,787,320</u>	<u>\$ 64,456,646</u>	<u>\$ 13,611,044</u>	<u>\$ 131,855,010</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, 2020

Total Fund Balances, Governmental Funds \$ 100,559,860

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

Capital assets used in governmental activities are long-term financial resources, and therefore, are not reported as assets in government funds. The cost of assets is \$384,076,954 and the accumulated depreciation is \$95,694,609 288,382,345

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. 878,703

Inventory of books and supplies was reclassified to capital assets. (1,855,488)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund, with the exception of capital assets and pension and OPEB related assets and liabilities which are included elsewhere in this reconciliation, are reported with governmental activities. (6,410)

Deferred outflows related to net OPEB liability are not reported in the governmental funds, however, are reported in the statement of net deficit. 1,910,703

Deferred inflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit. (453,139)

Deferred outflows related to net pension liability are not reported in the governmental funds, however, are reported in the statement of net deficit. 35,064,600

Deferred inflows related to net pension liability are not reported in the governmental funds, however, are reported in the statement of net deficit. (8,239,083)

Long-term liabilities, including bonds 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 payable	(233,809,306)
Deferred amounts on refunding	953,794
Accrued interest on long-term debt	(1,703,935)
Net OPEB liability	(15,829,548)
Net pension liability	(228,802,260)
Compensated absences	(1,918,330)

Total Net Deficit, Governmental Activities \$ (64,867,494)

State College Area School District

 Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 Year Ended June 30, 2020

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
Revenues					
Local sources	\$ 134,183,786	\$ 1,191,757	\$ 715,021	\$ -	\$ 136,090,564
State sources	29,981,916	-	-	-	29,981,916
Federal sources	2,454,158	-	-	-	2,454,158
Total revenues	<u>166,619,860</u>	<u>1,191,757</u>	<u>715,021</u>	<u>-</u>	<u>168,526,638</u>
Expenditures					
Instruction	90,266,111	-	-	-	90,266,111
Support services	46,253,519	-	222,763	-	46,476,282
Noninstructional services	2,788,233	-	-	-	2,788,233
Facilities acquisition, construction and improvement services	30,656	1,089,277	25,155,888	-	26,275,821
Debt service	-	4,079,915	-	12,711,674	16,791,589
Total expenditures	<u>139,338,519</u>	<u>5,169,192</u>	<u>25,378,651</u>	<u>12,711,674</u>	<u>182,598,036</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>27,281,341</u>	<u>(3,977,435)</u>	<u>(24,663,630)</u>	<u>(12,711,674)</u>	<u>(14,071,398)</u>
Other Financing Sources (Uses)					
Transfer in	-	3,081,825	2,865,470	12,711,674	18,658,969
Proceeds from sale of capital assets	1,298,425	-	-	-	1,298,425
Proceeds from issuance of bonds	-	-	21,330,000	-	21,330,000
Proceeds from refunding bonds	-	-	10,230,000	-	10,230,000
Refunded bonds	-	-	(12,143,014)	-	(12,143,014)
Bond premium	-	-	6,414,560	-	6,414,560
Refund of prior year receipts	(48)	-	-	-	(48)
Transfer out	(19,125,455)	-	-	-	(19,125,455)
Total other financing (uses) sources	<u>(17,827,078)</u>	<u>3,081,825</u>	<u>28,697,016</u>	<u>12,711,674</u>	<u>26,663,437</u>
Changes in fund balances	9,454,263	(895,610)	4,033,386	-	12,592,039
Fund Balances, Beginning	<u>17,827,711</u>	<u>65,352,256</u>	<u>4,787,854</u>	<u>-</u>	<u>87,967,821</u>
Fund Balances, Ending	<u>\$ 27,281,974</u>	<u>\$ 64,456,646</u>	<u>\$ 8,821,240</u>	<u>\$ -</u>	<u>\$ 100,559,860</u>

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2020

Total Changes in Fund Balances - Governmental Funds \$ 12,592,039

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

Some property taxes will not be collected for several months after the District's fiscal year-end, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year. 89,210

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 exceed depreciation in this period:

Depreciation expense	\$ (9,138,336)	
Disposal of capital assets	(730,207)	
Capital outlays	<u>26,735,695</u>	16,867,152

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. 77,945

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, 2020 are as follows:

Issuance of long-term debt	\$ (31,560,000)	
Bond premiums	(6,414,558)	
Refunded debt	12,005,000	
Scheduled principal payments on long-term debt	<u>7,680,000</u>	(18,289,558)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include amortization of bond premiums and deferred interest from advanced refunding bonds. The net additional interest accrued in the statement of activities over the amount due is shown here. 1,315,201

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. (117,979)

Net OPEB liability is considered long-term in nature, and is not reported as a liability within the funds. Such a liability is, however, reported within the statement of net deficit, and changes in the liability is reflected within the statement of net deficit. This represents the change in OPEB liability and the deferred outflows and inflows related to the OPEB. (334,023)

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 within the statement of net deficit, and changes in the liability are reflected within the statement of net deficit. This represents the change in pension liability and the deferred outflows and inflows related to the pension. (5,830,843)

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. (147,857)

Changes in Net Deficit of Governmental Activities \$ 6,221,287

See notes to financial statements

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund
Year Ended June 30, 2020

