

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 2, 2019

NEW ISSUE—BOOK-ENTRY ONLY

RATING: Moody's: Aa1
(See Rating herein)

In the opinion of Bond Counsel, under existing statutes, regulations and judicial decisions, interest on the Bonds (hereinafter defined) is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax. This opinion of Bond Counsel is given in reliance upon certain certifications made by the School District and is subject to continuing compliance by the School District with its covenants in the Resolution and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder (the "Code"). Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania (the "Commonwealth") as presently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth and the interest on the Bonds is exempt from the Commonwealth's Personal Income Tax and the Commonwealth's Corporate Net Income Tax. For further information concerning federal and state tax matters relating to the Bonds, see "Tax Exemption" herein.

State College Area School District
(Centre County, Pennsylvania)

\$32,495,000*

General Obligation Bonds, Series of 2019

Consisting of

\$22,020,000* General Obligation Bonds, Series A of 2019

\$10,475,000* General Obligation Bonds, Series B of 2019

Dated: Date of Delivery

Principal Due: November 15, as shown on inside front cover

Interest Due: May 15 and November 15

First Interest Payment: May 15, 2020 (Series A)

November 15, 2019 (Series B)

The State College Area School District (Centre County, Pennsylvania) (the "School District") will issue its General Obligation Bonds, Series A of 2019 in the aggregate principal amount of \$22,020,000* (the "2019A Bonds") and its General Obligation Bonds, Series B of 2019 in the aggregate principal amount of \$10,475,000* (the "2019B Bonds") and together with the 2019A Bonds, the "Bonds"), each in registered form in denominations of \$5,000 or any multiple thereof. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein.

The Bonds are general obligations of the School District, payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking fund established under the Resolution (as hereinafter defined) or any other of its legally available revenues or funds the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and all available taxing power, which taxing power presently includes the power to levy ad valorem taxes on all taxable real property within the School District, within the limits provided by law as to rate or amount for such purpose, including the Taxpayer Relief Act. (See "SECURITY FOR THE BONDS" and "TAXING POWERS OF THE SCHOOL DISTRICT" herein).

Interest on the Bonds will be payable initially on May 15, 2020 with respect to the 2019A Bonds and on November 15, 2019 with respect to the 2019B Bonds, and thereafter semiannually on May 15 and November 15 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for. The School District has appointed Manufacturers and Traders Trust Company (the "Paying Agent") as paying agent and sinking fund depository for the Bonds. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, payments of the principal of, redemption premium, if any, and interest on the Bonds, when due for payment, will be made directly to DTC by the Paying Agent, and DTC will in turn remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. If the use of the book-entry only system for the Bonds is ever discontinued, the principal of and redemption premium, if any, on each of the Bonds will be payable, when due, upon surrender of such Bond to the Paying Agent at its specified corporate trust office (or any successor paying agent at its designated office(s)) and interest on such Bond will be payable by check made out and mailed to the person(s) in whose name(s) such Bond is registered as of the Regular Record Date (as hereinafter defined) with respect to the particular interest payment date (See "THE BONDS" herein.)

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

Authorization for Issuance: The Bonds are being issued in accordance with the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as codified by the Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. §8001 et seq., (the "Debt Act") with the approval of the Pennsylvania Department of Community and Economic Development, and pursuant to a Resolution which was adopted by the Board of School Directors of the School District on July 15, 2019 (the "Resolution").

The proceeds to be derived by the School District from the issuance and sale of the 2019A Bonds will be applied toward the costs of (i) completing the cost of constructing additions and improvements to State High School, (ii) completing the cost of constructing additions and improvements to the Corl Street Elementary, Radio Park Elementary and Spring Creek Elementary Schools and playground improvements at certain elementary schools, (iii) constructing additions and improvements to Memorial Field and the North Building and other capital improvements to the facilities of the School District, and (iv) paying the costs of issuance of the Bonds. Proceeds from the 2019B Bonds will be applied to (i) the costs of currently refunding the School District's General Obligation Bonds, Series 2012 and General Obligation Bonds, Series 2013, and (ii) paying the costs of issuance of the Bonds.

