

State College Area School District

Financial Statements and
Supplementary Information

June 30, 2012

State College Area School District

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Independent Auditors' Report

Board of Education
State College Area School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State College Area School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State College Area School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report March 14, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, the General Fund budgetary comparison information on page 21 and the Schedule of Funding Progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by accounting principles generally accepted in the United States of America that 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance – General Fund (pages 47-48) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 49-50) is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the District. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

ParenteBeard LLC

State College, Pennsylvania
March 14, 2013

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

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, 2012. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Funds

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

Notes to Financial Statements

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

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2012

Government-Wide Financial Analysis

Condensed Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 48,299,371	\$ 404,789	\$ 48,704,160
Noncurrent assets	<u>87,466,486</u>	<u>166,190</u>	<u>87,632,676</u>
Total	<u>\$ 135,765,857</u>	<u>\$ 570,979</u>	<u>\$ 136,336,836</u>
Liabilities and Net Assets			
Current liabilities	\$ 20,732,194	\$ 118,940	\$ 20,851,134
Long-term liabilities:			
Due within one year	4,080,461	-	4,080,461
Due after one year	<u>65,977,257</u>	<u>66,703</u>	<u>66,043,960</u>
Total liabilities	<u>90,789,912</u>	<u>185,643</u>	<u>90,975,555</u>
Net assets:			
Invested in capital assets, net of related debt	22,821,631	166,190	22,987,821
Restricted	7,348,506	-	7,348,506
Unrestricted	<u>14,805,808</u>	<u>219,146</u>	<u>15,024,954</u>
Total net assets	<u>44,975,945</u>	<u>385,336</u>	<u>45,361,281</u>
Total	<u>\$ 135,765,857</u>	<u>\$ 570,979</u>	<u>\$ 136,336,836</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Condensed Statement of Net Assets June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 49,318,298	\$ 444,571	\$ 49,762,869
Noncurrent assets	<u>84,872,805</u>	<u>156,738</u>	<u>85,029,543</u>
Total	<u>\$ 134,191,103</u>	<u>\$ 601,309</u>	<u>\$ 134,792,412</u>
Liabilities and Net Assets			
Current liabilities	\$ 27,342,753	\$ 107,511	\$ 27,450,264
Long-term liabilities:			
Due within one year	3,434,053	-	3,434,053
Due after one year	<u>66,758,480</u>	<u>73,682</u>	<u>66,832,162</u>
Total liabilities	<u>97,535,286</u>	<u>181,193</u>	<u>97,716,479</u>
Net assets:			
Invested in capital assets, net of related debt	27,602,996	156,738	27,759,734
Restricted	7,340,908	-	7,340,908
Unrestricted	<u>1,711,913</u>	<u>263,378</u>	<u>1,975,291</u>
Total net assets	<u>36,655,817</u>	<u>420,116</u>	<u>37,075,933</u>
Total	<u>\$ 134,191,103</u>	<u>\$ 601,309</u>	<u>\$ 134,792,412</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Condensed Statement of Activities

For the year ended

June 30, 2011

	Governmental Activities	Business-Type Activity	Total
Revenues			
Program revenues:			
Charges for services	\$ 534,321	\$ 2,450,345	\$ 2,984,666
Operating grants and contributions	13,861,561	994,987	14,856,548
General revenues:		-	
Taxes levied, net	89,692,374	-	89,692,374
Grants, subsidies and contributions not restricted	6,817,883	-	6,817,883
Other	944,428	709	945,137
Total revenues	111,850,567	3,446,041	115,296,608
Program expenses			
Instruction	65,809,005	-	65,809,005
Instructional student support	8,774,467	-	8,774,467
Administration and financial support services	12,389,721	-	12,389,721
Operation and maintenance of plant services	8,891,879	-	8,891,879
Pupil transportation	5,530,452	-	5,530,452
Student activities	2,235,730	-	2,235,730
Community services	187,045	-	187,045
Interest on long-term debt	2,279,623	-	2,279,623
Unallocated depreciation	422,593	-	422,593
Food service	-	3,460,783	3,460,783
Total program expenses	106,520,515	3,460,783	109,981,298
Change in net assets	5,330,052	(14,742)	5,315,310
Net asset, beginning	31,325,765	434,858	31,760,623
Net assets, ending	\$ 36,655,817	\$ 420,116	\$ 37,075,933

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Total net assets of the District increased \$8,285,348 in 2012. Net assets of governmental activities increased by \$8,320,128, while net assets of the business-type activity decreased \$34,780.

The District had \$106,616,506 in expenses related to governmental activities in 2012; only \$12,521,972 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$102,414,662 also provided for these programs. The \$8,320,128 increase in governmental activity net assets represents the excess of revenues over expenses.

In the District's business-type activity, net assets decreased by \$34,780 as a result of the net loss of the food service operation.

As of June 30, 2012, \$15,024,954 of unrestricted net assets of the \$45,361,281 of total net assets were available to meet the District's ongoing obligations to employees and creditors. This amount reflects the payable in the amount of \$9,000,000 for the interest rate swap liability at June 30, 2012. The remaining net assets, being \$30,336,327, are invested into capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2011-2012 fiscal year were \$113,159,666 compared to \$112,458,309 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 94,419,369	\$ 92,485,708	\$ 1,933,661	2.1 %
State sources	17,194,378	16,506,599	687,779	4.2 %
Federal sources	<u>1,545,919</u>	<u>3,466,002</u>	<u>(1,920,083)</u>	(55.4) %
Total	<u>\$ 113,159,666</u>	<u>\$ 112,458,309</u>	<u>\$ 701,357</u>	

Local revenues are derived primarily from levying taxes such as the real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$1,933,661 primarily due to an increase in the real estate tax millage rate from 35.90 mills to 36.85 mills per \$1,000 of assessed value of real estate. This millage increase resulted in an increase in revenues of \$1,934,530. Tax revenue also increased \$436,050 primarily related to increased assessed values and earned income tax. Community education tuition and IDEA funding increased \$107,660 and \$224,330, respectively.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

State revenues are derived primarily from state subsidies for basic education, special education and transportation. State revenues also include a 50% reimbursement from the state for social security and retirement costs as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues in the above mentioned areas increased \$1,676,890, which offsets the elimination of \$762,660 in state revenue for charter schools received in the 2011-2012 fiscal year, and a \$198,475 decrease in revenue from a state grant.

Federal revenues include primarily Title I and II grants and medical assistance revenue from the federal government. The decrease in Federal revenues of \$1,920,083 is primarily due to the elimination of stimulus funds in Title I, IDEA, and basic education.

Expenditures

Expenditures for the 2011-2012 fiscal year were \$108,712,142 compared to 2010-2011 fiscal year were \$110,215,394 or a 1.4% decrease. The current year adjusted budget was \$112,482,015 resulting in a positive variance of \$3,769,873. The following table shows the expenditures by object category:

	2011-12	2010-11	Increase (Decrease)	Favorable (Unfavorable) Variance
Salaries and benefits	\$ 80,606,875	\$ 81,294,460	\$ (687,585)	(0.8) %
Professional services	2,969,414	3,016,546	(47,132)	(1.6) %
Purchased property services	1,926,172	1,978,213	(52,041)	(2.6) %
Other purchased services	9,034,994	8,833,909	201,085	2.3 %
Supplies	3,056,082	3,671,406	(615,324)	(16.8) %
Property	2,244,155	2,549,192	(305,037)	(12.0) %
Other objects	260,659	250,617	10,042	4.0 %
Other uses of funds	8,613,791	8,621,051	(7,260)	(0.1) %
Total	<u>\$ 108,712,142</u>	<u>\$ 110,215,394</u>	<u>\$ (1,503,252)</u>	

Salaries and benefits decreased \$687,585. Reductions in staffing resulted in decreased costs of \$3,958,930. Workers compensation expense decreased \$275,030 related to improved experience, while rate increases for health insurance and retirement increased costs \$2,169,740 and \$1,372,860, respectively.