	Budgeted Amount		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 131,317,928	\$ 131,394,013	\$ 134,183,786	\$ 2,789,773
State sources	30,848,413	30,878,238	29,981,916	(896,322)
Federal sources	1,246,041	1,471,476	2,454,158	982,682
Total revenues	163,412,382	163,743,727	166,619,860	2,876,133
Expenditures				
Instruction:				
Regular programs	65,841,831	65,861,323	63,307,631	2,553,692
Special programs	21,161,842	20,919,207	20,923,840	(4,633)
Vocational education programs	3,830,161	3,870,629	3,747,736	122,893
Other instructional programs	2,474,918	2,496,913	2,268,695	228,218
Adult education programs	5,897	5,897	6,456	(559)
Nonpublic school programs	16,020	18,327	11,753	6,574
Total instruction	93,330,669	93,172,296	90,266,111	2,906,185
Support services:				
Pupil personnel	5,645,486	5,743,420	5,561,723	181,697
Instructional staff	6,196,059	6,222,397	5,711,597	510,800
Administration	8,536,588	8,494,347	8,007,355	486,992
Pupil health	1,662,719	2,008,638	1,937,612	71,026
Business	1,680,700	1,695,338	1,475,358	219,980
Operation and maintenance of plant services	11,257,861	11,255,626	10,797,226	458,400
Student transportation services	6,811,341	6,828,649	6,377,156	451,493
Central	6,295,126	6,391,545	6,385,492	6,053
Total support services	48,085,880	48,639,960	46,253,519	2,386,441
Noninstructional services:				
Student activities	3,138,785	3,062,009	2,712,192	349,817
Community services	94,966	101,681	75,900	25,781
Scholarships and awards	10,000	10,000	141	9,859
Total noninstructional services	3,243,751	3,173,690	2,788,233	385,457
Facilities acquisition, construction and improvement services				
	-	9,494	30,656	(21,162)
Debt service				
	75,000	75,000	-	75,000
Total expenditures	144,735,300	145,070,440	139,338,519	5,731,921
Excess (deficiency) of revenues over expenditures before other financing sources (uses)				
	18,677,082	18,673,287	27,281,341	8,608,054
Other Financing Sources (Uses)				
Budgetary reserve	(1,135,169)	(1,131,374)	-	1,131,374
Proceeds from sale of capital assets	-	-	1,298,425	1,298,425
Refund of prior year receipts	-	-	(48)	(48)
Transfers out	(18,067,759)	(18,067,759)	(19,125,455)	(1,057,696)
Total other financing uses, net	(19,202,928)	(19,199,133)	(17,827,078)	1,372,055
Changes in fund balances	\$ (525,846)	\$ (525,846)	9,454,263	\$ 9,980,109
Fund Balances, Beginning			17,827,711	
Fund Balances, Ending			\$ 27,281,974	

See notes to financial statements

State College Area School DistrictStatement of Net Deficit - Proprietary Funds
June 30, 2020

	<u>Food Service Fund</u>	<u>Internal Service Fund</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 10,793	\$ -
Due from other funds	1,175	27,146
Due from other governments	264,837	-
Inventories	90,312	17,475
	<u>367,117</u>	<u>44,621</u>
Noncurrent Assets		
Equipment	1,171,722	295,882
Accumulated depreciation	(990,955)	(291,674)
	<u>180,767</u>	<u>4,208</u>
Deferred Outflows of Resources		
OPEB	32,920	3,908
Pension	740,172	61,974
	<u>773,092</u>	<u>65,882</u>
Total	<u>\$ 1,320,976</u>	<u>\$ 114,711</u>
Liabilities, Deferred Inflows of Resources and Net Deficit		
Current Liabilities		
Accounts payable	\$ 14,414	\$ 4,965
Accrued salaries and benefits	7,317	-
Due to other funds	19,710	25,994
Other liabilities	237,281	-
Unearned revenue	28,923	-
	<u>307,645</u>	<u>30,959</u>
Noncurrent Liabilities		
Net pension liability	4,829,740	404,392
Net OPEB liability	274,888	35,133
Compensated absences	48,592	20,072
	<u>5,153,220</u>	<u>459,597</u>
Total liabilities	<u>5,460,865</u>	<u>490,556</u>
Deferred Inflows of Resources		
OPEB	18,370	640
Pension	173,917	14,562
	<u>192,287</u>	<u>15,202</u>
Net Deficit		
Net investment in capital assets	180,767	4,208
Unrestricted deficit	(4,512,943)	(395,255)
	<u>(4,332,176)</u>	<u>(391,047)</u>
Total	<u>\$ 1,320,976</u>	<u>\$ 114,711</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, 2020

	Food Service Fund	Internal Service Fund
Operating Revenues		
Food service revenue	\$ 1,958,647	\$ -
Charges for services	-	427,632
	<hr/>	<hr/>
Total operating revenues	1,958,647	427,632
	<hr/>	<hr/>
Operating Expenses		
Salaries and employee benefits	2,823,342	43,577
Food, milk and supplies	1,588,010	111,251
Depreciation	32,207	1,683
Professional and technical services	11,270	84,602
Other purchased services	10,769	523
Purchased property services	15,904	117,294
Other objects	5,942	-
	<hr/>	<hr/>
Total operating expenses	4,487,444	358,930
	<hr/>	<hr/>
Operating (loss) income	(2,528,797)	68,702
	<hr/>	<hr/>
Nonoperating Revenues		
State sources	384,233	-
Federal sources	1,333,903	-
	<hr/>	<hr/>
Total nonoperating revenues	1,718,136	-
	<hr/>	<hr/>
Changes in net deficit before transfers	(810,661)	68,702
	<hr/>	<hr/>
Transfers In	466,486	-
	<hr/>	<hr/>
Changes in net deficit	(344,175)	68,702
	<hr/>	<hr/>
Net Deficit, Beginning	(3,988,001)	(459,749)
	<hr/>	<hr/>
Net Deficit, Ending	\$ (4,332,176)	\$ (391,047)
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements

State College Area School DistrictStatement of Cash Flows - Proprietary Funds
Year Ended June 30, 2020

	Food Service Fund	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 2,062,633	\$ 501,710
Cash paid to employees	(2,525,451)	(214,454)
Cash paid to vendors	(1,676,128)	(287,256)
Net cash used in operating activities	<u>(2,138,946)</u>	<u>-</u>
Cash Flows Used in Investing Activities		
Purchase of equipment	<u>(51,200)</u>	<u>-</u>
Cash Flows From Noncapital Financing Activities		
Transfers in	466,486	-
State sources	407,831	-
Federal sources	<u>1,311,311</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>2,185,628</u>	<u>-</u>
Decrease in cash and cash equivalents	(4,518)	-
Cash and Cash Equivalents, Beginning	<u>15,311</u>	<u>-</u>
Cash and Cash Equivalents, Ending	<u>\$ 10,793</u>	<u>\$ -</u>
Reconciliation of Operating (Loss) Income to Net Cash Used in Operating Activities		
Operating (loss) income	\$ (2,528,797)	\$ 68,702
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Depreciation	32,207	1,684
Pension changes	254,314	(180,451)
OPEB changes	9,612	(7,914)
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(52,334)	-
Other receivables	29,176	-
Due to/from other funds	(30,453)	100,072
Accounts payable	8,101	419
Accrued salaries and benefits	1,837	-
Other liabilities	105,263	-
Compensated absences	<u>32,128</u>	<u>17,488</u>
Net cash used in operating activities	<u>\$ (2,138,946)</u>	<u>\$ -</u>
Noncash Investing and Noncapital Financing Activities		
USDA Donated Commodities	<u>\$ 302,158</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Position - Fiduciary Fund, Agency
June 30, 2020

Assets

Current Assets

Cash	\$	361,539
Due from other funds		<u>194,823</u>
Total	\$	<u><u>556,362</u></u>

Liabilities

Current Liabilities

Due to other funds	\$	27,701
Accounts payable		598
Other current liabilities		<u>528,063</u>
Total	\$	<u><u>556,362</u></u>

See notes to financial statements

State College Area School District

Notes to Financial Statements

June 30, 2020

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, Halfmoon, 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. 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, Debt Service and Internal Service Funds 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 activities and business-type activity columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources, as well as long-term debt and obligations and deferred inflows of resources. The District's net position (deficit) is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position (deficit).

