

**State College Area School
District**

Financial Statements and
Supplementary Information

June 30, 2010

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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 53, Accounting and Financial Reporting for Derivative Instruments in 2010 which required the District to restate its July 1, 2009 net assets to adopt accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2011, 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.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is 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. The additional information and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

ParenteBeard LLC

State College, Pennsylvania
January 7, 2011

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

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, 2010. 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, 2010

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 Special Revenue 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, 2010

Government-Wide Financial Analysis

Condensed Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 48,943,148	\$ 441,601	\$ 49,384,749
Noncurrent assets	<u>59,838,552</u>	<u>182,679</u>	<u>60,021,231</u>
Total	<u>\$ 108,781,700</u>	<u>\$ 624,280</u>	<u>\$ 109,405,980</u>
Liabilities and Net Assets			
Current liabilities	\$ 24,213,295	\$ 110,320	\$ 24,323,615
Long-term liabilities:			
Due within one year	4,097,710	-	4,097,710
Due after one year	<u>49,144,930</u>	<u>79,102</u>	<u>49,224,032</u>
Total liabilities	<u>77,455,935</u>	<u>189,422</u>	<u>77,645,357</u>
Net assets:			
Invested in capital assets, net of related debt	22,359,920	182,679	22,542,599
Restricted	7,274,192	-	7,274,192
Unrestricted	<u>1,691,653</u>	<u>252,179</u>	<u>1,943,832</u>
Total net assets	<u>31,325,765</u>	<u>434,858</u>	<u>31,760,623</u>
Total	<u>\$ 108,781,700</u>	<u>\$ 624,280</u>	<u>\$ 109,405,980</u>

State College Area School DistrictManagement's Discussion and Analysis (Unaudited)
June 30, 2010Condensed Statement of Activities
For the year ended
June 30, 2010

	Governmental Activities	Business-Type Activity	Total
Revenues			
Program revenues:			
Charges for services	\$ 502,514	\$ 2,470,995	\$ 2,973,509
Operating grants and contributions	13,184,489	1,034,751	14,219,240
General revenues:			
Taxes levied for general purposes, net	87,178,625	-	87,178,625
Grants, subsidies and contributions not restricted	7,097,090	-	7,097,090
Other	835,085	660	835,745
Total revenues	108,797,803	3,506,406	112,304,209
Program expenses			
Instruction	61,940,795	-	61,940,795
Instructional student support	8,555,098	-	8,555,098
Administration and financial support services	12,561,880	-	12,561,880
Operation and maintenance of plant services	9,438,408	-	9,438,408
Pupil transportation	5,552,616	-	5,552,616
Student activities	2,307,369	-	2,307,369
Community services	137,406	-	137,406
Interest on long-term debt	2,711,556	-	2,711,556
Unallocated depreciation	1,025,000	-	1,025,000
Food service	-	3,475,720	3,475,720
Total program expenses	104,230,128	3,475,720	107,705,848
Change in value of interest rate swap	(3,916,850)	-	(3,916,850)
Change in net assets	650,825	30,686	681,511
Net assets, beginning, as previously reported	36,712,177	404,172	37,116,349
Restatement	(6,037,237)	-	(6,037,237)
Net asset, beginning as restated	30,674,940	404,172	31,079,112
Net assets, ending	\$ 31,325,765	\$ 434,858	\$ 31,760,623

State College Area School DistrictManagement's Discussion and Analysis (Unaudited)
June 30, 2010Condensed Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Current and other assets	\$ 48,353,696	\$ 355,487	\$ 48,709,183
Noncurrent assets	<u>58,745,376</u>	<u>197,667</u>	<u>58,943,043</u>
Total	<u>\$ 107,099,072</u>	<u>\$ 553,154</u>	<u>\$ 107,652,226</u>
Liabilities and Net Assets			
Current liabilities	\$ 13,502,928	\$ 94,169	\$ 13,597,097
Long-term liabilities:			
Due within one year	3,746,429	-	3,746,429
Due after one year	<u>53,137,538</u>	<u>54,813</u>	<u>53,192,351</u>
Total liabilities	<u>70,386,895</u>	<u>148,982</u>	<u>70,535,877</u>
Net assets:			
Invested in capital assets, net of related debt	17,192,604	197,667	17,390,271
Restricted	9,504,765	-	9,504,765
Unrestricted	<u>10,014,808</u>	<u>206,505</u>	<u>10,221,313</u>
Total net assets	<u>36,712,177</u>	<u>404,172</u>	<u>37,116,349</u>
Total	<u>\$ 107,099,072</u>	<u>\$ 553,154</u>	<u>\$ 107,652,226</u>

State College Area School DistrictManagement's Discussion and Analysis (Unaudited)
June 30, 2010Condensed Statement of Activities
For the year ended
June 30, 2009

	Governmental Activities	Business-Type Activity	Total
Revenues			
Program revenues:			
Charges for services	\$ 644,590	\$ 2,495,926	\$ 3,140,516
Operating grants and contributions	11,468,564	908,630	12,377,194
General revenues:			
Taxes levied for general purposes, net	69,766,204	-	69,766,204
Grants, subsidies and contributions not restricted	7,712,331	-	7,712,331
Other	15,454,415	5,586	15,460,001
Total revenues	105,046,104	3,410,142	108,456,246
Program expenses			
Instruction	60,218,383	-	60,218,383
Instructional student support	8,141,070	-	8,141,070
Administration and financial support services	12,321,985	-	12,321,985
Operation and maintenance of plant services	8,181,639	-	8,181,639
Pupil transportation	5,612,972	-	5,612,972
Student activities	2,240,897	-	2,240,897
Community services	142,077	-	142,077
Interest on long-term debt	2,377,950	-	2,377,950
Unallocated depreciation	757,701	-	757,701
Loss on disposal of fixed assets	6,354,651	-	6,354,651
Food & printing service	-	3,439,072	3,439,072
Total program expenses	106,349,325	3,439,072	109,788,397
Change in net assets	(1,303,221)	(28,930)	(1,332,151)
Net assets, beginning	38,015,398	433,102	38,448,500
Net assets, ending	\$ 36,712,177	\$ 404,172	\$ 37,116,349

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

Total net assets of the District increased \$681,511 in 2010. Net assets of governmental activities increased by \$650,825, while net assets of the business-type activity increased \$30,686.

The District had \$104,230,128 in expenses related to governmental activities in 2010; only \$13,687,003 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$91,193,950 also provided for these programs. The \$650,825 increase in governmental activity net assets represents the excess of revenues over expenses.

In the District's business-type activity, net assets increased by \$30,686 as a result of the net income of the food service operation.