MATURITIES, AMOUNTS, RATES AND INITIAL REOFFERING PRICES/YIELDS

{As shown on inside cover pages}

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement including the Appendices hereto to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued, by the School District and received by the Underwriter, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Clark Hill PLC, of Pittsburgh, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by Eckert Seamans Cherin & Mellott, LLC, of Pittsburgh, Pennsylvania, Underwriter's Counsel. Certain matters will be passed upon for the School District by Scott C. Etter, Esquire, of Etter Law Firm LLC, School District Solicitor, of State College, Pennsylvania. NW Financial Group, LLC, Kenilworth, Pennsylvania, serves as Financial Advisor to the School District in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery through DTC in New York, New York, on _____, 2019.

BofA Merrill Lynch

Dated: _____, 2019

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other changes without notice. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction. The School District has deemed this Preliminary Official Statement to be final for purposes of Rule 15c2-12(b)(1) of the Securities and Exchange Commission, except for certain information which has been omitted in accordance with such Rule and which will be provided in the final Official Statement.

**State College Area School District
(Centre County, Pennsylvania)**

\$22,020,000* General Obligation Bonds, Series A of 2019

<u>Maturity Date (November 15)*</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
2020	\$475,000				
2021	490,000				
2022	515,000				
2023	540,000				
2024	565,000				
2025	600,000				
2026	630,000				
2027	660,000				
2028	690,000				
2029	730,000				
2030	765,000				
2031	805,000				
2032	845,000				
2033	885,000				
2034	935,000				
2035	985,000				
2036	1,030,000				
2037	1,065,000				
2038	1,110,000				
2039	1,155,000				

\$6,545,000* _____% Term Bonds due November 15, 2044*, Yield: _____%, Price: _____, CUSIP _____†

* Preliminary, subject to change.

† The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriters has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

**State College Area School District
(Centre County, Pennsylvania)**

\$10,475,000* General Obligation Bonds, Series B of 2019

<u>Maturity Date</u> <u>(November 15)*</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
2019	\$750,000				
2020	1,005,000				
2021	1,025,000				
2022	775,000				
2023	830,000				
2024	875,000				
2025	905,000				
2026	1,000,000				
2027	1,050,000				
2028	1,100,000				
2029	1,160,000				

* Preliminary, subject to change.

† The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriters has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

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**State College Area School District
(Centre County, Pennsylvania)**

BOARD OF SCHOOL DIRECTORS

Amber Concepcion
Dr. Amy Bader
Jim Leous
Lori Bedell
Gretchen Brandt
Lynn Tressler
Dr. Daniel Duffy
Scott Fozard
David Hutchinson
Laurel Zydney

President
Vice President
Member
Member
Member
Secretary*
Member
Member
Member
Member

* Non-Voting Member

SUPERINTENDENT
DR. ROBERT O'DONNELL

FINANCE AND OPERATIONS OFFICER
RANDY BROWN

SCHOOL DISTRICT SOLICITOR
SCOTT C. ETTER, ESQUIRE
ETTER LAW FIRM LLC
State College, Pennsylvania

BOND COUNSEL
CLARK HILL PLC
Pittsburgh, Pennsylvania

UNDERWRITER'S COUNSEL
ECKERT SEAMANS CHERIN & MELLOTT, LLC
Pittsburgh, Pennsylvania

FINANCIAL ADVISOR
NW FINANCIAL GROUP, LLC
Kenilworth, Pennsylvania

PAYING AGENT
MANUFACTURERS AND TRADERS TRUST COMPANY
Harrisburg, Pennsylvania

SCHOOL DISTRICT ADDRESS
240 Villa Crest Drive, State College, Pennsylvania 16801

The information set forth herein has been obtained from the State College Area School District (the "School District") and other sources which are believed to be reliable, but the information provided by sources other than the School District is not guaranteed as to accuracy or completeness by the School District. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

No dealer, broker, salesman or other person has been authorized by the School District to give information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the School District and from other sources which are believed to be reliable but the School District does not guarantee the accuracy or completeness of information from sources other than the School District. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

The Table of Contents is for convenience of reference only and does not list all of the subjects in this Official Statement. In all instances, reference should be made to the complete Official Statement to determine the subjects discussed in it. The placement of material in this Official Statement, including Appendices, is not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices must be considered in its entirety.