The government-wide statement of activities reports both the gross and net cost of each of the District's functions and business-type activity. 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.

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 (deficit) resulting from the current year's activities.

State College Area School District

Notes to Financial Statements

June 30, 2020

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 balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

Governmental Funds

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

General Fund

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

Capital Reserve Fund

The Capital Reserve Fund was established under the Pennsylvania Municipal Code to account for (1) moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the District at the end of a fiscal year and (3) interest earnings of the fund itself. Bond proceeds and other local, state and federal revenues may not be deposited in this fund. No transfers out of this fund are allowable for any purpose. Expenditures from this fund are limited to: capital improvements, replacement and additions to public works and improvements, for deferred maintenance, for the purchase or replacement of school buses, or to make debt service payments and for no other purpose. The Capital Reserve Fund is a major fund.

Capital Projects Fund

The Capital Project Fund accounts for the financial resources to be used 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 nonmajor fund.

State College Area School District

Notes to Financial Statements
June 30, 2020

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position (deficit), 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, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses are included in the governmental funds in the government-wide statements.

Fiduciary Funds

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

Student Activity Fund

The Student 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 (deficit).

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.

State College Area School District

Notes to Financial Statements
June 30, 2020

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 activities and business-type activity 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 (next fiscal year) or, for real estate taxes, 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.

The District reports unearned revenue on its fund financial statements. Unearned revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues may also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Budgets and Budgetary Accounting

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

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

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

Capital Assets

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

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

The District does not have any infrastructure capital assets.

State College Area School District

Notes to Financial Statements
June 30, 2020

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:

- *Nonspendable* - 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.
- *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 positive 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 balances and then to other, less-restrictive classifications-committed, assigned and then unassigned fund balances.

State College Area School District

Notes to Financial Statements

June 30, 2020

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 (deficit) 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 (deficit) 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 Employees' 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.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the PSERS Health Insurance Premium Assistance Program and the State College Area School District Postemployment Benefits Plan (the State College OPEB Plan) and additions to/deductions from PSERS and the State College OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by PSERS and the State College OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 Pronouncements

The District adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, for the year ended June 30, 2020. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The adoption of this standard did not have a significant impact on the District's financial statements.

State College Area School District

Notes to Financial Statements

June 30, 2020

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).

Pennsylvania statutes provide for the investment of governmental funds in certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for cash management and investment purposes. Pennsylvania Act 72 requires all governmental (public funds) deposits not insured by the Federal Deposit Insurance Corporation to be collateralized by the financial institution.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to the following deposit and investment risks: credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The following is a description of the District's deposit and investment risks:

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, 2020, \$111,422,432 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance, but rather were collateralized with securities held by the pledging financial institution, but not in the District's name.

Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Such assets are not considered deposits pursuant to GASB Nos. 3 and 40, and as such are not subject to custodial credit risk. At June 30, 2020, the carrying amount and bank balances of the District's investment in PSDLAF were \$4,414,863. Due to the short-term nature and liquidity of the investments held within the pool, the fair value of the underlying investments approximates amortized cost.

3. Property Taxes

Property taxes are normally levied on July 1. Taxes are collected at a 2 percent discount if paid within two months of the bill date and a 10 percent penalty is assessed for taxes paid more than four months after the bill date. 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, 2020, the following interfund balances were unpaid:

Amounts due from other funds:	
General Fund	\$ 1,673,216
Capital Reserve Fund	1,846,840
Food Service Fund	1,175
Internal Service Fund	27,146
Agency Fund	194,823
Total	<u>\$ 3,743,200</u>

State College Area School District

Notes to Financial Statements
June 30, 2020

Amounts due to other funds:	
General Fund	\$ 2,041,662
Capital Projects Fund	1,628,133
Food Service Fund	19,710
Internal Service Fund	25,994
Agency Fund	27,701
	<hr/>
Total	<u><u>\$ 3,743,200</u></u>

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

The composition of interfund transfers used to move cash between funds at June 30, 2020 is as follows:

Transfers in:	
Capital Reserve Fund	\$ 3,081,825
Capital Projects Fund	2,865,470
Debt Service Fund	12,711,674
Food Service Fund	466,486
	<hr/>
Total	<u><u>\$ 19,125,455</u></u>
Transfers out:	
General Fund	<u><u>\$ 19,125,455</u></u>

The General Fund transferred \$3,081,825 to the Capital Reserve Fund to provide funding for planned major capital projects and debt service. The General Fund also transferred \$2,865,470 to the Capital Projects Fund to cover current year building projects, \$12,711,674 to the Debt Service Fund to cover required debt service payments and \$466,486 to the Food Service Fund to cover operational expenses in excess of revenue due to the impact of the COVID-19 pandemic.

5. Due From Other Governments

The amount reported in the funds at June 30, 2020 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 1,061,573	\$ 5,648,507	\$ 758,669	\$ 7,468,749
Food Service Fund	182,966	81,871	-	264,837
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u><u>\$ 1,244,539</u></u>	<u><u>\$ 5,730,378</u></u>	<u><u>\$ 758,669</u></u>	<u><u>\$ 7,733,586</u></u>

Amounts due from the federal and state governments are primarily federal grants and state subsidies receivable from the Commonwealth of Pennsylvania, Department of Education at June 30, 2020. 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, 2020.