As of June 30, 2010, \$1,943,832 of unrestricted net assets of the \$31,760,623 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 \$9,954,087 for the interest rate swap value at June 30, 2010. The remaining net assets, being \$29,816,791, are invested into capital assets and restricted for capital projects.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2009-2010 fiscal year were \$108,398,819 compared to \$104,412,107 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 88,858,519	\$ 85,805,617	\$ 3,052,902	3.6 %
State sources	16,827,379	17,379,888	(552,509)	(3.2) %
Federal sources	<u>2,712,921</u>	<u>1,226,602</u>	<u>1,486,319</u>	121.2 %
Total	<u>\$ 108,398,819</u>	<u>\$ 104,412,107</u>	<u>\$ 3,986,712</u>	

Local revenues are derived mostly from levying taxes such as the real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,052,902 primarily due to an increase in the real estate tax millage rate from 33.722 mills to 34.850 mills per \$1,000 of assessed value of real estate. This millage increase resulted in an increase in revenues of \$2,786,279.

The earned income tax remained flat due to economic conditions and personal income levels. The real estate transfer tax revenue increased \$131,000. Earnings on investments decreased \$502,136 due to lower interest rates. Changes in amounts collected for delinquent taxes, local services taxes, and tuition from other educational agencies account for the remaining change in local revenues.

State revenues are derived mostly 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 decreased \$552,509. State grants and other revenues remained constant.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

Federal revenues include primarily Title I, II and V grants from the federal government. The increase in Federal revenues of \$1,486,319 is primarily due to stimulus funds being received and expended in Title I, IDEA, and basic education.

Expenditures

Expenditures for the 2009-2010 fiscal year were \$103,968,750 compared to 2008-2009 fiscal year were \$103,424,456 or a .5% increase. The current year adjusted budget was \$100,467,268 resulting in a positive variance of \$2,738,616. The following table shows the expenditures by object category:

	2009-10	2008-09	Increase (Decrease)	Favorable (Unfavorable) Variance
Salaries and benefits	\$ 77,351,875	\$ 73,441,286	\$ 3,910,589	5.3 %
Professional services	2,423,835	2,600,987	(177,152)	(6.8) %
Purchased property				
services	2,088,696	2,051,360	37,336	1.8 %
Other purchased				
services	8,320,362	8,317,986	2,376	%
Supplies	3,397,987	3,672,992	(275,005)	(7.5) %
Property	3,315,074	2,699,625	615,449	22.8 %
Other objects	794,656	264,863	529,793	200.0 %
Other uses of funds	6,276,265	10,375,357	(4,099,092)	(39.5) %
Total	<u>\$ 103,968,750</u>	<u>\$ 103,424,456</u>	<u>\$ 544,294</u>	

Salaries and benefits increased due to scheduled salary increases \$3,910,589, increases in health insurance costs \$1,057,028, increases in retirement costs \$319,668, and an increase in other benefits due to the increased salaries.

Purchased professional services decreased \$177,152 from the prior year due to an abnormally high level in professional education costs primarily related to Special Education.

Purchased property services increased \$37,336 primarily due to increased costs of electricity.

Other purchased services increased over the prior year by \$2,376. Of this amount, student transportation costs increased \$160,421 and student tuition increased \$132,387, while other costs such as charter schools, telephone service, travel, and advertising expense all decreased.

Expenses for supplies decreased primarily due to lower gasoline and natural gas costs. In addition, the purchase of supplies decreased significantly. Property expenditures increased significantly because of the replacement of a roof at the Park Forest Middle School, funded through stimulus funds.

Other objects and financing sources decreased \$2,185,208 due to savings from a bond refinancing and principal payments made from the capital reserve fund, while real estate tax refunds increased \$ 535,514.

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2010

Capital Projects and Capital Reserve Funds

The Capital Project Fund is used to account for capital projects of the District. The District spent \$3,630,257 for such projects in 2009-10. The Capital Projects Fund balance was \$13,165,865 at June 30, 2010. The capital projects included renovations and improvements throughout the District.

The Capital Reserve Fund is a result of real estate tax millage dedicated to fund district-wide capital projects. The Capital Reserve Fund balance was \$6,356,803 at June 30, 2010. A transfer to the capital reserve fund was not authorized in 2010. Principal payments on debt were made in the amount of \$2,315,000.

Special Revenue Fund

The Special Revenue Fund is used to account for revenues that are legally restricted to expenditure of special projects. The District accounts for school athletics and debt service payments in this fund. Interfund transfers from the General Fund of \$7,326,366 resulted in an overall planned increase in the fund balance of \$40,512 in 2009-10.

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 2010 included \$109,309,200 of revenues and \$109,584,200 of expenditures. The budget was amended by \$474,379 for additional federal, state, and local grant revenues and the related additional expenditures for those grants.

The actual revenues for 2010 were \$1,384,760 less than the final budget. Local revenues were \$765,427 less than budget due to lower assessed value growth for real estate taxes, earned income tax, real estate transfer taxes, and investment income being lower than budgeted. State revenues were less than budget by the amount of \$545,655 due to a change in the PSERS employer contribution rate and a change in the transportation revenue reimbursement calculation.

The final actual expenses were \$6,089,828 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, 2010

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2010 is summarized below.

	Governmental Activities	Business-type Activity	Total
Land, buildings and improvements	\$ 77,370,516	\$ -	\$ 77,370,516
Equipment and other capital assets	35,044,569	966,285	36,010,854
Construction in progress	3,152,946	-	3,152,946
Total	115,568,031	966,285	116,534,316
Accumulated depreciation	(56,619,920)	(783,606)	(57,403,526)
Net	\$ 58,948,111	\$ 182,679	\$ 59,130,790

Long Term Debt

At June 30, 2010, the District's long-term debt of \$50,956,734 is significantly below the legal limit of approximately \$236,363,419 and approximately \$4,070,000 of this debt is scheduled for payment in 2011. 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 2011 budget preparation is approximately \$2 billion, which is up approximately \$20 million or 1% from 2010. Amounts available for appropriation in the general fund budget for 2010-11 are \$113,656,221, an increase of approximately 3.5% over the 2009-10 budget of \$109,824,641. Property taxes will increase 1.05% to 35.900 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, 2010

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 2009-10 is 4.1%.

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

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.

June 30, 2010

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 is planned to go to bid in the spring of 2010. A renovation and addition to the Ferguson Township Elementary School is also planned to go to bid at the same time. The final phase one project is a planned four-classroom addition to Grays Woods Elementary School. Ground was broken on all of these projects during June 2010.