The Underwriter has provided the following sentence for inclusion in the Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and part of its responsibilities to investors under federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Upon issuance, the Bonds will not be registered by the School District under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OR YIELDS OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGES HEREOF AND SAID PUBLIC OFFERING PRICES MAYBE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The School District deems this Preliminary Official Statement to be final for purposes of SEC Rule 15c2-12(b)(1).

The offering of the Bonds is made only by means of the entire Official Statement.

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OFFICIAL STATEMENT

\$32,495,000*

**State College Area School District
(Centre County, Pennsylvania)
General Obligation Bonds, Series of 2019**

Consisting of

**\$22,020,000* General Obligation Bonds, Series A of 2019
\$10,475,000* General Obligation Bonds, Series B of 2019**

INTRODUCTION

This Official Statement, including the cover, inside covers, and Appendices hereto, is furnished by State College Area School District, Centre County, Pennsylvania (the "School District"), in connection with the offering of its \$22,020,000* General Obligation Bonds, Series A of 2019 (the "2019A Bonds") and its \$10,475,000* General Obligation Bonds, Series B of 2019 (the "2019B Bonds" and, together with the 2019A Bonds, the "Bonds"), dated as of the date of their issuance and delivery. The Bonds are being issued pursuant to a Resolution of the Board of School Directors of the School District adopted on July 15, 2019 (the "Resolution"), and pursuant to the Local Government Unit Debt Act, as amended, 53 Pa. C.S. Chs. 80-82 (the "Debt Act"), of the Commonwealth of Pennsylvania (the "Commonwealth").

PURPOSE OF THE ISSUE

The proceeds to be derived by the School District from the issuance and sale of the 2019A Bonds will be applied toward the costs of (i) completing the cost of constructing additions and improvements to State High School, (ii) completing the cost of constructing additions and improvements to the Corl Street Elementary and Radio Park Elementary and Spring Creek Elementary Schools and playground improvements at certain elementary schools, (iii) constructing additions and improvements to Memorial Field and the North Building and other capital improvements to the facilities of the School District, and (iv) paying the costs of issuance of the Bonds. The proceeds to be derived by the School District from the issuance and sale of the 2019B Bonds will be applied toward the costs of (i) currently refunding the School District's General Obligation Bonds, Series 2012 and General Obligation Bonds, Series 2013 (together, the "Refunded Bonds") and (ii) paying the costs of issuance of the Bonds.

SOURCES AND USES OF FUNDS

	<u>2019A Bonds</u>	<u>2019B Bonds</u>	<u>Total</u>
Sources of Funds:			
Par Amount of Bonds			
Net Original Issue Premium (Discount)	\$ _____	\$ _____	\$ _____
Total Sources	\$	\$	\$
Uses of Funds:			
Refunding of Refunded Bonds	\$	\$	\$
Construction Fund			
Issuance Costs ⁽¹⁾	\$ _____	\$ _____	\$ _____
Total Uses	\$	\$	\$

⁽¹⁾ Includes legal fees, financial advisory fees, underwriter's discount, printing costs, rating agency fees and other expenses incurred in connection with the issuance of the Bonds.

* Preliminary, subject to change.

THE CONSTRUCTION PROJECT

The School District has undertaken several significant construction projects described individually below (collectively the "Projects").

Elementary Projects

Following an update to the School District Wide Facility Master Plan, and with significant community input, the Board of Directors of the School District approved capital projects in the Corl Street, Radio Park, and Houserville/Lemont elementary school attendance areas (together, the "Elementary Project"). Corl Street and Radio Park were expanded and renovated, while a new Spring Creek Elementary School has been built on the former Houserville site. The total cost of the Elementary Project is approximately \$65,100,000. The School District has been awarded Alternative and Clean Energy grants for the Elementary Project of approximately \$5,500,000. Construction of the Elementary Project began in December 2017 and is expected to be completed by August 2019. The School District expects that approximately \$2,200,000 of the proceeds of the 2019A Bonds will be used to substantially complete the Elementary Project.

State High Project

The State College High School Project (the "State High Project"), which commenced in 2015 and expected to be substantially complete by 2019, consists of substantial demolition, renovations, and new construction at the existing Westerly Parkway campus of State College High School. The School District estimates that the State High Project will cost approximately \$143,000,000 and has been funded by proceeds of the School District's \$75,120,000 General Obligation Bonds, Series of 2015, the School District's \$43,840,000 General Obligation Bonds, Series of 2017, and the proceeds of Alternative and Clean Energy Program grants from the Pennsylvania Department of Community and Economic Development. The School District expects that approximately \$6,100,000 of the proceeds of the 2019A Bonds will be used to substantially complete the State High Project.