State College Area School District

Notes to Financial Statements

June 30, 2020

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2020 is as follows:

Delinquent real estate taxes receivable	\$ 1,539,084
Earned income taxes receivable	1,558,698
Real estate transfer tax receivable	195,707
Interim real estate tax	22,825
Local service	<u>4,378</u>
Total	3,320,692
Estimated uncollectible taxes at June 30, 2020	<u>(329,842)</u>
Total	<u><u>\$ 2,990,850</u></u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

	<u>Balance, July 1, 2019</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance, June 30, 2020</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,140,457	\$ -	\$ -	\$ 1,140,457
Construction in progress	<u>34,089,486</u>	<u>25,191,738</u>	<u>(39,674,634)</u>	<u>19,606,590</u>
Total capital assets, not being depreciated	<u>35,229,943</u>	<u>25,191,738</u>	<u>(39,674,634)</u>	<u>20,747,047</u>
Capital assets being depreciated:				
Buildings and improvements	275,759,111	276,442	33,149,321	309,184,874
Equipment and other capital assets	48,876,015	1,267,515	3,705,621	53,849,151
Equipment-internal service	<u>295,882</u>	<u>-</u>	<u>-</u>	<u>295,882</u>
Total capital assets, being depreciated	<u>324,931,008</u>	<u>1,543,957</u>	<u>36,854,942</u>	<u>363,329,907</u>
Accumulated depreciation for:				
Buildings and improvements	(49,454,536)	(7,189,732)	1,750,577	(54,893,691)
Equipment and other capital assets	(38,901,232)	(1,946,921)	338,908	(40,509,245)
Equipment, internal service	<u>(289,990)</u>	<u>(1,683)</u>	<u>-</u>	<u>(291,673)</u>
Total accumulated depreciation	<u>(88,645,758)</u>	<u>(9,138,336)</u>	<u>2,089,485</u>	<u>(95,694,609)</u>
Total capital assets being depreciated, net	<u>236,285,250</u>	<u>(7,594,379)</u>	<u>38,944,427</u>	<u>267,635,298</u>
Governmental activities capital assets, net	<u><u>\$ 271,515,193</u></u>	<u><u>\$ 17,597,359</u></u>	<u><u>\$ (730,207)</u></u>	<u><u>\$ 288,382,345</u></u>
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 1,120,522	\$ 51,200	\$ -	\$ 1,171,722
Accumulated depreciation for:				
Equipment and other capital assets	<u>(958,748)</u>	<u>(32,207)</u>	<u>-</u>	<u>(990,955)</u>
Business-type activity capital assets, net	<u><u>\$ 161,774</u></u>	<u><u>\$ 18,993</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 180,767</u></u>

State College Area School District

Notes to Financial Statements
June 30, 2020

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

Governmental activities:	
Unallocated	\$ 367,192
Instruction	1,108,123
Instructional support services	2,009
Administrative and financial support services	6,306
Operation and maintenance of plant services	<u>7,654,706</u>
 Total depreciation expenses for governmental activities	 <u>\$ 9,138,336</u>
 Business-type activities:	
Food service	<u>\$ 32,207</u>

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$12,626,112 represent salaries of \$8,860,368, the District's share of Social Security taxes of \$677,818 for employees' services during the 2019-2020 school term, which are paid during July and August 2020, and retirement plan expense of \$3,038,220 applicable to the accrued salaries at June 30, 2020 and accrued workers' compensation of \$49,706.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2020 are as follows:

	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020	Amounts Due Within One Year
Bond Series, 2012	\$ 11,395,000	\$ -	\$ 11,395,000	\$ -	\$ -
Bond Series, 2013	1,470,000	-	1,470,000	-	-
Bond Series, 2014A	1,000,000	-	520,000	480,000	240,000
Bond Series, 2014B	5,730,000	-	-	5,730,000	65,000
Bond Series, 2015	69,585,000	-	2,010,000	67,575,000	2,110,000
Bond Series, 2015B	17,930,000	-	1,400,000	16,530,000	2,205,000
Bond Series, 2017	41,760,000	-	1,035,000	40,725,000	1,075,000
Bond Series, 2018	50,350,000	-	1,135,000	49,215,000	1,195,000
Bond Series, 2019A	-	21,330,000	-	21,330,000	445,000
Bond Series, 2019B	-	10,230,000	720,000	9,510,000	975,000
 Total bonds payable	 199,220,000	 31,560,000	 19,685,000	 211,095,000	 <u>\$ 8,310,000</u>
 Bond premium	 17,767,726	 6,414,558	 1,467,978	 22,714,306	
 Total long-term debt	 <u>\$ 216,987,726</u>	 <u>\$ 37,974,558</u>	 <u>\$ 21,152,978</u>	 <u>\$ 233,809,306</u>	

State College Area School District

Notes to Financial Statements

June 30, 2020

Long-term debt at June 30, 2020 consists of the following:

\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	\$ 480,000
\$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%	67,575,000
\$21,590,000 General Obligation Bonds, Series B of 2015, due in varying annual installments beginning May 2016 through May 2028, interest rates of 3% to 5%	16,530,000
\$43,840,000 General Obligation Bonds, Series of 2017, due in varying annual installments beginning May 2018 through May 2037, interest rates of 3% to 5%	40,725,000
\$51,285,000 General Obligation Bonds, Series of 2018, due in varying annual installments beginning May 2019 through November 2044, interest rates of 2% to 5%	49,215,000
\$21,330,000 General Obligation Bonds, Series A of 2019, due in varying annual installments beginning November 2020 through May 2044, interest rates of 4% to 5%	21,330,000
\$10,230,000 General Obligation Bonds, Series B of 2019, due in varying annual installments beginning November 2019 through November 2029, interest rate of 5%	9,510,000
Unamortized bond premium	<u>22,714,306</u>
Total	233,809,306
Current portion	<u>8,310,000</u>
Long-term debt	<u>\$ 225,499,306</u>

During the year ended June 30, 2020, the District issued \$10,230,000 in General Obligation Bonds, Series B of 2019 and these proceeds were used to current refund \$10,535,000 of the District's Series 2012 Bonds and \$1,470,000 of the District's Series of 2013 Bonds. As a result of the current refunding, the District decreased its future debt service requirements by \$1,212,411 and provided an economic gain (difference between the present value of the debt service payment on the older and new debt) of \$1,097,699.