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, 2010

	Governmental Activities	Business -Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 20,628,353	\$ 301,395	\$ 20,929,748
Restricted cash and cash equivalents	21,642,735	-	21,642,735
Taxes receivable, net	4,059,583	-	4,059,583
Internal balances	27,170	23,457	50,627
Due from other governments	2,375,184	44,476	2,419,660
Other receivables	126,231	10,137	136,368
Inventories	30,508	62,136	92,644
Other current assets	53,384	-	53,384
Total current assets	48,943,148	441,601	49,384,749
Noncurrent assets			
Land, buildings and improvements	77,370,516	-	77,370,516
Equipment and other capital assets	35,044,569	966,285	36,010,854
Construction in progress	3,152,946	-	3,152,946
Accumulated depreciation	(56,619,920)	(783,606)	(57,403,526)
Other noncurrent assets	890,441	-	890,441
Total noncurrent assets	59,838,552	182,679	60,021,231
Total assets	\$ 108,781,700	\$ 624,280	\$ 109,405,980
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,411,260	\$ 4,095	\$ 1,415,355
Current portion of bonds and notes payable	4,070,000	-	4,070,000
Current portion of capital lease obligation	27,710	-	27,710
Accrued salaries and benefits	8,595,440	3,110	8,598,550
Payroll deductions and withholdings	3,215,817	-	3,215,817
Deferred revenue	376,827	33,504	410,331
Other current liabilities	659,864	69,611	729,475
Interest rate swap payable	9,954,087	-	9,954,087
Total current liabilities	28,311,005	110,320	28,421,325
Noncurrent liabilities			
Bonds payable	41,045,000	-	41,045,000
Notes payable	5,740,000	-	5,740,000
Capital lease obligation	74,024	-	74,024
Other postemployment benefits liability	490,507	-	490,507
Compensated absences	1,795,399	79,102	1,874,501
Total noncurrent liabilities	49,144,930	79,102	49,224,032
Total liabilities	77,455,935	189,422	77,645,357
Net Assets			
Invested in capital assets, net of related debt	22,359,920	182,679	22,542,599
Restricted	7,274,192	-	7,274,192
Unrestricted	1,691,653	252,179	1,943,832
Total net assets	31,325,765	434,858	31,760,623
TOTAL	\$ 108,781,700	\$ 624,280	\$ 109,405,980

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2010

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:					Total
Instruction	\$ (61,940,795)	\$ 387,486	\$ 10,851,128	\$ (50,702,181)	\$ (50,702,181)
Instructional student support	(8,555,098)	-	513,980	(8,041,118)	(8,041,118)
Administration and financial support services	(12,561,880)	-	346,213	(12,215,667)	(12,215,667)
Operation and maintenance of plant services	(9,438,408)	53,647	192,381	(9,192,380)	(9,192,380)
Pupil transportation	(5,552,616)	-	962,705	(4,589,911)	(4,589,911)
Student activities	(2,307,369)	61,381	21,294	(2,224,694)	(2,224,694)
Community services	(137,406)	-	2,570	(134,836)	(134,836)
Interest on long-term debt	(2,711,556)	-	294,218	(2,417,338)	(2,417,338)
Depreciation - unallocated	(1,025,000)	-	-	(1,025,000)	(1,025,000)
Total governmental activities	(104,230,128)	502,514	13,184,489	(90,543,125)	(90,543,125)
Business-type Activity					
Food service	(3,475,720)	2,470,995	1,034,751	-	30,026
Total	<u>\$ (107,705,848)</u>	<u>\$ 2,973,509</u>	<u>\$ 14,219,240</u>	<u>(90,543,125)</u>	<u>(90,513,099)</u>
General revenues					
Property taxes, levied for general purposes, net				72,976,255	72,976,255
Other taxes levied for specific purposes				14,202,370	14,202,370
Grants, subsidies and contributions not restricted				7,097,090	7,097,090
Interest and dividends				545,652	545,652
Changes in the value of interest rate swap				(3,916,850)	(3,916,850)
Miscellaneous income				289,433	289,433
Total general revenues				91,193,950	91,194,610
Change in net assets				650,825	681,511
Net assets, beginning, as previously reported				36,712,177	37,116,349
Restatement				(6,037,237)	(6,037,237)
Net assets, beginning, as restated				30,674,940	31,079,112
Net assets, ending				<u>\$ 31,325,765</u>	<u>\$ 31,760,623</u>

See notes to financial statements

State College Area School District

Balance Sheet - Government Funds

June 30, 2010

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Other	
Assets					
Cash and cash equivalents	\$ 20,418,483	\$ -	\$ -	\$ 209,870	\$ 20,628,353
Restricted cash and cash equivalents	-	7,274,192	14,368,543	-	21,642,735
Taxes receivable, net	4,059,583	-	-	-	4,059,583
Due from other funds	1,485,483	-	917,389	4,638	2,407,510
Due from other governments	2,375,184	-	-	-	2,375,184
Other receivables	126,231	-	-	-	126,231
Inventories	1,844,323	-	-	-	1,844,323
Other current assets	53,384	-	-	-	53,384
Total	<u>\$ 30,362,671</u>	<u>\$ 7,274,192</u>	<u>\$ 15,285,932</u>	<u>\$ 214,508</u>	<u>\$ 53,137,303</u>

Liabilities and Fund Balances

Liabilities					
Due to other funds	\$ 41,239	\$ 917,389	\$ 1,421,416	\$ 27,095	\$ 2,407,139
Accounts payable	624,006	-	698,651	4,442	1,327,099
Accrued salaries and benefits	8,595,440	-	-	-	8,595,440
Payroll deductions and withholdings	3,215,817	-	-	-	3,215,817
Deferred revenue	1,476,827	-	-	-	1,476,827
Other liabilities	233,149	-	-	2,093	235,242
Total liabilities	<u>14,186,478</u>	<u>917,389</u>	<u>2,120,067</u>	<u>33,630</u>	<u>17,257,564</u>
Fund Balances					
Reserved	1,844,323	6,356,803	13,165,865	-	21,366,991
Unreserved - designated	8,000,000	-	-	180,878	8,180,878
Unreserved - undesignated	6,331,870	-	-	-	6,331,870
Total fund balances	<u>16,176,193</u>	<u>6,356,803</u>	<u>13,165,865</u>	<u>180,878</u>	<u>35,879,739</u>
Total	<u>\$ 30,362,671</u>	<u>\$ 7,274,192</u>	<u>\$ 15,285,932</u>	<u>\$ 214,508</u>	<u>\$ 53,137,303</u>

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, 2010

Total Fund Balance - Governmental Funds

\$ 35,879,739

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 \$115,568,031 and the accumulated depreciation is \$56,619,920.

58,948,111

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.

1,100,000

Inventory of books and supplies was reclassified.

(1,844,323)

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.

(51,151)

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

890,441

Interest rate swap payable is not due and payable in the current period, and therefore is not reported as a liability in the funds.