Other purchased services increased compared to the prior year by \$201,085 primarily related to increases in student tuition.

Supplies expense decreased compared to the prior year by \$615,324. Utility cost decreased \$349,580 due primarily to milder winter temperatures. General supplies, administrative software, and books and periodical costs decreased \$252,550 in total.

Property expenditures decreased \$305,037 compared to the prior year because of significant expenditures including the purchase of three buses, new lighting in a middle school, and computer equipment funded from stimulus funds in the 2010-2011 fiscal year.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Capital Projects Funds

The Capital Project Fund is used to account for capital projects of the District. The District spent \$6,022,384 for such projects in 2011-12. The Capital Projects Fund balance was \$11,839,484 at June 30, 2012. The capital projects included renovations and improvements throughout the District, primarily consisting of the Mount Nittany and Ferguson Township Elementary 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 2012 included \$112,619,367 of revenues and \$111,869,367 of expenditures. The budget was amended by \$628,207 for additional federal, state, and local grant revenues and the related additional expenditures for those grants.

The actual revenues for 2012 were \$87,908 less than the final budget. Local revenues were \$191,963 more than budget due to revenue received for IDEA funding, tuition, rentals and occupation tax, which offset lower than budgeted real estate tax revenue. State revenues were \$41,529 less than budget and federal revenues were less than budget by \$238,342 primarily due to lower than budgeted Title II revenue and the elimination of adult basic education funding, offset by receipt of medical assistance payments that were not budgeted.

The final actual expenses were \$3,621,537 less than the budget due to responsible spending practices by the District's personnel.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2012

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2012 is summarized below (see details in Note #6 to the financial statements).

	Governmental Activities	Business-type Activity	Total
Land, buildings and improvements	\$ 110,496,508	\$ -	\$ 110,496,508
Equipment and other capital assets	38,157,299	984,953	39,142,252
Construction in progress	1,748,607	-	1,748,607
Total	150,402,414	984,953	151,387,367
Accumulated depreciation	(63,983,349)	(818,763)	(64,802,112)
Net	\$ 86,419,065	\$ 166,190	\$ 86,585,255

Long Term Debt

At June 30, 2012, the District's long-term debt of \$64,310,000 (see details in Note 8 to the financial statements) is significantly below the legal limit of approximately \$253,031,195. The District entered into an interest rate swap agreement on the \$58,050,000 General Obligation Bond Series of 2004 which has been authorized but not yet issued with the net proceeds designated for the High School renovation and construction project. In addition, the district also authorized but has not yet issued a General Obligation Bond Series A of 2006 in the amount of \$24,000,000, again with the net proceeds to be used for the High School renovation and construction project. The original swap agreement with an issue date of December 2008 was extended until December 2010. During 2008, the District expanded the use of the proceeds from the \$10,000,000 General Obligation Bond Series for 2004AA beyond the High School renovation and construction project.

Factors Expected to Have an Effect on Future Operations

The appraised value used for the 2013 budget preparation is approximately \$2 billion, which is up approximately \$18 million or 1% from 2012. Amounts available for appropriation in the general fund budget for 2012-13 are \$116,874,909, a decrease of approximately 1.6% over the 2011-12 budget of \$112,497,574. Property taxes will increase 2.4% to 37.73 mills. The District will use these increases in revenues to finance programs currently offered.

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

The District continually strives to enhance the cost-effectiveness of its operations and of its program delivery without sacrificing quality. The Citizens Advisory Committee on School Finance assists the District in this endeavor. Over the last three years, this committee has reviewed eleven areas of operations and has made recommendations accepted by the school board for implementation. Annually, the committee reviews the District's budget and planning process and is instrumental in developing the budget document. The District's financial planning process includes a five-year budget that is updated annually and can be found in the budget document. There are, however, other issues that may affect operations, which have not been included in the current long-range plan.

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

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

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

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

Strategic Plan

On September 20, 2000, a strategic planning leadership team consisting of 42 members including students, parents, citizens, representatives of business and the university, district faculty, staff and administrators, and representatives of the board of school directors, met to prepare for the process of developing a new six-year strategic plan for the District. During six meetings through the months of October and November, the team reviewed the District's mission statement, vision, beliefs, goals and strategies. The team agreed on several modifications to the preceding strategic plan and presented the revised plan to the board of school directors for approval on December 4, 2000.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Following that approval, Action Planning Teams began to develop plans of action to accomplish the eight strategies developed by the Leadership Team. These teams met from January 23 to April 6, 2001, and on April 28 and 29 presented the resulting Action Plans to the Leadership Team for review and modifications. The Board reviewed and discussed the Action Plans during June and July and, following a 30-day public comment period, the board adopted the Strategic plan on September 24, 2001. The Strategic Plan and its annual updates are required to be submitted to the Pennsylvania Department of Education by September 30 of each year. Implementation of the plan began immediately. The Leadership Team reconvenes annually to review progress and make adjustments as needed.

District Growth

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

A number of different scenarios were considered by Dr. Stewman. In nearly all of them, the District will experience a small decrease in enrollment over the next few years, followed by a return to current enrollment levels in about 10 years. The report itself can be accessed at the following website:

http://www.scasd.org/scasd/lib/scasd/Demographic_Analysis.pdf

District Wide Facilities Master Plan

The District completed a Facilities Master Plan in the spring of 2009. Since that time, the District has begun the first phase of the Master Plan. A new elementary building to replace the existing Panorama Village Elementary and Boalsburg Elementary Schools opened in August 2011. A renovation and addition to the Ferguson Township Elementary School opened at the same time. The final phase one project, a four-classroom addition to Grays Woods Elementary School, opened in early 2011.

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 Assets

June 30, 2012

	Governmental Activities	Business -Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 31,490,050	\$ 115,650	\$ 31,605,700
Restricted cash and cash equivalents	9,321,785	-	9,321,785
Taxes receivable, net	3,913,846	-	3,913,846
Due from fiduciary fund	127,382	103,393	230,775
Due from other governments	3,213,362	114,888	3,328,250
Other receivables	207,795	15,223	223,018
Inventories	24,936	55,635	80,571
Other current assets	215	-	215
Total current assets	48,299,371	404,789	48,704,160
Noncurrent assets			
Land	899,887	-	899,887
Buildings and improvements	109,596,621	-	109,596,621
Equipment and other capital assets	38,157,299	984,953	39,142,252
Construction in progress	1,748,607	-	1,748,607
Accumulated depreciation	(63,983,349)	(818,763)	(64,802,112)
Other noncurrent assets	1,047,421	-	1,047,421
Total noncurrent assets	87,466,486	166,190	87,632,676
Total assets	\$ 135,765,857	\$ 570,979	\$ 136,336,836
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 1,252,160	\$ 2,571	\$ 1,254,731
Current portion of bonds and notes payable	4,050,000	-	4,050,000
Current portion of capital lease obligation	30,461	-	30,461
Accrued salaries and benefits	8,719,928	2,085	8,722,013
Payroll deductions and withholdings	3,460,299	-	3,460,299
Deferred revenue	240,372	31,698	272,070
Other current liabilities	1,059,435	82,586	1,142,021
Interest rate swap payable	6,000,000	-	6,000,000
Total current liabilities	24,812,655	118,940	24,931,595
Noncurrent liabilities			
Bonds and notes payable	60,499,041	-	60,499,041
Capital lease obligation	15,780	-	15,780
Other postemployment benefits liability	903,985	-	903,985
Interest rate swap payable	3,000,000	-	3,000,000
Compensated absences	1,558,451	66,703	1,625,154
Total noncurrent liabilities	65,977,257	66,703	66,043,960
Total liabilities	90,789,912	185,643	90,975,555
Net Assets			
Invested in capital assets, net of related debt	22,821,631	166,190	22,987,821
Restricted	7,348,506	-	7,348,506
Unrestricted	14,805,808	219,146	15,024,954
Total net assets	44,975,945	385,336	45,361,281
Total	\$ 135,765,857	\$ 570,979	\$ 136,336,836