State College Area School District

Notes to Financial Statements
June 30, 2020

Debt service requirements at June 30, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2021	\$ 8,310,000	\$ 9,266,288	\$ 17,576,288
2022	8,695,000	8,858,438	17,553,438
2023	8,980,000	8,498,487	17,478,487
2024	9,425,000	8,054,188	17,479,188
2025	9,895,000	7,584,062	17,479,062
2026 - 2030	47,030,000	31,110,450	78,140,450
2031 - 2035	41,775,000	21,860,937	63,635,937
2036 - 2040	51,030,000	12,579,199	63,609,199
2041 - 2045	25,955,000	2,705,487	28,660,487
Total	<u>\$ 211,095,000</u>	<u>\$ 110,517,536</u>	<u>\$ 321,612,536</u>

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>Total</u>
Nonspendable for inventories	\$ 1,855,488	\$ -	\$ -	\$ 1,855,488
Restricted for:				
Capital projects and debt service	\$ -	\$ 64,456,646	\$ 8,821,240	\$ 73,277,886
Committed for:				
Future COVID impacts	\$ 10,158,600	\$ -	\$ -	\$ 10,158,600
PSERS	2,640,414	-	-	2,640,414
Total committed	<u>\$ 12,799,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,799,014</u>

11. Construction Commitments

The District had several active construction projects as of June 30, 2020. Outstanding construction commitments on these projects amounted to approximately \$2,550,000 (which includes retainage payable of approximately \$854,000) at June 30, 2020.

12. Retirement Plan

Plan Description

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.pa.gov.

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one 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 three 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 percent or 2.5 percent, 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 percent or 2.5 percent, depending upon membership class, of the member's final average 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.

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.5 percent (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 percent (Membership Class T-C) or at 7.5 percent (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 percent (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.

State College Area School District

Notes to Financial Statements

June 30, 2020

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5 percent (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 percent (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 percent and 9.5 percent and Membership Class T-F contribution rate to fluctuate between 10.3 percent and 12.3 percent.

Act 5 of 2017

Act 5 of 2017 created additional classes of service (Class T-G, T-H and DC) that reduce the defined benefit formula but add a defined contribution component to the employee benefit. These plans are effective for employees who join PSERS on or after July 1, 2019. Total member contributions between the two plans range from 7.5 percent to 8.25 percent, depending on the class selection. The employer contribution to the defined contribution plan ranges from 2.0 percent to 2.25 percent, with the balance of the contractually required PSERS contribution rate paid to the defined benefit plan. The defined contribution component of a PSERS retirement benefit will be based on the amount of contributions made by the member and the District and the investment performance on those contributions. Contributions have the potential to grow based on investment earnings but are not guaranteed against loss in declining investment markets.

Since pension liabilities are determined based upon the District's proportion of the overall liability measured as of the PSERS valuation date, additional details will be provided by PSERS with the actuarial valuation for June 30, 2020 which will be incorporated in the District's June 30, 2021 financial statements.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2020 was 33.45 percent 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 \$23,724,772 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$233,632,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2020, the District's proportion was .4994 percent, which was an increase of .0080 percent from its proportion measured as of June 30, 2019.

State College Area School District

Notes to Financial Statements

June 30, 2020

For the year ended June 30, 2020, the District recognized pension expense of \$29,707,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,287,000	\$ 7,744,000
Changes in assumptions	2,233,000	-
Net difference between projected and actual earnings on pension plan investments	-	669,000
Changes in proportion and differences between District contributions and proportionate share of contributions	8,560,000	-
District contributions subsequent to the measurement date	23,724,772	-
Total	<u>\$ 35,804,772</u>	<u>\$ 8,413,000</u>

\$23,724,772 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, 2020. 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:	
2021	\$ 5,681,000
2022	(1,022,000)
2023	(1,404,000)
2024	412,000
Total	<u>\$ 3,667,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward the District's total pension liability as of the June 30, 2018 actuarial valuation to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 7.25 percent, includes inflation at 2.75 percent
- Salary growth - Effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2015.

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.

State College Area School District

Notes to Financial Statements

June 30, 2020

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
Global public equity	20.0 %	5.6 %
Fixed income	36.0	1.9
Commodities	8.0	2.7
Absolute return	10.0	3.4
Risk parity	10.0	4.1
Infrastructure/MLPs	8.0	5.5
Real estate	10.0	4.1
Alternative investments	15.0	7.4
Cash	3.0	0.3
Financing (LIBOR)	(20.0)	0.7
	100 %	

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, 2019.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. 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 7.25 percent, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 291,015,000	\$ 233,632,000	\$ 185,044,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS website at www.psers.pa.gov.

State College Area School District

Notes to Financial Statements

June 30, 2020

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. In 2020, total contributions (including retirement bonus and sick payouts) were \$1,165,181.

14. Nonmonetary Transactions

The District receives USDA donated commodities in the Food Service Fund. 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 used by the District for fiscal year 2020 totaled \$283,481.

15. Operating Leases

The District leased copiers for its schools, administrative offices and print shop under operating leases expiring at various dates through June 2024.

Rent expense for 2020 was approximately \$88,000. Future minimum rental payments required under these operating leases are as follows for the years ended June 30:

Years ending June 30:		
2021	\$	98,261
2022		98,261
2023		39,617
2024		39,617
		<hr/>
Total	\$	<u>275,756</u>

16. 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.

17. Other Postemployment Benefits (OPEB)

State College Area School District Postemployment Benefits Plan

General Information about the OPEB Plan

Plan Description and Benefits Provided

The District's defined benefit OPEB plan provides postemployment benefits and health insurance benefits upon retirement with 30 years of PSERS service or age 60 with 30 years of service, age 62 with one 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.

State College Area School District

Notes to Financial Statements

June 30, 2020

The minimum requirements of the State College OPEB 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 State College OPEB Plan is unfunded and no financial report is prepared. The State College OPEB Plan is a single employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Employees Covered by Benefit Terms

At July 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	56
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>1,267</u>
Total	<u><u>1,323</u></u>

Total OPEB Liability

The District's total OPEB liability as of June 30, 2020 was \$5,483,436, which was measured as of July 1, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Interest rate	2.98%
Salary increases	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 0%
Discount rate	2.98%
Healthcare cost trend rates	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Retirees' share of benefit-related costs	Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate. However, the first year trend assumption was adjusted to account for short-term rate caps

The discount rate was based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2019.

For mortality rates, separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study (census information) as of May 2019.