(9,954,087)

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 payable

(43,930,000)

Accrued interest on long-term debt

(424,622)

Notes payable

(6,925,000)

Capital lease obligation

(101,734)

Other postemployment benefits liability

(490,507)

Compensated absences

(1,771,102)

Total Net Assets - Governmental Activities

\$ 31,325,765

See notes to financial statements

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2010

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Other	
Revenues:					
Local sources	\$ 88,858,519	\$ 84,427	\$ 224,972	\$ 61,986	\$ 89,229,904
State sources	16,827,379	-	-	-	16,827,379
Federal sources	2,712,921	-	-	-	2,712,921
Total revenues	108,398,819	84,427	224,972	61,986	108,770,204
Expenditures:					
Instruction	62,518,496	-	-	-	62,518,496
Support services	33,052,302	-	508,565	-	33,560,867
Noninstructional services	693,577	-	-	1,761,567	2,455,144
Facilities acquisition, construction and improvement services	771,626	-	3,121,692	-	3,893,318
Debt service	692,652	-	-	5,586,273	6,278,925
Total expenditures	97,728,653	-	3,630,257	7,347,840	108,706,750
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)	10,670,166	84,427	(3,405,285)	(7,285,854)	63,454
Other Financing Sources (Uses):					
Transfer in	-	-	1,228,732	7,326,366	8,555,098
Transfer out	(6,240,098)	(2,315,000)	-	-	(8,555,098)
Total other financing sources (uses)	(6,240,098)	(2,315,000)	1,228,732	7,326,366	-
Net Change in Fund Balances	4,430,068	(2,230,573)	(2,176,553)	40,512	63,454
Fund Balance, Beginning	11,746,124	8,587,376	15,342,418	140,366	35,816,284
Fund Balance, Ending	\$ 16,176,192	\$ 6,356,803	\$ 13,165,865	\$ 180,878	\$ 35,879,738

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2010

Total Change in Fund Balances-Governmental Funds

\$ 63,454

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

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

Depreciation expense	\$ (3,686,346)	
Capital outlays	<u>4,882,261</u>	1,195,915

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.

(147,828)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

3,746,429

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.

(179,060)

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.

(17,459)

Other post employment benefits that are reflected on the statement of net assets but are not considered a current expenditure in governmental funds.

(225,117)

Change in the interest rate swap payable.

(3,916,850)

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.

131,340

Change in Net Assets of Governmental Activities

\$ 650,824

See notes to financial statements

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

Year Ended June 30, 2010

	Budgeted Amount			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Local sources	\$ 89,560,263	\$ 89,623,946	\$ 88,858,519	\$ (765,427)
State sources	18,073,937	17,373,034	16,827,379	(545,655)
Federal sources	1,675,000	2,786,599	2,712,921	(73,678)
Total revenues	109,309,200	109,783,579	108,398,819	(1,384,760)
Expenditures				
Instruction:				
Regular programs	46,693,878	45,752,992	45,111,633	641,359
Special programs	12,870,737	13,313,271	13,303,217	10,054
Vocational education programs	2,468,551	2,534,982	2,532,690	2,292
Other instructional programs	1,021,167	1,141,349	1,063,438	77,911
Adult education programs	395,703	538,110	501,469	36,641
Nonpublic school programs	-	6,338	6,049	289
Total instruction	63,450,036	63,287,042	62,518,496	768,546
Support services:				
Pupil personnel	3,917,866	3,946,206	3,893,337	52,869
Instructional staff	4,008,605	3,789,208	3,546,311	242,897
Administration	5,719,355	5,713,073	5,473,166	239,907
Pupil health	1,106,890	1,135,259	1,134,111	1,148
Business	1,023,345	1,023,575	870,380	153,195
Operation and maintenance of plant services	8,573,398	8,529,394	7,727,915	801,479
Student transportation services	5,936,135	5,933,335	5,685,576	247,759
Central	4,583,229	4,787,029	4,712,887	74,142
Other support services	-	8,619	8,619	-
Total support services	34,868,823	34,865,698	33,052,302	1,813,396
Noninstructional services:				
Student activities	591,719	570,031	553,741	16,290
Community services	121,409	144,826	139,836	4,990
Total noninstructional services	713,128	714,857	693,577	21,280
Facilities acquisition, construction and improvement services	-	712,691	771,626	(58,935)
Debt service	64,000	886,980	692,652	194,328
Total expenditures	99,095,987	100,467,268	97,728,653	2,738,615
Excess of Revenues over Expenditures before Other Financing Uses	10,213,213	9,316,311	10,670,166	1,353,855
Other Financing Uses				
Transfer out	(10,213,213)	(8,055,736)	(6,240,098)	1,815,638
Budgetary reserve	(275,000)	(1,535,575)	-	(1,535,575)
Total other financing uses	(10,488,213)	(9,591,311)	(6,240,098)	280,063
Change in Fund Balance	\$ (275,000)	\$ (275,000)	4,430,068	\$ 4,705,068
Fund Balance, Beginning			11,746,124	
Fund Balance, Ending			\$ 16,176,192	

See notes to financial statements

State College Area School District

Statement of Net Assets - Proprietary Funds

June 30, 2010

	Food Service Fund	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 301,395	\$ -
Due from other funds	23,457	26,799
Due from other governments	44,476	-
Other receivables	10,137	-
Inventories	62,136	30,508
Total current assets	441,601	57,307
Noncurrent assets:		
Equipment	966,285	287,913
Accumulated depreciation	(783,606)	(264,079)
Total noncurrent assets	182,679	23,834
Total	\$ 624,280	\$ 81,141
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable	\$ 4,095	\$ 84,161
Accrued salaries and benefits	3,110	-
Other liabilities	69,611	-
Deferred revenue	33,504	-
Total current liabilities	110,320	84,161
Noncurrent liabilities,		
Compensated absences	79,102	24,297
Total liabilities	189,422	108,458
Net Assets		
Invested in capital assets	182,679	23,834
Unrestricted	252,179	(51,151)
Total net assets	434,858	(27,317)
Total	\$ 624,280	\$ 81,141

See notes to financial statements

State College Area School District

Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds
Year Ended June 30, 2010

	Food Service Fund	Internal Service Fund
Operating Revenues		
Food service revenue	\$ 2,470,995	\$ -
Charges for services	-	713,508
Total operating revenues	2,470,995	713,508
Operating Expenses		
Salaries and employee benefits	1,681,544	285,457
Professional and technical services	7,883	-
Purchased property services	29,286	356,977
Other purchased services	14,302	717
Food, milk and supplies	1,711,523	87,467
Depreciation	26,840	18,191
Other objects	4,342	349
Total operating expenses	3,475,720	749,158
Operating Loss	(1,004,725)	(35,650)
Nonoperating Revenues		
State sources	170,958	-
Federal sources	863,793	-
Earnings on investments	660	-
Total nonoperating revenues	1,035,411	-
Change in Net Assets	30,686	(35,650)
Net Assets, Beginning	404,172	8,333
Net Assets, Ending	\$ 434,858	\$ (27,317)

See notes to financial statements

State College Area School DistrictStatement of Cash Flows - Proprietary Funds
Year Ended June 30, 2010

	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,504,059	\$ 756,847
Cash paid to employees	(1,655,015)	(270,869)
Cash paid to vendors	(1,775,170)	(485,978)
Net cash used in operating activities	(926,126)	-
Cash Flows from Noncapital Financing Activities		
State sources	170,958	-
Federal sources	869,870	-
Net cash provided by noncapital financing activities	1,040,828	-
Cash Flows from Capital and Related Financing Activities		
Equipment purchases	(11,852)	-
Cash Flows from Investing Activities		
Earnings on investments	660	-
Increase in Cash and Cash Equivalents	103,510	-
Cash and Cash Equivalents, Beginning	197,885	-
Cash and Cash Equivalents, Ending	\$ 301,395	\$ -
Reconciliation of Operating Loss to Net Cash used in Operating Activities		
Operating loss	\$ (1,004,725)	\$ (35,650)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	26,840	18,191
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(5,249)	5,944
Other receivables	3,967	-
Due to/from other funds	14,101	(3,072)
Accounts payable	(2,585)	3,262
Accrued salaries and benefits	2,240	-
Other liabilities	14,996	-
Compensated absences	24,289	11,325
Net Cash Used in Operating Activities	\$ (926,126)	\$ -

See notes to financial statements

State College Area School District

Statement of Net Assets - Fiduciary Fund - Agency
June 30, 2010

Assets

Cash

\$ 490,946

Liabilities

Current liabilities

Due to other funds

\$ 50,627

Accounts payable

14,253

Other current liabilities

426,066

Total

\$ 490,946

See notes to financial statements

State College Area School District

Notes to Financial Statements
June 30, 2010

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, Capital Reserve, Debt Service and Special Revenue 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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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 are accounted for in this fund.