Memorial Field Project

The School District is planning the reconstruction and renovation of historic Memorial Field located in downtown State College, Pennsylvania. The School District estimates that this project will cost approximately \$14,000,000, and expects that approximately \$13,400,000 of the proceeds of the 2019A Bonds will be applied to the Memorial Field project. The remaining costs of the Memorial Field project will be funded by private donations and fundraising.

Other Capital Projects

In addition to the projects described above, the School District has other projects including the renovation of a portion of the North Building on the State High campus and the renovation/construction of playgrounds at three elementary schools. The total estimated cost of these projects is \$3,900,000. The School District expects these projects to be completed by 2023. The School District expects that approximately \$3,900,000 of the proceeds of the 2019A Bonds will be applied to such other capital projects.

THE BONDS

Description

The Bonds will bear interest from and including the Dated Date at the rates set forth on the inside cover pages hereof, payable semi-annually on May 15 and November 15 (each an "Interest Payment Date") of each year commencing, in the case of the 2019A Bonds, May 15, 2020, and in the case of the 2019B Bonds, November 15, 2019, until maturity or prior redemption. The Bonds of each series will mature on the dates and in the amounts set forth on the inside cover pages of this Official Statement. When issued, the Bonds will be registered in the name of

Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. While the Bonds are in the Book-Entry-Only System, references to the "owner" or the "registered owner" as described herein are to Cede & Co., as registered owner for DTC. Each beneficial owner of a Bond may desire to make arrangements with a DTC Participant to receive notices or communications with respect to matters described herein. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. While all of the Bonds are held in book-entry only form, payments thereon shall be made to Cede & Co., as holder thereof. See "BOOK-ENTRY ONLY SYSTEM" herein. At all other times, the principal of the Bonds, and the premium, if any, payable upon redemption, are payable at the designated corporate trust office of the Paying Agent, and the interest thereon is payable by check mailed by the Paying Agent on each Interest Payment Date to the persons who were the registered owners of the Bonds on the registration books maintained by the Paying Agent, on the last day of the month (whether or not a business day) immediately preceding such interest payment date (a "Regular Record Date"), irrespective of any transfer or exchange of any Bond subsequent to such Regular Record Date and prior to such Interest Payment Date, unless the School District defaults in the payment of interest due on such Interest Payment Date. In the event of any such default, any defaulted interest will be payable to the persons in whose name the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of the Bonds not fewer than ten (10) business days preceding such special record date. Such notice shall be mailed to the persons in whose names the Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

Transfer, Exchange and Registration

Subject to the provisions described below under "BOOK-ENTRY ONLY SYSTEM," the Bonds may be transferred upon the registration books upon delivery of such Bonds to the Paying Agent, accompanied by a written instrument or instruments of transfer in form satisfactory to the Paying Agent. No transfer of any Bond will be effective until entered on the registration books.

The School District and the Paying Agent shall not be required to issue or to register the transfer of or exchange any Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15th) day next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the day of mailing of the applicable notice of redemption, or to register the transfer of or exchange any portion of any Bond selected for redemption, until after the redemption date. Bonds may be exchanged for a like aggregate amount of Bonds of other authorized denominations, of the same maturity.

Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent, at its designated corporate trust office, accompanied by a written instrument or instruments in form, with instructions, and with guaranty of signature satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter any transfer of ownership of or exchange of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered Bond or Bonds of authorized denominations of the same maturity for the aggregate principal amount that the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal, premium, if any, and interest due and for all purposes, and the Paying Agent shall not be affected by any notice to the contrary.