State College Area School District

Notes to Financial Statements

June 30, 2020

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance, July 1, 2019	\$ 5,332,979
Changes for the year:	
Service cost	390,226
Interest	166,522
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(156,696)
Benefit payments	(249,595)
Net changes	<u>150,457</u>
Balance, June 30, 2020	<u>\$ 5,483,436</u>

Changes in assumptions or other inputs reflect a change in the discount rate from 2.98 percent in 2018 to 3.36 percent in 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.36 percent) or 1-percentage-point higher (4.36 percent) than the current discount rate:

	<u>1% Decrease (2.36%)</u>	<u>Discount Rate (3.36%)</u>	<u>1% Increase (4.36%)</u>
Total OPEB Liability	\$ 5,903,154	\$ 5,483,436	\$ 5,088,372

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 4,806,044	\$ 5,483,436	\$ 6,292,603

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$570,716.

At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 224,924	\$ 155,509
District contributions subsequent to the measurement date	234,484	-
Differences between expected and actual experience	35,436	-
	<u>\$ 494,844</u>	<u>\$ 155,509</u>

State College Area School District

Notes to Financial Statements
June 30, 2020

The \$234,484 of District contributions will be recognized as a reduction of the net OPEB liability in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:		
2021	\$	13,968
2022		13,968
2023		13,968
2024		13,968
2025		13,968
Thereafter		35,011
Total	\$	<u>104,851</u>

PSERS Health Insurance Premium Assistance Program

General Information About the PSERS Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of PSERS can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age,
and
- Participate in the HOP or employer-sponsored health insurance program.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2020 was .84 percent 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 \$595,779 for the year ended June 30, 2020.

State College Area School District

Notes to Financial Statements

June 30, 2020

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the District reported a liability of \$10,621,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB 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, 2020, the District's proportion was .4994 percent, which was an increase of .0080 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized OPEB expense of \$604,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 352,000	\$ 316,000
District contributions subsequent to the measurement date	595,779	-
Changes in proportion	423,000	-
Difference between expected and actual experience	60,000	-
Net difference between projected and actual investment earnings	18,000	-
	<u>\$ 1,448,779</u>	<u>\$ 316,000</u>

\$595,779 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:	
2021	\$ 86,000
2022	86,000
2023	83,000
2024	81,000
2025	140,000
Thereafter	61,000
	<u>61,000</u>
Total	<u>\$ 537,000</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2019, was determined by rolling forward the PSERS' Total OPEB Liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 2.79 percent - S&P 20 Year Municipal Bond Rate
- Salary growth - Effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

- Participation rate:

Eligible retirees will elect to participate Pre age 65 at 50 percent

Eligible retirees will elect to participate Post age 65 at 70 percent

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method: Market Value
- Participation rate: 63 percent of eligible retirees are assumed to elect premium assistance
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25 percent males and 75 percent females is used to determine actuarial equivalent benefits).

State College Area School District

Notes to Financial Statements

June 30, 2020

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2 %	0.02 %
U.S. core fixed income	83.1	1.00
Non U.S. developed fixed income	3.7	0.00
	100 %	

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, 2019.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.79 percent. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.79 percent which represents the S&P 20 Year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of PSERS Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2019, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents PSERS' net OPEB liability for June 30, 2019 calculated using current Healthcare cost trends as well as what PSERS' net OPEB liability would be if its health cost trends were 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Healthcare Trends Cost	1% Increase
PSERS Net OPEB Liability	\$ 10,620,000	\$ 10,621,000	\$ 10,623,000

State College Area School District

Notes to Financial Statements

June 30, 2020

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

The following presents the net OPEB liability, calculated using the discount rate of 2.79 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.79 percent) or 1-percentage-point higher (3.79 percent) than the current rate:

	<u>1% Decrease (1.79%)</u>	<u>Discount Rate (2.79%)</u>	<u>1% Increase (3.79%)</u>
District's proportionate share of the net OPEB liability	\$ 12,100,000	\$ 10,621,000	\$ 9,396,000

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS's website at www.psers.pa.gov.

18. Contingencies

In January 2020, an outbreak of a new strain of coronavirus disease, COVID-19, was identified. The World Health Organization declared COVID-19 a public health emergency on March 11, 2020. In response, all public schools in the Commonwealth were closed on March 13, 2020 and remained closed through the remainder of the 2019/2020 school year, with District students, staff and faculty transitioned to remote operations. For the fiscal year ended June 30, 2020, the COVID-19 outbreak has resulted in expenditures coming in below budget. In September 2020, the District began its 2020/2021 school year with in person, hybrid and virtual learning model operations available to its students. While this disruption is anticipated to be temporary, the extent of the impact of COVID-19 on District's operational and financial performance will depend on the development of COVID-19, including the duration and spread of the outbreak, the development of a vaccine and the ongoing impact on students, employees and vendors, all of which are uncertain and cannot be reasonably predicted at the current time. The District's Board of Education and management are monitoring the outbreak and potential financial impact, which remains uncertain.

State College Area School District

Notes to Financial Statements

June 30, 2020

19. Pending Changes in Accounting Principles

The GASB has approved the following:

Statement No. 83, *Certain Asset Retirement Obligations*

Statement No. 84, *Fiduciary Activities*

Statement No. 87, *Leases*

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*

Statement No. 91, *Conduit Debt Obligations*

Statement No. 92, *Omnibus 2020*

Statement No. 93, *Replacement of Interbank Offered Rates*

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Statement No. 96, *Subscription-Based Information Technology Arrangements*

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

GASB Statement No. 95 postpones the effective dates of Statements No. 83, 84, 89, 90, 91, 92 and 93 for a period of one year, and Statement No. 87 for a period of 18 months.

District management is in the process of evaluating these standards. When they become effective, application of these standards may restate portions of these financial statements.

State College Area School District

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

Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.4994%	0.4914%	0.4780%	0.4720%	0.4547%	0.4533%	0.4561%
District's proportionate share of the net pension liability	\$ 233,632,000	\$ 235,896,000	\$ 236,077,000	\$ 233,948,000	\$ 197,020,000	\$ 179,419,000	\$ 186,710,000
District's covered-employee payroll	\$ 68,875,231	\$ 66,177,871	\$ 63,641,184	\$ 61,126,703	\$ 58,505,811	\$ 57,843,267	\$ 58,535,370
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	339.2%	356.5%	371.0%	382.7%	336.8%	310.2%	319.0%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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

Note: Covered-employee payroll above represents the amount for the year coinciding with the measurement date.