Capital Projects and Capital Reserve Funds

These funds account for financial resources to be used for the acquisition or construction of major capital equipment and facilities.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**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	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.

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.

Derivative Financial Instrument

The District has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to swap the variable interest rate on a portion of its long-term debt to a fixed rate (Note 18).

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**New Accounting Principle**

The District adopted Government Accounting Standards Board ("GASB") Statement No. 53, Accounting and Financial Reporting for Derivative Instruments for the year ended June 30, 2010. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative financial instruments. A key provision of GASB Statement No. 53 is that derivative financial instruments covered in the scope of this statement, are reported at fair value. Any changes in fair value are either deferred on the statement of net assets or recognized in the statement of activities based on whether the derivative is an effective hedge.

The District has implemented the recognition, measurement and disclosure requirements of GASB 53 as of July 1, 2009. The effects of adoption of GASB 53 was to restate beginning net assets by a decrease of \$6,037,237. The assets, liabilities and net assets at July 1, 2009 were as follows:

	As Previously Reported	Effect of Restatement	As Restated
Assets	\$ 107,652,226	\$ -	\$ 107,652,226
Liabilities	70,535,877	6,037,237	76,573,114
Net assets	37,116,349	(6,037,237)	31,079,112

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, 2010, \$24,874,816 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$15,075,321 was collateralized with securities held by the pledging financial institution in the District's name and the remaining \$9,799,496 were 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, 2010, the carrying amount and bank balances of the District's investment in PSDLAF was \$3,699,037.

State College Area School District

Notes to Financial Statements

June 30, 2010

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 1 until October 31, 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, 2010, the following interfund balances were unpaid:

Amounts due from other funds:

General fund	\$ 1,485,483
Capital projects fund	917,389
Non-major governmental funds	4,638
Proprietary funds	<u>50,256</u>

Total	<u>\$ 2,457,766</u>
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Amounts due to other funds:

General fund	\$ 41,239
Capital reserve fund	917,389
Capital projects fund	1,421,416
Non-major governmental funds	27,095
Fiduciary funds	<u>50,627</u>

Total	<u>\$ 2,457,766</u>
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Interfund balances primarily arise between the General Fund and other funds due to operating expenses paid out of the General Fund and reimbursed by the applicable fund on a monthly basis.

The composition of interfund transfers, used to move cash between funds at June 30, 2010 is as follows:

Transfers in:

Capital projects fund	\$ 1,228,732
Non-major governmental funds	<u>7,326,366</u>

Total	<u>\$ 8,555,098</u>
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Transfers out:

General fund	\$ 6,240,098
Capital reserve fund	<u>2,315,000</u>

Total	<u>\$ 8,555,098</u>
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State College Area School District

Notes to Financial Statements

June 30, 2010

5. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2010 follows:

Delinquent real estate taxes receivable	\$ 1,723,048
Earned income taxes receivable	2,252,563
Real estate transfer tax receivable	319,419
Supplemental real estate tax	14,941
Local service	<u>9,233</u>
Total	4,319,204
Estimated uncollectible taxes at June 30, 2010	<u>(259,621)</u>
Total	<u>\$ 4,059,583</u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance June 30, 2010</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	<u>729,006</u>	<u>3,136,434</u>	<u>(712,494)</u>	<u>3,152,946</u>
Total capital assets, not being depreciated	<u>1,628,893</u>	<u>3,136,434</u>	<u>(712,494)</u>	<u>4,052,833</u>
Capital assets being depreciated:				
Buildings and improvements	75,345,079	440,986	684,564	76,470,629
Equipment and other capital assets	33,423,885	1,304,841	27,930	34,756,656
Equipment-internal service	<u>287,913</u>	<u>-</u>	<u>-</u>	<u>287,913</u>
Total capital assets, being depreciated	<u>109,056,877</u>	<u>1,745,827</u>	<u>712,494</u>	<u>111,515,198</u>

State College Area School District

Notes to Financial Statements
June 30, 2010

6. Capital Assets (Continued)

	Balance July 1, 2009	Increases	Transfers/ Decreases	Balance June 30, 2010
Accumulated depreciation for:				
Buildings and improvements	\$ (28,602,706)	\$ (1,955,307)	\$ -	\$ (30,558,013)
Equipment and other capital assets	(24,084,980)	(1,712,848)	-	(25,797,828)
Equipment-internal service	(245,888)	(18,191)	-	(264,079)
Total accumulated depreciation	(52,933,574)	(3,686,346)	-	(56,619,920)
Total capital assets being depreciated, net	56,123,303	(1,940,519)	712,494	54,895,278
Governmental activities capital assets, net	<u>\$ 57,752,196</u>	<u>\$ 1,195,915</u>	<u>\$ -</u>	<u>\$ 58,948,111</u>
Business-type activity:				
Capital assets being depreciated, Equipment and other capital assets	\$ 954,433	\$ 11,852	\$ -	\$ 966,285
Accumulated depreciation, Equipment and other capital assets	(756,766)	(26,840)	-	(783,606)
Business-type activity capital assets, net	<u>\$ 197,667</u>	<u>\$ (14,988)</u>	<u>\$ -</u>	<u>\$ 182,679</u>

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

Government activities:	
Unallocated	\$ 1,025,000
Instruction	667,352
Instructional support services	3,307
Community services	1,086
Administrative and financial support services	672,009
Operation and maintenance of plant services	1,222,882
Pupil transportation	<u>94,710</u>
Total depreciation expenses for governmental activities	<u>\$ 3,686,346</u>
Business-type activities, Food service equipment	<u>\$ 26,840</u>

State College Area School District

Notes to Financial Statements

June 30, 2010

7. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$8,595,440 represent salaries of \$7,581,089, the District's share of Social Security taxes of \$579,954 for teachers' services during the 2009-2010 school term, which are paid during July and August 2010, and retirement plan expense of \$362,377 applicable to the accrued salaries at June 30, 2010, and accrued workers' compensation of \$72,020.

8. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2010 are as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts due within one year
Bond Series - 2003	\$ 2,155,000	\$ -	\$ (200,000)	\$ 1,955,000	\$ 25,000
Bond Series - 2004	3,480,000	-	(660,000)	2,820,000	675,000
Bond Series - 2004A	4,260,000	-	(510,000)	3,750,000	525,000
Bond Series - 2004AA	8,905,000	-	(385,000)	8,520,000	395,000
Bond Series - 2005	8,240,000	-	(470,000)	7,770,000	485,000
Bond Series - 2006	9,475,000	-	(350,000)	9,125,000	360,000
Bond Series - 2009	9,995,000	-	(5,000)	9,990,000	420,000
General Obligation Note - Series of 2008	8,065,000	-	(1,140,000)	6,925,000	1,185,000
Total bonds and notes payable	54,575,000	-	(3,720,000)	50,855,000	\$ 4,070,000
Capital lease obligation	128,163	-	(26,429)	101,734	
Total long-term debt	\$ 54,703,163	\$ -	\$ (3,746,429)	\$ 50,956,734	

State College Area School District

Notes to Financial Statements
June 30, 2010

8. Long-Term Debt (Continued)

Long-term debt at June 30, 2010 consists of the following:

\$10,000,000 General Obligation Bonds, Series of 2003, due in varying annual installments through May 2025, interest rates of 2.0% to 4.55%	\$ 1,955,000
\$6,475,000 General Obligation Bonds, Series of 2004, due in varying annual installments through September 2013, interest rates of 2.0% to 3.5%	2,820,000
\$9,505,000 General Obligation Bonds, Series of 2004A, due in varying annual installments through March 2022, interest rates of 2.0% to 4.35%	3,750,000
\$10,000,000 General Obligation Bonds, Series of 2004AA, due in varying annual installments through May 2026, interest rates of 1.4% to 4.85%	8,520,000
\$10,000,000 General Obligation Bonds, Series of 2005, due in varying annual installments through May 2023, interest rates of 2.0% to 4.15%	7,770,000
\$10,000,000 General Obligation Bonds, due in varying annual installments through May 2028, interest rates of 3.5% to 4.25%	9,125,000
\$9,995,000 General Obligation Bonds, Series of 2009, due in varying annual installments through March 2022, interest rates of 2% to 4%	9,990,000
\$3,500,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	<u>6,925,000</u>
Total	50,855,000
Current portion	<u>(4,070,000)</u>
Long-term debt	<u>\$ 46,785,000</u>

State College Area School District

Notes to Financial Statements

June 30, 2010

8. Long-Term Debt (Continued)

Debt service requirements at June 30, 2010 are as follows:

Year ending June 30:	Principal	Interest	Total
2011	\$ 4,070,000	\$ 1,838,954	\$ 5,908,954
2012	4,195,000	1,716,471	5,911,471
2013	4,310,000	1,583,527	5,893,527
2014	4,460,000	1,442,134	5,902,134
2015	3,785,000	1,317,428	5,102,428
2016 - 2020	14,535,000	5,007,231	19,542,231
2021 - 2025	12,770,000	2,108,632	14,878,632
2026 - 2029	2,730,000	207,600	2,937,600
Total	<u>\$ 50,855,000</u>	<u>\$ 15,221,977</u>	<u>\$ 66,076,977</u>

The District advanced-refunded various bond issues by creating separate irrevocable trust funds 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.

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, 2010:

Years ending June 30:	
2011	\$ 32,316
2012	32,316
2013	32,316
2014	16,158
Total minimum lease payments	113,106
Less amount representing interest	<u>(11,372)</u>
Present value of future minimum lease payments	101,734
Current portion	<u>(27,710)</u>
Long-term portion	<u>\$ 74,024</u>

10. Construction Commitments

The District had several active construction projects as of June 30, 2010. At year-end the District's construction in progress balance consisted of the following:

Project	Expended through June 30, 2010
Ferguson Township Elementary	\$ 1,179,163
Mount Nittany and Gray's Woods addition	286,925
Panorama project	1,174,386
Other renovations	512,472
Total	<u>\$ 3,152,946</u>

Construction in progress at June 30, 2010 in the amount of \$3,152,946 primarily (84%) represented costs for the elementary projects, Ferguson Township, Mount Nittany and Gray's Woods additions. Also included are costs incurred for deferred maintenance projects throughout the district facilities. Outstanding construction commitments on these projects amounted to approximately \$26,931,000 at June 30, 2010.

11. 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, 2010 was \$58,272,942.

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 4.78% in 2010, 4.76% in 2009, and 7.13% in 2008 of annual covered payroll. The District's contribution requirement for the year ended June 30, 2010 was \$2,873,898, 2009 was \$2,542,530, and 2008 was \$3,945,782.

State College Area School District

Notes to Financial Statements

June 30, 2010

11. Defined Benefit Pension Plan (Continued)

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.

12. 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, 2010, total contributions (including retirement bonus and sick payouts) were \$1,354,695.

13. 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 2010 totaled \$179,295.

14. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under four-year operating leases expiring July 2014. The following is a schedule of future minimum rental payments required under the above operating lease as of June 30, 2010:

Years ending June 30:	
2011	\$ 175,440
2012	175,440
2013	175,440
2014	<u>175,440</u>
Total	<u>\$ 701,760</u>

Rent expense for 2010 was \$326,977.

State College Area School District

Notes to Financial Statements
June 30, 2010

15. Fund Balances

Governmental fund balances consisted of the following at June 30, 2010:

Reserved (general fund, capital projects and capital reserve – \$21,366,991) – This reserve represents bond proceeds and general fund transfers to be used for capital project expenditures.

Designated (general fund - \$8,000,000, special revenue funds - \$180,878) - The general fund designation represents future District expenditures for retirement costs. The special revenue designation is for the following funds:

- Athletic Fund - \$176,240
- Debt Service Fund - \$4,638

16. Other Commitments

\$58,050,000 Bond Issue – In August 2004, the District authorized but has not issued General Obligation Bonds of \$58,050,000 for alterations, additions, and improvements to the High School North and High School South secondary school buildings. Because the High School renovation project was abandoned at the end of fiscal year ended June 30, 2007, the District has not authorized the issuance of these bonds as of this report date.

\$24,000,000 Bond Issue – 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 paying the costs and expenses of issuing the bonds. Because the High School renovation project was stopped at the end of 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 overage 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 chose to improve upon the minimum requirements in the future. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

State College Area School District

Notes to Financial Statements

June 30, 2010

17. Other Postemployment Benefits (Continued)

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, 2010. Total retiree contributions made by plan members were \$636,886 for the year ended June 30, 2010.