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities:					
Instruction	\$ (65,230,896)	\$ 294,460	\$ 9,179,613	\$ (55,756,823)	\$ -
Instructional student support	(8,642,740)	-	643,201	(7,999,539)	-
Administration and financial support services	(13,956,495)	-	415,102	(13,541,393)	-
Operation and maintenance of plant services	(7,380,721)	232,938	230,661	(6,917,122)	-
Pupil transportation	(5,555,176)	-	905,705	(4,649,471)	-
Student activities	(2,151,314)	65,631	25,531	(2,060,152)	-
Community services	(141,280)	-	3,081	(138,199)	-
Interest on long-term debt	(3,135,795)	-	526,049	(2,609,746)	-
Depreciation - unallocated	(422,089)	-	-	(422,089)	-
Total governmental activities	(106,616,506)	593,029	11,928,943	(94,094,534)	-
Business-type Activity					
Food service	(3,522,494)	2,465,475	1,022,097	-	(34,922)
Total	\$ (110,139,000)	\$ 3,058,504	\$ 12,951,040	(94,094,534)	(34,922)
General revenues					
Property taxes, levied for general purposes, net				78,346,847	-
Other taxes levied for specific purposes				14,271,211	-
Grants, subsidies and contributions not restricted				7,734,611	-
Investment earnings:					
Interest and dividends				118,387	142
Changes in the value of the interest rate swap				1,368,632	-
Miscellaneous income				574,974	-
Total general revenues				102,414,662	142
Change in net assets				8,320,128	(34,780)
Net assets, beginning				36,655,817	420,116
Net assets, ending				\$ 44,975,945	\$ 385,336

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds

June 30, 2012

	Major Funds			Debt Service	Total
	General	Capital Projects			
Assets					
Cash and cash equivalents	\$ 31,490,050	\$ -	\$ -	\$ -	\$ 31,490,050
Restricted cash and cash equivalents	-	9,321,785	-	-	9,321,785
Taxes receivable, net	3,913,846	-	-	-	3,913,846
Due from other funds	2,952,378	3,917,275	4,638	-	6,874,291
Due from other governments	3,213,362	-	-	-	3,213,362
Other receivables	47,795	-	-	-	47,795
Inventories	1,647,744	-	-	-	1,647,744
Other current assets	215	-	-	-	215
Total	\$ 43,265,390	\$ 13,239,060	\$ 4,638	\$ -	\$ 56,509,088

Liabilities and Fund Balances

Liabilities					
Due to other funds	\$ 5,792,846	\$ 922,027	\$ -	\$ -	\$ 6,714,873
Accounts payable	773,127	477,549	-	-	1,250,676
Accrued salaries and benefits	8,719,928	-	-	-	8,719,928
Payroll deductions and withholdings	3,460,299	-	-	-	3,460,299
Deferred revenue	1,223,055	-	-	-	1,223,055
Other liabilities	253,264	-	-	-	253,264
Total liabilities	20,222,519	1,399,576	-	-	21,622,095
Fund Balances					
Nonspendable	1,647,744	-	-	-	1,647,744
Restricted	-	11,839,484	4,638	-	11,844,122
Committed	11,000,000	-	-	-	11,000,000
Unassigned	10,395,127	-	-	-	10,395,127
Total fund balances	23,042,871	11,839,484	4,638	-	34,886,993
Total	\$ 43,265,390	\$ 13,239,060	\$ 4,638	\$ -	\$ 56,509,088

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2012

Total Fund Balance - Governmental Funds \$ 34,886,993

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$150,402,414 and the accumulated depreciation is \$63,983,349. 86,419,065

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. 982,683

Interest rate swap settlement receivable was not received within 60 days after year end. 160,000

Inventory of books and supplies was reclassified. (1,647,744)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund are reported with governmental activities. (31,807)

Unamortized bond issuance costs are not reported as non-current assets in the governmental funds. 1,047,421

Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds. (9,000,000)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds and notes payable	(64,549,041)
Accrued interest on long-term debt	(806,171)
Capital lease obligation	(46,241)
Other postemployment benefits liability	(903,985)
Compensated absences	(1,535,228)

Total Net Assets - Governmental Activities \$ 44,975,945

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2012

	Major Funds			
	General	Capital Projects	Debt Service	Total
Revenues				
Local sources	\$ 94,419,369	\$ 13,172	\$ -	\$ 94,432,541
State sources	17,194,378	-	-	17,194,378
Federal sources	1,545,919	-	-	1,545,919
Total revenues	113,159,666	13,172	-	113,172,838
Expenditures				
Instruction	64,847,287	-	-	64,847,287
Support services	32,898,428	258,563	-	33,156,991
Noninstructional services	2,292,502	-	-	2,292,502
Facilities acquisition, construction and improvement services	37,274	5,763,821	-	5,801,095
Debt service	51,913	63,060	5,691,188	5,806,161
Total expenditures	100,127,404	6,085,444	5,691,188	111,904,036
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)	13,032,262	(6,072,272)	(5,691,188)	1,268,802
Other Financing Sources (Uses)				
Debt proceeds	-	23,705,000	-	23,705,000
Bond premium	-	51,398	-	51,398
Refinancing of bonds	-	(23,370,432)	-	(23,370,432)
Cost of issuance	-	(322,906)	-	(322,906)
Transfer in	-	2,893,550	5,691,188	8,584,738
Transfer out	(8,584,738)	-	-	(8,584,738)
Total other financing (uses) sources	(8,584,738)	2,956,610	5,691,188	63,060
Net Change in Fund Balances	4,447,524	(3,115,662)	-	1,331,862
Fund Balance, Beginning	18,595,347	14,955,146	4,638	33,555,131
Fund Balance, Ending	\$ 23,042,871	\$ 11,839,484	\$ 4,638	\$ 34,886,993

State College Area School District

Reconciliation of the Governmental Funds - Statement of Revenues,
Expenditures and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2012

Total Change in Fund Balances-Governmental Funds **\$ 1,331,862**

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

Because some property taxes will not be collected for
several months after the District's fiscal year ends, they
are not considered as "available" revenues in the
governmental funds. Deferred tax revenues decreased
by this amount this year. 217,630

Capital outlays are reported in governmental funds as expenditures.
However, in the statements of activities, the cost of those assets
is allocated over their estimated useful lives as depreciation
expense. This is the amount by which capital outlays exceeds
depreciation and loss on disposal in this period:

Depreciation expense	\$(4,575,431)	
Loss on disposal	(96,686)	
Capital outlays	<u>7,200,400</u>	2,528,283

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. 134,098

The issuance of long term debt (bond) provides current financial
resources to government funds, while the repayment of the
principal of long-term debt consumes the current financial
resources of government funds. This transaction, however,
does not have an effect on net assets. Also, governmental
funds report the effect of issuance costs, premiums, discounts,
and other similar items when debt is issued, whereas these
amounts are deferred and amortized in the statement of activities.
Reconciling items related to long-term debt activity for the year
ended June 30, 2012 are as follows:

Issuance of bonds and notes payable	(23,705,000)	
Refund of bonds payable	8,765,000	
Advance refunding of bonds payable	13,630,000	
Scheduled principal payments on long-term debt	3,395,000	
Scheduled principal payments on capital lease obligation	29,053	
Deferred bond issuance costs	322,906	
Advance refunding prepaid interest	975,432	
Bond premium	<u>(51,398)</u>	3,360,993

Interest on long-term debt in the statement of activities differs from
the amount reported in the governmental funds because interest is
recognized as an expenditure in the funds when it is due, and thus
requires the use of current financial resources. In the statement of
activities, interest expense is recognized as the interest accrues,
regardless of when it is due. This would include amortization of
bond premiums, bond issue costs, and deferred interest from
advanced refunding bonds. The net additional interest accrued in
the statement of activities over the amount due is shown here. (753,688)

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. (38,249)

Other post employment benefits that are reflected on the statement
of net assets but are not considered a current expenditures in
governmental funds. (186,746)

Change in the interest rate swap payable and related settlement
payment receivable:

Change in the interest rate swap payable	1,368,632	
Settlement payment receivable	<u>160,000</u>	1,528,632

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. 197,313

Change in Net Assets of Governmental Activities **\$ 8,320,128**

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2012

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 94,102,000	\$ 94,227,406	\$ 94,419,369	\$ 191,963
State sources	17,217,367	17,235,907	17,194,378	(41,529)
Federal sources	1,300,000	1,784,261	1,545,919	(238,342)
Total revenues	112,619,367	113,247,574	113,159,666	(87,908)
Expenditures				
Instruction:				
Regular programs	48,755,793	48,770,946	47,596,796	1,174,150
Special programs	13,488,955	13,740,262	13,740,410	(148)
Vocational education programs	2,690,405	2,697,262	2,524,143	173,119
Other instructional programs	634,221	632,622	624,110	8,512
Adult education programs	342,439	368,323	351,754	16,569
Nonpublic school programs	14,721	10,925	10,074	851
Total instruction	65,926,534	66,220,340	64,847,287	1,373,053
Support services:				
Pupil personnel	4,018,300	4,028,148	3,823,417	204,731
Instructional staff	4,166,506	3,943,560	3,554,591	388,969
Administration	5,747,833	5,770,834	5,770,834	-
Pupil health	1,207,217	1,395,053	1,276,874	118,179
Business	934,173	933,076	915,991	17,085
Operation and maintenance of plant services	8,648,054	8,639,629	7,515,368	1,124,261
Student transportation services	5,670,317	5,663,008	5,555,176	107,832
Central	4,406,796	4,609,326	4,479,250	130,076
Other support	-	6,927	6,927	-
Total support services	34,799,196	34,989,561	32,898,428	2,091,133
Noninstructional services:				
Student activities	2,280,533	2,289,214	2,151,023	138,191
Community services	75,471	155,539	141,479	14,060
Total noninstructional services	2,356,004	2,444,753	2,292,502	152,251
Facilities acquisition, construction and improvement services	-	42,374	37,274	5,100
Debt service	39,000	51,913	51,913	-
Total expenditures	103,120,734	103,748,941	100,127,404	3,621,537
Excess of Revenues over Expenditures before Other Financing Uses	9,498,633	9,498,633	13,032,262	3,533,629
Other Financing Uses				
Transfer out	(8,748,633)	(8,748,633)	(8,584,738)	163,895
Change in Fund Balance	\$ 750,000	\$ 750,000	4,447,524	\$ 3,697,524
Fund Balance, Beginning			18,595,347	
Fund Balance, Ending			\$ 23,042,871	

See notes to financial statements

State College Area School District**Statement of Net Assets (Deficit) - Proprietary Funds**

June 30, 2012

	Food Service Fund	Internal Service Fund
Assets		
Current assets		
Cash and cash equivalents	\$ 115,650	\$ -
Due from other funds	103,393	2,135
Due from other governments	114,888	-
Other receivables	15,223	-
Inventories	55,635	24,936
Total current assets	404,789	27,071
Noncurrent assets		
Equipment	984,953	287,913
Accumulated depreciation	(818,763)	(277,786)
Total noncurrent assets	166,190	10,127
Total	\$ 570,979	\$ 37,198
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Due to other funds	\$ -	\$ 34,171
Accounts payable	2,571	1,484
Accrued salaries and benefits	2,085	-
Other liabilities	82,586	-
Deferred revenue	31,698	-
Total current liabilities	118,940	35,655
Noncurrent liabilities		
Compensated absences	66,703	23,223
Total liabilities	185,643	58,878
Net Assets		
Invested in capital assets	166,190	10,127
Unrestricted (deficit)	219,146	(31,807)
Total net assets (deficit)	385,336	(21,680)
Total	\$ 570,979	\$ 37,198

See notes to financial statements

State College Area School District**Statement of Revenues, Expenses and Changes in Net Assets (Deficit) - Proprietary Funds**
Year Ended June 30, 2012

	Food Service Fund	Internal Service Fund
Operating Revenues		
Food service revenue	\$ 2,465,475	\$ -
Charges for services	-	513,866
Total operating revenues	2,465,475	513,866
Operating Expenses		
Salaries and employee benefits	1,780,702	268,290
Professional and technical services	7,653	-
Purchased property services	13,220	191,391
Other purchased services	12,082	805
Food, milk and supplies	1,670,618	91,459
Depreciation	22,707	5,875
Other objects	15,512	170
Total operating expenses	3,522,494	557,990
Operating Loss	(1,057,019)	(44,124)
Nonoperating Revenues		
State sources	184,727	-
Federal sources	837,370	-
Earnings on investments	142	-
Total nonoperating revenues	1,022,239	-
Change in Net Assets	(34,780)	(44,124)
Net Assets, Beginning	420,116	22,444
Net Assets (Deficit), Ending	\$ 385,336	\$ (21,680)

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2012

	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,430,641	\$ 517,780
Cash paid to employees	(1,787,681)	(268,134)
Cash paid to vendors	(1,724,868)	(249,646)
Net cash used in operating activities	(1,081,908)	-
Cash Flows from Noncapital Financing Activities		
State sources	173,324	-
Federal sources	767,414	-
Net cash provided by noncapital financing activities	940,738	-
Cash Flows from Investing Activities		
Purchase of equipment	(32,159)	-
Earnings on investments	142	-
Net cash used in investing activities	(32,017)	-
Decrease in Cash and Cash Equivalents	(173,187)	-
Cash and Cash Equivalents, Beginning	288,837	-
Cash and Cash Equivalents, Ending	<u>\$ 115,650</u>	<u>\$ -</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities		
Operating loss	\$ (1,057,019)	\$ (44,124)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	22,707	5,875
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(6,580)	2,150
Other receivables	5,475	
Due to/from other funds	(42,409)	38,085
Accounts payable	797	(2,142)
Other liabilities	2,100	-
Compensated absences	(6,979)	156
Net Cash Used in Operating Activities	<u>\$ (1,081,908)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Assets - Fiduciary Fund - Agency

June 30, 2012

Assets

Current Assets

Cash	\$ 643,150
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Liabilities

Current liabilities

Due to other funds	\$ 230,775
Accounts payable	18,933
Other current liabilities	393,442

Total	\$ 643,150
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See notes to financial statements

State College Area School District

Notes to Financial Statements

June 30, 2012

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. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds the District has chosen not to. The more significant accounting policies of the District are described below.