SECURITY FOR THE BONDS

Pledge of the School District's Full Faith, Credit and All Available Taxing Power

The Bonds will be general obligations of the School District, payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget for each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year, and will duly and punctually pay or cause to be paid from its Sinking Fund (as hereinafter defined) or any other of its revenues or funds, the principal of each of the Bonds and the interest thereon at the dates and place and in the manner stated on the Bonds, and for

such budgeting, appropriation and payment the School District irrevocably has pledged its full faith, credit and all available taxing power, within the limits provided by law, including the Taxpayer Relief Act. (See "SCHOOL DISTRICT FINANCES" and "TAXING POWERS OF THE SCHOOL DISTRICT" herein). The Debt Act presently provides for enforcement of debt service payments as hereinafter described (see "Defaults and Remedies" herein), and the Pennsylvania Public School Code of 1949, as amended, (the "Public School Code") presently provides for the withholding and application of Commonwealth subsidies in the event of failure to pay debt service (see "Commonwealth Enforcement of Debt Service Payments" below).

Commonwealth Enforcement of Debt Service Payments

Section 633 of the Public School Code presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory redemption or on any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date or on any sinking fund deposit date, in accordance with the schedule under which the notes or bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any Commonwealth appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, or sinking fund deposit due by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such bond or note issue. These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

There can be no assurance, however, that any payments pursuant to this withholding provision will be made by the date on which such payments are due to the Bondholders. The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

Act 85 of 2016

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) ("Act 85 of 2016"), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code ("Fiscal Code"). Act 85 of 2016 adds to the Fiscal Code Article XVII-E.4, entitled "School District Intercepts for the Payment of Debt Service During Budget Impasse", which provides for intercept of subsidy payments by the Pennsylvania Department of Education ("PDE") from a school district subject to an intercept statute or an intercept agreement in the event of a Commonwealth budget impasse in any fiscal year.

Act 85 of 2016 includes in the definition of "intercept statutes" Section 633 of the Public School Code. The School District's general obligation bonds, including the Bonds, are subject to Section 633 of the Public School Code.

Act 85 of 2016 provides that the amounts as may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement "shall be appropriated" to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year:

- (1) annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due;
- (2) the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and

(3) the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated on the expiration of the tenth (10th) day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

The total of all intercept payments under Article XVII-E.4 for a school district may not exceed 50% of the total nonfederal general fund subsidy payments made to that school district in the prior fiscal year.

Act 85 of 2016 requires that each school district subject to an intercept statute or intercept agreement must deliver to PDE, in such format as PDE may direct, a copy of the final Official Statement for the relevant bonds or notes or the loan documents relating to the obligations, within thirty (30) days of receipt of the proceeds of the obligations. The School District intends on submitting this information to PDE within the prescribed timeframe following the issuance of the Bonds. Act 85 of 2016 provides that any obligation for which PDE does not receive the required documents shall not be subject to the applicable intercept statute or intercept agreement.

The provisions of Act 85 of 2016 are not part of any contract with the holders of the Bonds and may be amended or repealed by future legislation.

REDEMPTION OF THE BONDS

Optional Redemption

The 2019A Bonds stated to mature on or after November 15, 20__ are subject to redemption prior to maturity, at the option of the School District, as a whole, or from time to time, in part (and if in part, in any order of maturity as selected by the School District and within a maturity by lot), on November 15, 20__, or on any date thereafter in either case upon payment of a redemption price of 100% of the principal amount of such 2019A Bonds, together with accrued interest to the redemption date.

The 2019B Bonds stated to mature on or after November 15, 20__ are subject to redemption prior to maturity, at the option of the School District, as a whole, or from time to time, in part (and if in part, in any order of maturity as selected by the School District and within a maturity by lot), on November 15, 20__, or on any date thereafter in either case upon payment of a redemption price of 100% of the principal amount of such 2019B Bonds, together with accrued interest to the redemption date.

Mandatory Sinking Fund Redemption of 2019A Bonds

The 2019A Bonds maturing November 15, 2044* are subject to mandatory redemption prior to their maturity, through selection by lot, on November 15 of the years set forth below, in the respective principal amounts listed opposite each such year, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption:

<u>Year (November 15)*</u>	<u>Principal Amount*</u>
2040	\$1,205,000
2041	1,255,000
2042	1,310,000
2043	1,360,000
2044**	1,415,000

** Stated maturity.

* Preliminary, subject to change.

Notice of Redemption

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, the School District and the Paying Agent shall send redemption notices only to Cede & Co. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding conveyance of notices to Beneficial Owners.