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	\$ 427,160
Interest on net OPEB obligation	11,943
Adjustment to annual required contribution	<u>(16,294)</u>
Annual OPEB cost (expense)	422,809
Contributions made	<u>(197,692)</u>
Increase in net OPEB obligation	225,117
Net OPEB obligation at July 1, 2009	<u>265,390</u>
Net OPEB obligation at June 30, 2010	<u>\$ 490,507</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, 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 422,809	46.8% %	\$ 490,507

State College Area School District

Notes to Financial Statements

June 30, 2010

17. Other Postemployment Benefits (Continued)

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2008, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 3,212,176
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,212,176</u>
Funded ration (actuarial value of plan assets/UAAL)	-0-%
Covered payroll	<u>\$ 50,791,629</u>
UAAL as a percentage of covered payroll	6.3%

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, 2008 using the following assumptions:

Valuation date	January 1, 2008
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	3% sot 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	10.5% in 2008 decreasing .5% per year to an ultimate rate of 5% in 2019 and later
Amortization method	Level dollar 30 year open period

State College Area School District

Notes to Financial Statements

June 30, 2010

18. Derivative Financial Instrument – Interest Rate Swap

Objective of the Interest Rate Swap

As a means to manage interest rate exposure, the District entered into a forward interest rate swap agreement (the “contract”) in April 2006. The contract is related to the General Obligation Bonds, Series of 2007 in the amount of \$58,050,000 approved in August 2004. The bonds were authorized for the High School Renovation Project however, the project was abandoned and the bonds will not be issued. The effective date of the contract was originally December 1, 2007. However, since the bonds were not issued as planned in November 2007 the District extended the effective date to December 1, 2010. All activity of the interest rate swap relate directly to governmental activities.

Terms

The contract is a pay fixed, receive-variable interest rate swap with the Royal Bank of Canada. The agreement will terminate May 1, 2028, the final maturity of the bonds. The notional amount at the inception was \$58,050,000 which was reduced to \$53,900,000 when the District extended the contract. The District's fixed interest rate at inception was 3.884% which was increased to 4.356% when the contract was extended. The variable rate the Royal Bank of Canada will pay the District is 67% of one-month LIBOR.

Fair Value

At June 30, 2010 the fair value of the swap contract was negative \$9,954,087 as provided by an independent third party and is based on a proprietary model. This liability was reported under current liabilities in the statement of net assets. The change in fair value of the liability was to increase \$3,916,850. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap.

Credit Risk

As of June 30, 2010, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of the government's financial instruments. The swap increases the District's exposure to interest rate risk.

State College Area School District

Notes to Financial Statements

June 30, 2010

18. Derivative Financial Instrument – Interest Rate Swap (Continued)

Contingent Features

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The District or the counterparty may terminate the contract if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value. The District's effective date is December 1, 2010 because the bonds will not be issued, the contract will be terminated, and payments will be required by the District as described above.

19. Transactions With Other LEAs

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

20. Pending Changes in Accounting Principle

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. GASB 54 is effective for the District's fiscal year 2011 financial statements.

District management is in the process of analyzing this pending change in accounting principle and the impact this change will have on the financial reporting process.

21. Subsequent Events

In July 2010, the District entered into two operating leases for photocopiers located in the District. The following is a schedule of future lease payments:

Years ending June 30:

2011	\$ 165,683
2012	175,443
2013	175,443
2014	<u>68,083</u>
Total	<u>\$ 584,652</u>

In December 2010, the District issued General Obligation Bonds, Series A, B and C of 2010 to refund the General Obligation Bonds, Series of 2003, 2004, 2004A, 2005, to advance refund the General Obligation Bonds, Series of 2004AA, and to be used for new money for capital projects. The Bond Series of 2010 are due in varying annual installments from May 2011 through May 2028, with interest rates of 2.5% to 4.0%.

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund Year Ended June 30, 2010

Revenues

Local sources:

Current taxation:

Real estate	\$ 69,444,550
Earned income tax	13,720,444
Emergency Municipal service tax	477,593
Real estate transfers	1,561,719
Payments in lieu of taxes	371,793
Public utility realty tax	114,364

Total current taxation 85,690,463

Delinquent taxation 1,488,163

Total from taxation 87,178,626

Earnings from temporary investments and deposits 235,648

Receipts from other LEA's 106,969

Miscellaneous revenue 1,337,276

Total local sources 88,858,519

State sources:

Basic instructional subsidy	5,668,631
Charter school grant	858,498
Private placement tuition	66,953
Vocational education	100,797
Alternative education	8,955
Driver education	20,685
Special education	3,249,298
Adult education	22,354
Transportation	879,364
Rental and sinking fund payments	297,218
Medical and dental services	143,795
Property tax reduction	1,428,459
Social Security subsidy	2,225,465
Retirement subsidy	1,445,931
Other state grants	410,976

Total state sources 16,827,379

Federal sources:

Title I	651,648
Title II A	249,130
Title II C	58,771
Title III	55,219
Drug free schools	17,053
IDEA Part B, ARRA	453,717
Title I, ARRA	162,624
Fiscal Stabilization, ARRA	762,325
Medical Assistance	110,000
ACCESS	36,320
Other federal grants	156,114

Total federal sources 2,712,921

Total revenues 108,398,819

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund Year Ended June 30, 2010

Expenditures

Instruction:	
Regular programs	\$ 45,111,633
Special programs	13,303,217
Vocational education programs	2,532,690
Other instructional programs	1,063,438
Adult education programs	501,469
Nonpublic school programs	<u>6,049</u>
Total instruction	<u>62,518,496</u>
Support services:	
Pupil personnel	3,893,337
Instructional staff	3,546,311
Administration	5,473,166
Pupil health	1,134,111
Business	870,380
Operation and maintenance of plant services	7,727,915
Student transportation	5,685,576
Central	4,712,887
Other support services	<u>8,619</u>
Total support services	<u>33,052,302</u>
Noninstructional services:	
Student activities	553,741
Community services	<u>139,836</u>
Total noninstructional services	<u>693,577</u>
Facilities acquisition, construction and improvement services	<u>771,626</u>
Debt service	<u>692,652</u>
Total expenditures	<u>97,728,653</u>
Excess of Revenues over Expenditures before Other Financing Uses	10,670,166
Other Financing Uses	
Transfer out	<u>(6,240,098)</u>
Change in Fund Balance	4,430,068
Fund Balance, Beginning	<u>11,746,124</u>
Fund Balance, Ending	<u><u>\$ 16,176,192</u></u>

State College Area School District

Combining Balance Sheet - Other Non-Major Funds

June 30, 2010

	<u>Athletic Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 209,870	\$ -	\$ 209,870
Due from other funds	-	4,638	4,638
Total	<u>\$ 209,870</u>	<u>\$ 4,638</u>	<u>\$ 214,508</u>
Liabilities			
Due to other funds	\$ 27,095	\$ -	\$ 27,095
Accounts payable	4,442	-	4,442
Other liabilities	2,093	-	2,093
Total liabilities	33,630	-	33,630
Fund Balances			
Unreserved - designated	<u>176,240</u>	<u>4,638</u>	<u>180,878</u>
Total	<u>\$ 209,870</u>	<u>\$ 4,638</u>	<u>\$ 214,508</u>

State College Area School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Other Non-Major Funds
Year Ended June 30, 2010