Nature of Operations

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

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

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in GASB Statement 14 as amended by GASB Statement 39. 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 which should be included in the District's financial statements.

Basic Financial Statements – Government-Wide Statements

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

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

State College Area School District

Notes to Financial Statements

June 30, 2012

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

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

The District does not allocate indirect costs.

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

Basic Financial Statements—Fund Financial Statements

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

The following fund types are use by the District:

Governmental Funds

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

General Fund

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

Capital Projects Fund

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

Debt Service Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2012

Proprietary Funds

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

Food Service Fund

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

Internal Service Fund

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

Fiduciary Funds

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

Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Activity Fund

The Activity Fund accounts for the monies authorized by Section 511, of the Public School Code of 1949, for school publications and organizations. Activity funds are Agency Funds but are separated from other Agency Funds because of legal requirements.

Measurement Focus

Government-Wide Financial Statements

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

State College Area School District

Notes to Financial Statements
June 30, 2012

Fund Financial Statements

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

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

Basis of Accounting

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

Accrual Basis

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

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

Modified Accrual Basis

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

Budgets and Budgetary Accounting

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

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

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

State College Area School District

Notes to Financial Statements

June 30, 2012

Capital Assets

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

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

The District does not have any infrastructure capital assets.

Inventories

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

Compensated Absences

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

Governmental Fund Balances

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

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

State College Area School District

Notes to Financial Statements
June 30, 2012

- *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
- *Unassigned* – includes position fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

Restricted Net Assets/Fund Balances

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

Use of Estimates

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

New Accounting Principles

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession*. This statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. GASB 60 is effective for the District's fiscal calendar year 2013 financial statements.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This statement improves financial reporting for a governmental financial reporting entity. GASB 61 is effective for the District's fiscal calendar year 2013 financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB 62 is effective for the District's fiscal calendar year 2013 financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. GASB 63 is effective for the District's fiscal year ending 2013 financial statements.

State College Area School District

Notes to Financial Statements June 30, 2012

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement changes the manner in which nonexchange transactions, sales of future revenues, accounting for leases and the term "deferred" are presented in the financial statements. To the extent applicable, the District is required to adopt Statement No. 65 for its fiscal year ending 2014 financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*. This statement amends Statement No. 10, *Use of Special Revenue Funds to Report Risk Financing Activities* and Statement No. 62, *Operating Lease, Purchase of a Loan or Group of Loans, and Servicing Fees*. These statements were amended to remove language that conflicts with other statements. To the extent applicable, the District is required to adopt Statement No. 66 for its fiscal year ending 2014 financial statements.

In June 2012, GASB issued Statement No. 67 of *Financial Reporting for Pension Plan*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. To the extent applicable, the District is required to adopt Statement No. 67 for its fiscal year ending 2014 financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. To the extent applicable, the District is required to adopt Statement No. 67 for its fiscal year ending 2015 financial statements.

District management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

State College Area School District

Notes to Financial Statements
June 30, 2012

2. Cash and Cash Equivalents

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

Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At June 30, 2012, \$17,472,778 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$17,472,778 was collateralized with securities held by the pledging financial institution, but not in the District's name.

Pennsylvania School District Liquid Asset Fund

The Pennsylvania School District Liquid Asset Fund ("PSDLAF") contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Since PSDLAF has the characteristics of a mutual fund, it is not subject to the disclosure requirements promulgated by GASB Nos. 3 and 40. At June 30, 2012, the carrying amount and bank balances of the District's investment in PSDLAF was \$4,997,840 and \$5,001,744, respectively.

3. Property Taxes

Property taxes are levied on July 1. Taxes are collected at a 2% discount until September 1, at their face amount from September 15 until November 15, and include a 10% penalty thereafter. The taxes are billed by Centre County, Pennsylvania, and are collected by elected tax collectors. Centre County also collects delinquent real estate taxes for the District.

4. Interfund Receivables, Payables and Transfers

At June 30, 2012, the following interfund balances were unpaid:

Amounts due from other funds:

General fund	\$ 2,952,378
Capital projects fund	3,917,275
Debt service fund	4,638
Food service fund	103,393
Internal service fund	2,135

Total	<u>\$ 6,979,819</u>
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Amounts due to other funds:

General fund	\$ 5,792,846
Capital projects fund	922,027
Agency fund	230,775
Internal service fund	34,171

Total	<u>\$ 6,979,819</u>
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State College Area School District

Notes to Financial Statements

June 30, 2012

Interfund balances primarily arise between the General Fund and other funds due to operating expenses paid out of the General Fund and reimbursed by the applicable fund on a monthly basis.

The composition of interfund transfers, used to move cash between funds at June 30, 2012 is as follows:

Transfers in:	
Capital projects fund	\$ 2,893,550
Debt service fund	<u>5,691,188</u>
Total	<u>\$ 8,584,738</u>
Transfers out,	
General fund	<u>\$ 8,584,738</u>

5. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2012 follows:

Delinquent real estate taxes receivable	\$ 1,679,625
Earned income taxes receivable	2,491,357
Real estate transfer tax receivable	259,631
Supplemental real estate tax	16,377
Local service	<u>12,086</u>
Total	4,459,076
Estimated uncollectible taxes at June 30, 2012	<u>(545,230)</u>
Total	<u>\$ 3,913,846</u>

State College Area School District

Notes to Financial Statements
June 30, 2012

6. Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Increases	Transfers/ Decreases	Balance June 30, 2012
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	28,099,381	5,961,075	(32,311,849)	1,748,607
Total capital assets, not being depreciated	28,999,268	5,961,075	(32,311,849)	2,648,494
Capital assets being depreciated:				
Buildings and improvements	78,554,157	51,605	30,990,859	109,596,621
Equipment and other capital assets	35,735,674	1,187,720	945,991	37,869,385
Equipment-internal service	287,913	-	-	287,913
Total capital assets, being depreciated	114,577,744	1,239,325	31,936,850	147,753,919
Accumulated depreciation for:				
Buildings and improvements	\$ (32,209,716)	\$ (2,822,481)	\$ 278,313	\$ (34,753,884)
Equipment and other capital assets	(27,204,603)	(1,747,076)	-	(28,951,679)
Equipment-internal service	(271,911)	(5,874)	-	(277,785)
Total accumulated depreciation	(59,686,230)	(4,575,431)	278,313	(63,983,348)
Total capital assets being depreciated, net	54,891,514	(3,336,106)	32,215,163	83,770,571
Governmental activities capital assets, net	\$ 83,890,782	\$ 2,624,969	\$ (96,686)	\$ 86,419,065
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 952,794	\$ 32,159	\$ -	\$ 984,953
Accumulated depreciation, Equipment and other capital assets	(796,056)	(22,707)	-	(818,763)
Business-type activity capital assets, net	\$ 156,738	\$ 9,452	\$ -	\$ 166,190

State College Area School District

Notes to Financial Statements
June 30, 2012

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

Government activities:	
Unallocated	\$ 422,089
Instruction	1,236,067
Instructional support services	1,951
Student activities	3,175
Administrative and financial support services	<u>2,912,149</u>
Total depreciation expenses for governmental activities	<u>\$ 4,575,431</u>
Business-type activities, Food service equipment	<u>\$ 22,707</u>

7. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$8,719,928 represent salaries of \$7,467,345, the District's share of Social Security taxes of \$571,252 for teachers' services during the 2011-2012 school term, which are paid during July and August 2012, and retirement plan expense of \$645,924 applicable to the accrued salaries at June 30, 2012, and accrued workers' compensation of \$35,402.

8. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2012 are as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amounts due within one year
Bond Series - 2006	\$ 8,765,000	\$ -	\$ (8,765,000)	\$ -	\$ -
Bond Series - 2009	9,570,000	-	(460,000)	9,110,000	465,000
General Obligation Note - Series of 2008	5,740,000	-	(1,220,000)	4,520,000	1,255,000
Bond Series - 2010A	14,580,000	-	(1,050,000)	13,530,000	1,510,000
Bond Series - 2010B	8,670,000	-	(290,000)	8,380,000	390,000
Bond Series - 2010C	5,440,000	-	(10,000)	5,430,000	10,000
General Obligation Note - Series A of 2011	13,630,000	-	(13,630,000)	-	-
Bond Series - 2011B	-	8,740,000	(165,000)	8,575,000	415,000
Bond Series - 2011C	-	200,000	(200,000)	-	-
Bond Series - 2012	-	14,765,000	-	14,765,000	5,000
Total bonds and notes payable	66,395,000	23,705,000	(25,790,000)	64,310,000	<u>\$ 4,050,000</u>
Bond premium	1,404,657	51,398	(96,668)	1,359,387	
Deferred amounts on refunding	<u>(155,265)</u>	<u>(975,432)</u>	<u>10,351</u>	<u>(1,120,346)</u>	
Total long-term debt	<u>\$ 67,644,392</u>	<u>\$ 22,780,966</u>	<u>\$ (25,876,317)</u>	<u>\$ 64,549,041</u>	

State College Area School District

Notes to Financial Statements
June 30, 2012

Long-term debt at June 30, 2012 consists of the following:

\$9,995,000 General Obligation Bonds, Series of 2009, due in varying annual installments through March 2022, interest rates of 2% to 4%	\$ 9,110,000
\$9,515,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	4,520,000
\$15,675,000 General Obligation Bonds, Series of 2010A, due in varying annual installments through May 2025, interest rates of 2.5% to 4.0%	13,530,000
\$8,875,000 General Obligation Bonds, Series of 2010B, due in varying annual installments through May 2026, interest rates of 2.5% to 4.0%	8,380,000
\$5,450,000 General Obligation Bonds, Series of 2010C, due in varying annual installments through May 2028, interest rates of 2.5% to 4.0%	5,430,000
\$8,740,000 General Obligation Bonds, Series B of 2011, due in varying annual installments through May 2028, interest rates of .65% to 4.0%	8,575,000
\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	14,765,000
Unamortized bond premium	1,359,387
Unamortized prepaid bond interest	<u>(1,120,346)</u>
Total	64,549,041
Current portion	<u>(4,050,000)</u>
Long-term debt	<u>\$ 60,499,041</u>

State College Area School District

Notes to Financial Statements

June 30, 2012

Debt service requirements at June 30, 2012 are as follows:

Year ending June 30:	Principal	Interest	Total
2013	\$ 4,050,000	\$ 2,082,255	\$ 6,132,255
2014	4,386,800	1,968,322	6,355,122
2015	4,191,800	1,847,760	6,039,560
2016	3,661,800	1,952,006	5,613,806
2017	3,081,800	1,575,012	4,656,812
2018 – 2022	18,853,998	6,180,708	25,034,706
2023 – 2027	20,185,352	3,115,878	23,301,230
2028 – 2029	6,137,491	264,682	6,402,173
Total	<u>\$ 64,549,041</u>	<u>\$ 18,986,623</u>	<u>\$ 83,535,664</u>

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

In 2012, the District issued \$8,940,000 in General Obligation Bonds, Series of 2011B and 2011C to refund the 2006 General Obligation Bonds. The refunding reduced the District's total debt service payments over the next sixteen years by approximately \$371,000 and provided an economic gain (difference between the present value of the debt services payment on the old and new debt) of approximately \$309,000.

In 2012, the District issued \$14,765,000 in General Obligation Bonds with varying interest rates from .5% to 3.5%. The proceeds of the bonds were used to advance refund \$13,630,000 of the District's Series A of 2011 Note which were outstanding at June 30, 2011.

This advanced refunding increased the District's total debt service payments over the next eighteen years by approximately \$5,138,000 and resulted in an economic loss (difference between the present value of the debt service payment on the old and new debt) of approximately \$774,000. The Series A of 2011 Note was issued as a short term note due to various uncertainties under the capital program, with the intent of issuing longer term bonds in the near future.

9. Capital Lease Obligation

In 2003-2004, the District entered into a 10-year municipal lease agreement for electrical lighting upgrades at several schools. The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2012:

Years ending June 30:

2013	\$ 32,316
2014	<u>16,158</u>
Total minimum lease payments	48,474
Less amount representing interest	<u>(2,233)</u>
Present value of future minimum lease payments	46,241
Current portion	<u>(30,461)</u>
Long-term portion	<u>\$ 15,780</u>

State College Area School District

Notes to Financial Statements

June 30, 2012

10. Fund Balance Classifications

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total</u>
Non-spendable for, Inventories	\$ 1,647,744	\$ -	\$ -	\$ 1,647,744
Restricted for:				
Capital projects	\$ -	\$ 11,839,484	\$ -	\$ 11,839,484
Debt services	-	-	4,638	4,638
Total	\$ -	\$ 11,839,484	\$ 4,638	\$ 11,844,122
Committed for, PSERS	\$ 11,000,000	\$ -	\$ -	\$ 11,000,000

11. Construction Commitments

The District had several active construction projects as of June 30, 2012. At year-end the District's construction in progress balance consisted of the following:

<u>Project</u>	<u>Expended through June 30, 2012</u>
Memorial Field	\$ 408,103
High school asbestos removal	409,025
High school pool renovations	409,356
Other renovations	522,123
Total	\$ 1,748,607

Construction in progress at June 30, 2012 in the amount of \$1,748,607 primarily related to Memorial Field renovations and deferred maintenance projects throughout the district facilities. Outstanding construction commitments on these projects amounted to approximately \$1.6 million at June 30, 2012.

State College Area School District

Notes to Financial Statements

June 30, 2012

12. Defined Benefit Pension Plan

All full-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the "System"), a governmental cost sharing multiple-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2012 was \$58,137,396.

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

The contribution policy is set by Act 96, dated October 2, 1975, as amended, and requires contributions by active employees, districts and the Commonwealth. The contribution required of districts is based upon an actuarial valuation computed as a percentage of the total compensation. Most active members contribute 7.5 percent of the members qualifying compensation. Members joining the System before July 22, 1983 contribute 5.25% of compensation. The District's contribution rate was 8.65% in 2012, 5.64% in 2011, and 4.78% in 2010 of annual covered payroll. The District's contribution requirement for the year ended June 30, 2012 was \$4,768,262, 2011 was \$3,537,772, and 2010 was \$2,873,898.