State College Area School District

Schedule of District's PSERS Pension Contributions (Unaudited)

Year Ended June 30, 2020

	Last 10 Fiscal Years									
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 23,724,772	\$ 22,512,929	\$ 17,424,223	\$ 14,234,693	\$ 12,097,807	\$ 9,336,223	\$ 6,738,537	\$ 4,386,801	\$ 2,936,351	\$ 2,414,074
Contributions in relation to the contractually required contribution	<u>(23,724,772)</u>	<u>(22,512,929)</u>	<u>(17,424,223)</u>	<u>(14,234,693)</u>	<u>(12,097,807)</u>	<u>(9,336,223)</u>	<u>(6,738,537)</u>	<u>(4,386,801)</u>	<u>(2,936,351)</u>	<u>(2,414,074)</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	\$ 70,845,762	\$ 68,877,803	\$ 66,167,204	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815
Contributions as a percentage of covered-employee payroll	33.49%	32.69%	26.33%	22.34%	19.78%	15.96%	11.65%	7.51%	5.09%	4.02%

State College Area School District

Schedule of the District's Proportionate Share of the PSERS Net OPEB Liability (Unaudited)
Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.4994%	0.4914%	0.4780%	0.4720%
District's proportionate share of the net OPEB liability	\$ 10,621,000	\$ 10,245,000	\$ 9,741,000	\$ 10,167,000
District's covered-employee payroll	\$ 68,875,231	\$ 66,177,871	\$ 63,641,184	\$ 61,126,703
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.4%	15.5%	15.3%	16.6%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%

Note: Data is not available for years prior to June 30, 2017

Note: Covered-employee payroll above represents the amount for the year coinciding with the measurement date.

State College Area School District

Schedule of District's PSERS OPEB Contributions (Unaudited)

Year Ended June 30, 2020

	Last 10 Fiscal Years									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 595,779	\$ 573,182	\$ 538,893	\$ 440,248	\$ 504,075	\$ 491,380	\$ 507,202	\$ 381,461	\$ 601,421	\$ 459,824
Contributions in relation to the contractually required contribution	<u>(595,779)</u>	<u>(573,182)</u>	<u>(538,893)</u>	<u>(440,248)</u>	<u>(504,075)</u>	<u>(491,380)</u>	<u>(507,202)</u>	<u>(381,461)</u>	<u>(601,421)</u>	<u>(459,824)</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	\$ 70,845,762	\$ 68,877,803	\$ 66,167,204	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815
Contributions as a percentage of covered-employee payroll	0.84%	0.83%	0.81%	0.69%	0.82%	0.84%	0.88%	0.65%	1.04%	0.77%

State College Area School District

Required Supplementary Information
Schedule of Changes in Total OPEB Liability and Related Ratios - District Plan
Year Ended June 30, 2020
(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 390,226	\$ 349,168	\$ 333,833
Interest cost	166,522	161,483	115,773
Differences between expected and actual experience	-	29,035	-
Changes of assumptions	(156,696)	70,364	220,514
Benefit payments, including refunds of member contributions	<u>(249,595)</u>	<u>(190,066)</u>	<u>(158,873)</u>
Net change in total OPEB liability	150,457	419,984	511,247
Total OPEB Liability, Beginning	<u>5,332,979</u>	<u>4,912,995</u>	<u>4,401,748</u>
Total OPEB Liability, Ending	<u>\$ 5,483,436</u>	<u>\$ 5,332,979</u>	<u>\$ 4,912,995</u>
Covered-Employee Payroll	<u>\$ 65,136,517</u>	<u>\$ 65,136,517</u>	<u>\$ 59,749,056</u>
Total OPEB Liability as a Percentage of Covered-Employee Payroll	<u>8.42%</u>	<u>8.19%</u>	<u>8.22%</u>

The District implemented GASB Statement No. 75 during its year ended June 30, 2018.
Information prior to 2018 year is not available.

Notes:**Changes of Assumptions**

The discount rate changed from 3.13% in 2018 to 2.98% in 2019 to 3.36 in 2020. The trend assumption was updated.
Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

Changes in Benefit Terms

Each year's loss (or gain) is recognized over a closed period, using the average of the expected remaining services lives of all active and inactive employees that are currently receiving a benefit or may be eligible to receive a benefit in the future.

These figures are based on estimated benefit payments. These amounts may be adjusted for actual benefit payments made during the year.

**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***

To the Board of Education of
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 activity, 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, 2020, and the related notes to the financial statements, which collectively comprise State College Area School District's basic financial statements, and have issued our report thereon dated December 16, 2020.

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 opinion 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 of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of This Report

The 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 US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
State College, Pennsylvania
December 16, 2020

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

To the Board of Education of
State College Area School District

Report on Compliance for the Major Federal Program

We have audited State College Area School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
State College, Pennsylvania
December 16, 2020

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2020

Revenues

Local sources:

Current taxation:

Real estate	\$ 106,404,650
Earned income tax	18,802,288
Local service tax	376,816
Real estate transfers	3,046,841
Payments in lieu of taxes	674,646
Public utility realty tax	110,406

Total current taxation 129,415,647

Delinquent taxation 1,225,055

Total from taxation 130,640,702

Earnings from temporary investments and deposits 1,090,774

Receipts from other LEA's 16,911

Tuition 1,198,923

IDEA 781,373

Miscellaneous revenue 455,103

Total local sources 134,183,786

State sources:

Basic instructional subsidy 8,406,928

Private placement tuition 107,373

Vocational education 197,228

Special education 3,358,750

Transportation 803,219

Rental and sinking fund payments 277,820

Medical and dental services 140,519

Property tax reduction 1,423,580

Extra grants 606,921

Social Security subsidy 2,375,222

Retirement subsidy 11,921,782

Other state grants 362,574

Total state sources 29,981,916

Federal sources:

Title I 786,138

Title II A 169,277

Secondary Allocation 74,168

Title III 47,960

Title IV 45,639

CARES/ESSER 597,581

PCCD School Safety 48,336

Medical Assistance 8,130

ACCESS 676,929

Total federal sources 2,454,158

Total revenues 166,619,860

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund
Year Ended June 30, 2020