	<u>Athletic Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Revenues			
Local sources	\$ 61,986	\$ -	\$ 61,986
Expenditures			
Noninstructional services	<u>1,761,567</u>	<u>-</u>	<u>1,761,567</u>
Deficiency of Revenues over Expenditures before other Financing Sources	<u>(1,699,581)</u>	<u>-</u>	<u>(1,699,581)</u>
Other Financing Sources (Uses)			
Debt service		(5,586,273)	(5,586,273)
Interfund transfers	<u>1,740,093</u>	<u>5,586,273</u>	<u>7,326,366</u>
Total other financing sources	<u>1,740,093</u>	<u>-</u>	<u>1,740,093</u>
Net Change in Fund Balances	40,512	-	40,512
Fund Balance, Beginning	<u>135,728</u>	<u>4,638</u>	<u>140,366</u>
Fund Balance, Ending	<u>\$ 176,240</u>	<u>\$ 4,638</u>	<u>\$ 180,878</u>

State College Area School District

Schedule of Expenditures of Federal Awards June 30, 2010

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, 2009	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2010
U.S. Department of Education										
Passed through the PA Department of Education:										
Title I, Part A Cluster:										
Title I	I	84.010	013-090418	B	\$ 603,495	\$ 169,999	\$ 99,009	\$ 68,741	\$ 68,741	\$ (2,249)
Title I	I	84.010	013-100418	C	604,709	443,712	-	571,707	571,707	127,995
Academic Achievement Award	I	84.010	077-090418	B	4,000	2,571	(1,429)	4,000	4,000	-
Academic Achievement Award	I	84.010	077-100418	C	7,200	1,440	-	7,200	7,200	5,760
Title I - ARRA	I	84.389	127-100418	C	169,516	-	-	162,624	162,624	(363)
Total Title I, Part A Cluster						780,709	97,580	814,272	814,272	131,143
Adult Ed - Section 322										
Adult Ed - Section 322	I	84.002	041-099024	B	150,805	6,366	6,366	-	-	-
Adult Ed - Section 322	I	84.002	041-100090	C	125,168	123,288	-	123,288	123,288	-
Adult Ed - Section 223 ES/Civ	I	84.002	061-100029	C	33,660	32,825	-	32,825	32,825	-
Total Adult Ed						162,479	6,366	156,113	156,113	-
Secondary Allocation										
Secondary Allocation	I	84.048	380-099095	B	60,470	56	2,081	-	-	2,025
Secondary Allocation	I	84.048	380-100111	C	61,113	48,890	-	58,771	58,771	9,881
Total Secondary Allocation						48,946	2,081	58,771	58,771	11,906
Drug Free Schools										
Drug Free Schools	I	84.186	100-090418	B	18,829	10,139	(2,626)	12,765	12,765	-
Drug Free Schools	I	84.186	100-100418	C	36,253	7,583	-	4,288	4,288	(3,295)
Total Drug Free Schools						17,722	(2,626)	17,053	17,053	(3,295)
Title III - Language										
Title III - Language	I	84.365	010-080418	A	43,613	10,903	10,903	-	-	-
Title III - Language	I	84.365	010-090418	B	40,774	4,078	(12,260)	28,385	28,385	12,047
Title III - Language	I	84.365	010-100418	C	44,545	20,248	-	26,834	26,834	6,586
Total Title III						35,229	(1,357)	55,219	55,219	18,633
Title II										
Title II	I	84.367	020-080418	A	228,220	-	(15,419)	15,419	15,419	-
Title II	I	84.367	020-090418	B	229,400	49,157	16,486	31,816	31,816	(855)
Title II	I	84.367	020-100418	C	230,356	199,642	-	201,896	201,896	2,254
Total Title II						248,799	1,067	249,131	249,131	1,399
Fiscal Stabilization - Basic Education - ARRA										
Fiscal Stabilization - Basic Education - ARRA	I	84.394	126-100418	C	762,325	762,325	-	762,325	762,325	-
Total PA Department of Education						2,056,209	103,111	2,112,884	2,112,884	159,786
Passed through Central Intermediate Unit #10:										
Special Education Cluster (IDEA):										
Special Education - Grants to States	I	84.027		B	153,752	153,752	-	153,752	153,752	-
Special Education - Grants to States	I	84.027		C	579,341	-	-	579,341	579,341	579,341
Special Education - Grants to States - ARRA	I	84.391		C	475,000	-	-	453,717	453,717	453,717
Total Special Education Cluster (IDEA)						153,752	-	1,186,810	1,186,810	1,033,058
Total U.S. Department of Education						2,209,961	103,111	3,299,694	3,299,694	1,192,844
U.S. Department of Health and Human Services										
Passed through Pennsylvania Department of Public Welfare										
Administrative Claiming Quarterly Program		93.778			36,320	36,320	-	36,320	36,320	-

State College Area School District

Schedule of Expenditures of Federal Awards June 30, 2010

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, 2009	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2010
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	\$ 35,121	\$ 35,121	\$ -	\$ -	-
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	530,651	-	562,782	562,782	32,131
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	6,723	6,723	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	101,487	-	107,812	107,812	6,325
National School Lunch Program	I (F)	10.553	367-0000	B	NOTE 6	169	169	-	-	-
National School Lunch Program	I (F)	10.553	367-0000	C	NOTE 6	1,643	-	1,706	1,706	63
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 6	12,199	-	12,199	12,199	-
National School Lunch Program	I (S)	N/A	510-0000	C	NOTE 6	11,337	-	12,051	12,051	714
National School Lunch Program	I (S)	N/A	510-0000	B	NOTE 6	554	554	-	-	-
National School Lunch Program	I (S)	N/A	511-0000	C	NOTE 6	87,817	-	93,060	93,060	5,243
National School Lunch Program	I (S)	N/A	511-0000	B	NOTE 6	6,486	6,486	-	-	-
						180,795	(32,004)	179,295	179,295	(33,504)
Passed through the PA Department of Agriculture,										
Value of USDA Donated Commodities										
						974,982	17,049	968,905	968,905	10,972
Total U.S. Department of Agriculture						\$ 3,221,263	\$ 120,160	\$ 4,304,919	\$ 4,304,919	\$ 1,203,816
Total										

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

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 \$110,000 of Access reimbursements for direct medical services.

4. State Matching Funds

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

5. Relationship to Federal Financial Reports

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

6. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

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	= 07/01/07 – 06/30/08
B	= 07/01/08 – 06/30/09
C	= 07/01/09 – 06/30/10

**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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 7, 2011. 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

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 cursive script that reads "ParenteBeard LLC".

State College, Pennsylvania
January 7, 2011

**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, 2010. 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 each of its major federal programs for the year ended June 30, 2010.

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
January 7, 2011

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

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

84.010, 84.389
84.027, 84.391
84.394

Name of Federal Program or Cluster

Title 1, Part A Cluster
Special Education Cluster (IDEA)
Fiscal Stabilization - Basic Education

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, 2010

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings And Questioned Costs

None.