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

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

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, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2012, total contributions (including retirement bonus and sick payouts) were \$1,331,729.

State College Area School District

Notes to Financial Statements

June 30, 2012

14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government for fiscal year 2012 totaled \$164,172.

15. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under a three-year and four-year operating lease expiring July 2013 and July 2014, respectively. The following is a schedule of future minimum rental payments required under the above operating lease as of June 30, 2012:

Years ending June 30:	
2013	\$ 175,440
2014	<u>58,323</u>
Total	<u>\$ 233,763</u>

Rent expense for 2012 was \$175,440.

16. Contingencies and Commitments

In August 2004, the District authorized and incurred variable rate General Obligation Bonds of \$58,050,000 (the "2004 bonds") for alterations, additions and improvements to the High School North and High School South secondary school buildings planned for 2007. Because the High School renovation project was abandoned at the end of fiscal year ended June 30, 2007, the District has not issued the 2004 bonds (although they remain incurred). In April 2006, in conjunction with the anticipated issuance of the 2004 bonds, the District entered into a forward interest rate swap agreement (the "contract"), with Royal Bank of Canada ("RBC") as a means to manage interest rate exposure. Rhoads & Sinon, LLP ("Rhoads") served as the District's bond counsel in connection with the contract. Public Financial Management, Inc. and PFM Asset Management, LLC (collectively "PFM") rendered advisory services to the District in connection with the contract. A November 2007 amendment to the contract extended its effective date to December 1, 2010 (the District's first payment was due on May 2, 2011). In August 2010, the District filed a lawsuit against RBC that sought, among other relief, an order declaring the swap *void ab initio* and unenforceable under the Pennsylvania Local Government Unit Debt Act because the underlying 2004 bonds had not been issued. RBC filed a counterclaim against the District to recover an early swap termination payment of \$10,386,632 that became payable under the contract following the District's failure to make its initial semi-annual fixed interest rate payment to RBC by the May 2, 2011 due date. The District recorded this liability on the Statement of Net Assets related to governmental activities at June 30, 2011. RBC subsequently joined Rhoads as a third-party defendant in the District's lawsuit against RBC, and Rhoads joined PFM as fourth-party defendants. The District did not assert claims against Rhoads or PFM in the lawsuit. In an October 2012 ruling, the court found, among other things, that the contract was valid and enforceable under Pennsylvania law. See subsequent events (Note 19) disclosure concerning the subsequent settlement of the lawsuit.

State College Area School District

Notes to Financial Statements

June 30, 2012

In April 2006, the District approved, but has not issued, General Obligation Bonds of \$24,000,000 to provide funds for the High School renovation project and for the paying of the costs and expenses of issuing the bonds. Because the High School renovation project was stopped at the end of the fiscal year ended June 30, 2007, the District has not authorized the issuance of these bonds as of this report date.

17. Other Postemployment Benefits

Plan Description

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

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

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contributions are equal to the premiums determined for the purpose of COBRA. The District did not pay premiums for the year ended June 30, 2012. Total retiree contributions made by plan members were \$918,129 for the year ended June 30, 2012.

State College Area School District

Notes to Financial Statements
June 30, 2012

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 398,573
Interest on net OPEB obligation	32,276
Adjustment to annual required contribution	<u>(44,032)</u>
Annual OPEB cost (expense)	386,817
Contributions made	<u>(200,071)</u>
Increase in net OPEB obligation	186,746
Net OPEB obligation at July 1, 2011	<u>717,239</u>
Net OPEB obligation at June 30, 2012	<u>\$ 903,985</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 386,817	51.7 %	\$ 903,985

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 3,066,971
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,066,971</u>
Funded ration (actuarial value of plan assets/UAAL)	0%
Covered payroll	<u>\$ 54,590,199</u>
UAAL as a percentage of covered payroll	5.6%

State College Area School District

Notes to Financial Statements

June 30, 2012

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

Actuarial Methods and Assumptions

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

The District's Annual Required Contribution (ARC) was determined through an actuarial valuation performed as of January 1, 2011 using the following assumptions:

Valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 3% to .25%
Health care cost trend rate	9.5% in 2010 decreasing .5% per year to an ultimate rate of 5.5% in 2018 and later
Amortization method	Level dollar 30 year open period

18. Transactions with Other LEAs

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

State College Area School District

Notes to Financial Statements
June 30, 2012

19. Subsequent Events

Interest Rate Swap Settlement Agreement

In February 2013, a settlement agreement related to the interest rate swap agreement was entered into by the District, RBC, Rhoads, and PFM. This agreement settles and resolves all disputes where all parties agreed to the following:

The District will pay \$9,000,000 to RBC in six annual installments beginning in March 2013. The repayment schedule is as follows:

Years ending June 30:	
2013	\$ 6,000,000
2014	800,000
2015	550,000
2016	550,000
2017	550,000
2018	550,000
Total	<u>\$ 9,000,000</u>

This liability is recorded on the Statement of Net Assets related to governmental activities at June 30, 2012. The change in the liability from the fair value at date of termination to the settlement amount is included in investment earnings in the Statement of Activities.

Under the settlement, Rhoads will make a lump sum payment of \$100,000 to the District in March 2013. PFM will make a lump sum payment of \$60,000 to the District in March 2013. These amounts are recorded with other receivables on the Statement of Net Assets at June 30, 2012.

SCAEA Contract

In January 2013, the District and the State College Area Educational Association ("SCAEA") reached a contract settlement after almost 24 months of negotiations. The previous contract expired on June 30, 2011. The new contract covers the period 2011 through 2015. This contract was settled after the District Board of Directors requested the assistance of the Pennsylvania Labor Relations Board through fact-finding mediation in October 2012. The fact-finder held a mediation session in December 2012, subsequently issuing a report in January 2013. This report was accepted by both the District and the bargaining unit. Once accepted, this report, along with the previously agreed upon items became the basis for the new contractual agreement. The average salary increase including salary step movement is 2.1% each year during the contract. The contract includes significant changes in the medical insurance plan and employee contributions, resulting in savings for the District.

State College Area School District

Schedule of Funding Progress
Required for Other Postemployment Benefit Plans
Information is as of the Most Recent Actuarial Valuation
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2011	\$ -	\$ 3,066,971	\$ 3,066,971	0.00%	\$ 54,590,199	5.6%
January 1, 2008	-	3,212,176	3,212,176	0.00%	50,791,629	6.3%

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

State College Area School District**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**
Year Ended June 30, 2012**Revenues**

Local sources:

Current taxation:

Real estate	\$ 74,953,332
Earned income tax	13,893,058
Emergency Municipal service tax	378,153
Real estate transfers	1,500,365
Payments in lieu of taxes	431,763
Public utility realty tax	122,056

Total current taxation 91,278,727

Delinquent taxation 1,121,701

Total from taxation 92,400,428

Earnings from temporary investments and deposits	105,215
Receipts from other LEA's	128,921
Miscellaneous revenue	1,784,805

Total local sources 94,419,369

State sources:

Basic instructional subsidy	6,307,887
Private placement tuition	99,487
Vocational education	105,362
Driver education	19,040
Special education	3,221,641
Transportation	805,781
Rental and sinking fund payments	526,049
Medical and dental services	137,064
Property tax reduction	1,426,724
Social Security subsidy	2,097,492
Retirement subsidy	2,304,441
Other state grants	143,410