Expenditures

Instruction:	
Regular programs	\$ 63,307,631
Special programs	20,923,840
Vocational education programs	3,747,736
Other instructional programs	2,268,695
Adult education programs	6,456
Nonpublic school programs	11,753
	<hr/>
Total instruction	90,266,111
Support services:	
Pupil personnel	5,561,723
Instructional staff	5,711,597
Administration	8,007,355
Pupil health	1,937,612
Business	1,475,358
Operation and maintenance of plant services	10,797,226
Student transportation services	6,377,156
Central	6,385,492
	<hr/>
Total support services	46,253,519
Noninstructional services:	
Student activities	2,712,192
Community services	76,041
	<hr/>
Total noninstructional services	2,788,233
Facilities acquisition, construction and improvement services	<hr/>
	30,656
Total expenditures	<hr/>
	139,338,519
Excess of revenues over expenditures before other before other financing sources (uses)	<hr/>
	27,281,341
Other Financing Sources (Uses)	
Proceeds from sale of capital assets	1,298,425
Refund of prior year receipts	(48)
Transfers out	(19,125,455)
	<hr/>
Total other financing uses, net	(17,827,078)
Change in fund balances	9,454,263
Fund Balance, Beginning	<hr/>
	17,827,711
Fund Balance, Ending	<hr/>
	\$ 27,281,974

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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, 2019	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2020	Expenditures to Subrecipients
U.S. Department of Education											
Passed through the PA Department of Education:											
Title I, Part A:											
Title I Grants to Local Educational Agencies	I	84.010	013-190418	B	\$ 765,944	\$ 153,138	\$ 99,855	\$ 49,041	\$ 49,041	\$ (4,242)	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-180418	A	765,537	-	(19,675)	19,675	19,675	-	-
Title I Grants to Local Educational Agencies	I	84.010	013-200418	C	749,962	599,962	-	717,422	717,422	117,460	-
Total Title I, Part A						753,100	80,180	786,138	786,138	113,218	-
Career and Technical Education - Basic Grants to States	I	84.048	380-200064	C	74,168	55,626	-	74,168	74,168	18,542	-
English Language Acquisition State Grants	I	84.365	010-190418	B	55,211	25,765	10,387	14,374	14,374	(1,004)	-
English Language Acquisition State Grants	I	84.365	010-200418	C	45,572	42,533	-	33,586	33,586	(8,947)	-
Total English Language Acquisition State Grants						68,298	10,387	47,960	47,960	(9,951)	-
Improving Teacher Quality State Grants	I	84.367	020-190418	B	167,002	45,252	38,044	2,011	2,011	(5,197)	-
Improving Teacher Quality State Grants	I	84.367	020-200418	C	166,804	132,891	-	159,237	159,237	26,346	-
Improving Teacher Quality State Grants	I	84.367	020-180418	A	181,899	-	(8,029)	8,029	8,029	-	-
Total Improving Teacher Quality State Grants						178,143	30,015	169,277	169,277	21,149	-
Student Support and Academic Enrichment Program	I	84.424	144-190418	B	56,212	3,747	(8,562)	10,980	10,980	(1,329)	-
Student Support and Academic Enrichment Program	I	84.424	144-200418	C	57,783	38,522	-	33,392	33,392	(5,130)	-
Student Support and Academic Enrichment Program	I	84.424	144-180418	A	17,632	-	(1,267)	1,267	1,267	-	-
Total Student Support and Academic Enrichment Program						42,269	(9,829)	45,639	45,639	(6,459)	-
CARES/Elementary And Secondary School Emergency Relief Fund	I	84.425	200-200418	C	623,032	-	-	597,581	597,581	597,581	-
Total PA Department of Education						1,097,436	110,753	1,720,763	1,720,763	734,080	-
Passed through Central Intermediate Unit #10:											
Special Education Cluster (IDEA):											
Special Education - Grants to States	I	84.027	062-20-0-000	C	758,669	-	-	758,669	758,669	758,669	-
Special Education - Grants to States	I	84.027	062-19-0-010	B	734,949	734,949	734,949	-	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-20-0-010	C	2,704	2,704	-	2,704	2,704	-	-
Passed through Intermediate Unit #13:											
Special Education - Grants to States	I	84.027	062-20-0-000	C	20,000	20,000	-	20,000	20,000	-	-
Total Special Education Cluster (IDEA)						757,653	734,949	781,373	781,373	758,669	-
Total U.S. Department of Education						1,855,089	845,702	2,502,136	2,502,136	1,492,749	-
U.S. Department of Treasury											
Passed through Pennsylvania Commission on Crime and Delinquency:											
School Safety and Security Grant	I	21.019	33377	C	391,854	-	-	48,336	48,336	48,336	-
U.S. Department of Health and Human Services, Medicaid Cluster											
Medical Assistance (ACCESS), Medicaid Cluster	I	93.778	044-007418	C		6,612	3,475	8,130	8,130	4,993	-
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 5	668,628	-	668,628	668,628	-	-
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 5	115,743	115,743	-	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 5	25,955	25,955	-	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 5	198,828	-	198,828	198,828	-	-
National School Lunch Program	I (F)	10.555	264-0000	C	NOTE 5	-	-	182,966	182,966	182,966	-
Passed through the PA Department of Agriculture,											
National School Lunch Program	I	10.555	110-14-800-2	C	NOTE 5	302,158	(10,246)	283,481	283,481	(28,923)	-
Total Child Nutrition Cluster and Total U.S. Department of Agriculture						1,311,312	131,452	1,333,903	1,333,903	154,043	-
Total						\$ 3,173,013	\$ 980,629	\$ 3,892,505	\$ 3,892,505	\$ 1,700,121	\$ -

See notes to schedule of expenditures of federal awards

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal award activity of the State College Area School District (the District) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a select portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position (deficit) or cash flows of the District.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting for the Child Nutrition Cluster and the modified accrual basis of accounting for all remaining programs. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs, primarily those involving governmental activities (i.e., General Fund), are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs, including those involving business-type activities (i.e., Food Service Fund), are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

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 \$676,929 of ACCESS reimbursements for direct medical services.

4. Relationship to Federal Financial Reports

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

5. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

6. Source Codes and Grant Period Codes

Source codes used in the Schedule are as follows:

I = Indirect funding

F = Federal share

Grant period codes used in the Schedule are as follows:

A = 07/01/17 - 06/30/18

B = 07/01/18 - 06/30/19

C = 07/01/19 - 06/30/20

7. Indirect Cost Rate

The District has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were in accordance with GAAP: 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 federal program:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

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, 2019 Single Audit.