Total state sources 17,194,378

Federal sources:

Title I	622,945
Title II A	188,690
Title II C	67,604
Title III	56,720
Drug free schools	15,400
IDEA Part B, ARRA	68,604
Education Jobs, ARRA	6,834
Medical Assistance	314,737
ACCESS	30,817
Other federal grants	173,568

Total federal sources 1,545,919

Total revenues 113,159,666

State College Area School District**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**
Year Ended June 30, 2012**Expenditures**

Instruction:	
Regular programs	\$ 47,596,796
Special programs	13,740,410
Vocational education programs	2,524,143
Other instructional programs	624,110
Adult education programs	351,754
Nonpublic school programs	<u>10,074</u>
Total instruction	<u>64,847,287</u>
Support services:	
Pupil personnel	3,823,417
Instructional staff	3,554,591
Administration	5,770,834
Pupil health	1,276,874
Business	915,991
Operation and maintenance of plant services	7,515,368
Student transportation services	5,555,176
Central	4,479,250
Other support	<u>6,927</u>
Total support services	<u>32,898,428</u>
Noninstructional services:	
Student activities	2,151,023
Community services	<u>141,479</u>
Total noninstructional services	<u>2,292,502</u>
Facilities acquisition, construction and improvement services	<u>37,274</u>
Debt service	<u>51,913</u>
Total expenditures	<u>100,127,404</u>
Excess of Revenues over Expenditures before Other	
 before Other Financing Uses	13,032,262
Other Financing Uses	
Transfer out	<u>(8,584,738)</u>
Change in Fund Balance	4,447,524
Fund Balance, Beginning	<u>18,595,347</u>
Fund Balance, Ending	<u><u>\$ 23,042,871</u></u>

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

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, 2011	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2012
U.S. Department of Education									
Passed through the PA Department of Education:									
Title I, Part A Cluster:									
I	84.010	013-120418	C	\$ 626,612	\$ 469,607	\$ -	\$ 581,300	\$ 581,300	\$ 111,693
I	84.010	013-110418	B	659,100	143,706	93,856	41,646	41,646	(8,204)
					613,313	93,856	622,946	622,946	103,489
Total Title I, Part A Cluster									
I	84.002	041-100090	B	118,910	24,371	24,371	-	-	-
					24,371	24,371	-	-	-
Adult Ed - Section 322									
Total Adult Ed									
I	84.048	380-111058	B	71,001	12,713	12,713	-	-	-
I	84.048	380-122016	C	69,197	69,197	-	67,604	67,604	(1,593)
					81,910	12,713	67,604	67,604	(1,593)
Secondary Allocation									
Total Secondary Allocation									
I	84.186	100-100574	B	18,786	7,045	(5,956)	15,399	15,399	2,398
Drug Free Schools									
I	84.365	010-110418	B	36,342	23,127	(3,011)	26,138	26,138	-
I	84.365	010-120418	C	62,910	17,132	-	30,582	30,582	13,450
I	84.365	010-100418	A	44,545	12,148	12,148	-	-	-
					52,407	9,137	56,720	56,720	13,450
Total Title III									
I	84.367	020-110418	B	235,977	35,349	(7,757)	43,106	43,106	-
I	84.367	020-120418	C	198,094	131,810	-	145,584	145,584	13,774
					167,159	(7,757)	188,690	188,690	13,774
Total Title II									
I	84.410	140-141757	B	6,834	-	-	6,834	6,834	6,834
Education Jobs Fund - ARRA									
I	94.004	019-10-2070	B	8,000	1,490	(831)	2,321	2,321	-
I	94.004	019-11-0007	C	15,000	7,500	-	11,998	11,998	4,498
					8,990	(831)	14,319	14,319	4,498
Total Learn and Serve America									
Total PA Department of Education									
					955,195	125,533	972,512	972,512	142,850
Passed through Central Intermediate Unit #10:									
Special Education Cluster (IDEA):									
I	84.027		B	613,766	613,766	613,766	-	-	-
I	84.027		C	851,152	9,659	-	851,152	851,152	841,493
I	84.391		C	68,604	68,604	-	68,604	68,604	-
I	84.391		B	565,607	565,607	565,607	-	-	-
I	84.391		A	475,000	453,717	453,717	-	-	-
					1,711,363	1,633,090	919,756	919,756	841,493
Total Special Education Cluster (IDEA)									
Grants for the Integration of Schools and Mental Health Systems									
	84.215		B	373,704	130,707	28,394	159,250	159,250	56,937
Total U.S. Department of Education									
					2,797,255	1,787,017	2,051,518	2,051,518	1,041,280
U.S. Department of Health and Human Services									
Passed through Pennsylvania Department of Public Welfare									
I	93.778	044-007418	C	30,614	30,817	-	30,817	30,817	-
Administrative Claiming Quarterly Program									

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

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, 2011	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2012
U.S. Department of Agriculture										
Passed through the PA Department of Education:										
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 6	\$ 18,405	\$ 18,405	\$ -	\$ -	\$ -
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	477,112	-	560,715	560,715	83,603
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	3,158	3,158	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	78,674	-	94,493	94,493	15,819
National School Lunch Program	I (F)	10.553	367-0000	B	NOTE 6	77	77	-	-	-
National School Lunch Program	I (F)	10.553	367-0000	C	NOTE 6	2,941	-	3,648	3,648	707
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 6	14,342	-	14,342	14,342	-
National School Lunch Program	I (S)	N/A	510-0000	C	NOTE 6	8,718	-	10,514	10,514	1,796
National School Lunch Program	I (S)	N/A	510-0000	B	NOTE 6	348	348	-	-	-
National School Lunch Program	I (S)	N/A	511-0000	C	NOTE 6	76,409	-	89,372	89,372	12,963
National School Lunch Program	I (S)	N/A	511-0000	B	NOTE 6	3,009	3,009	-	-	-
Passed through the PA Department of Agriculture, Value of USDA Donated Commodities	I	10.555				172,704	(23,166)	164,172	164,172	(31,598)
Total U.S. Department of Agriculture						855,897	1,831	937,256	937,256	83,190
Total						\$ 3,683,969	\$ 1,788,848	\$ 3,019,591	\$ 3,019,591	\$ 1,124,470

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, 2012

1. General

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

2. Basis of Accounting

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

3. Access Reimbursements

Access reimbursements for direct medical services are classified as fee-for-service revenues and are not considered federal awards. The General Fund federal revenues include \$314,737 of Access reimbursements for direct medical services.

4. State Matching Funds

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

5. Relationship to Federal Financial Reports

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

6. National School Lunch Program

The program amount for the national school lunch program is based on a set per meal reimbursement rate.

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

7. Source Code and Grant Period Code

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

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

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

A	= 07/01/09 – 06/30/10
B	= 07/01/10 – 06/30/11
C	= 07/01/11 – 06/30/12

**Independent Auditors' Report on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Education
State College Area School District

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of the State College Area School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2013. 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.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of the board of education, management, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "ParenteBeard LLC". The script is cursive and fluid, with the letters "P", "B", and "L" being particularly prominent.

State College, Pennsylvania
March 14, 2013

**Independent Auditors' Report on
Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with
OMB Circular A-133**

Board of Education
State College Area School District

Compliance

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of education, management, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ParenteBeard LLC

State College, Pennsylvania
March 14, 2013

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

_____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?

_____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number

10.553, 10.555, 10.559

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.