Notice of any redemption shall be given by mailing a copy of the redemption notice by first class mail not more than sixty (60) nor less than thirty (30) days prior to the date fixed for redemption addressed to each of the registered owners of Bonds to be redeemed, in whole or in part, at the addresses shown on the registration books; provided, however, that failure to give such notice, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and moneys for payment of the principal and accrued interest being held by the Paying Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect to such Bonds, except to receive payment of the principal of and accrued interest on such Bonds to the date fixed for redemption. Any notice of redemption of Bonds may state that the redemption is conditioned upon the deposit of sufficient funds prior to the redemption date. If sufficient funds are not received, such notice of redemption shall be of no effect.

Manner of Redemption

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payment of the redemption price shall be made to Cede & Co. in accordance with the existing arrangements by and among the School District, the Paying Agent and DTC and, if less than all Bonds of any particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner in such Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See "BOOK-ENTRY ONLY SYSTEM" herein, for further information regarding redemption of Bonds registered in the name of Cede & Co.

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing that number of Bonds which is obtained by dividing the principal amount thereof by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of the same series in authorized denominations in aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth of Pennsylvania are authorized by law or executive order to close, then the date for payment of the principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

BOOK-ENTRY ONLY SYSTEM

Beneficial ownership interests in the Bonds will be available only in book-entry form. Beneficial Owners will not receive physical certificates representing their interests in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, references in this Official Statement to the Owners of the Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners.

THE FOLLOWING DESCRIPTION OF DTC, OF PROCEDURES AND RECORD KEEPING OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS ON THE BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION

AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS AND OF OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

DTC will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each year of maturity of the Bonds, in the aggregate principal amount of each year of maturity of the Bonds, and deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificated Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, unless the use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Paying Agent as soon as possible after the record date. The omnibus proxy assigns

Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date.

BECAUSE DTC IS TREATED AS THE OWNER OF THE BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE RESOLUTION, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITIES OF BENEFICIAL OWNERS ARE UNKNOWN TO THE SCHOOL DISTRICT, TO DTC OR TO THE PAYING AGENT, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

Payments of principal, interest and any redemption premium on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent or the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the Paying Agent's responsibility, disbursement of such payments to Direct Participants is DTC's responsibility, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. THE SCHOOL DISTRICT CAN GIVE NO ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its service as depository on the Bonds at any time by giving reasonable notice to the Paying Agent or the School District. The School District may also determine that DTC is incapable of discharging its duties or that continuation of the book-entry system is not in the Beneficial Owners' best interests. In either situation, if the School District fails to identify another qualified securities depository to replace DTC, physical Bonds will be delivered to each Beneficial Owner.

THE SCHOOL DISTRICT AND THE PAYING AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE RESOLUTION TO BE GIVEN TO OWNERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this section concerning DTC and DTC's book entry system has been extracted from materials provided by DTC for such purpose and from other sources the School District believes to be reliable, but the School District takes no responsibility for the accuracy thereof and such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the School District, the Paying Agent, or the Financial Advisor (as hereinafter defined).

THE SCHOOL DISTRICT

Introduction

The School District occupies an area of 152 square miles in the south-central portion of Centre County, which is located in the geographic center of the Commonwealth. The School District is coterminous with the Townships of College, Ferguson, Halfmoon, Harris, Patton, and State College Borough and includes a small portion of Benner Township. State College Borough, with the influence of Pennsylvania State University, is the center for the economic, educational, cultural and social development of Centre County (the "County") and all of central Pennsylvania.

Administration

The present School District was organized in July 1, 1964 and operates under the Public School Code. The School District is governed by a nine member Board of School Directors (the "School Board"), elected for four-year staggered terms. The Superintendent is the chief administrative officer of the School District, with overall responsibility for all aspects of operations, including education and finance. The Finance and Operations Officer is responsible for budget and financial operations. The School Board selects both officials.

School Facilities

The School District presently operates eight elementary schools, two middle schools and one senior high school, all as described in the following table.

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TABLE 1
STATE COLLEGE AREA SCHOOL DISTRICT
SCHOOL FACILITIES

Building	Original Construction Date	Addition/ Renovation Date(s)	Grades	Rated Pupil Capacity⁽¹⁾	2017-18 Enrollment⁽²⁾
<i>Elementary:</i>					
Corl Street ⁽³⁾	1952	1961/96/2019	K-5	325	255
Easterly Parkway	1955	2002	K-5	450	340
Ferguson Township.....	1931	1956/2010	K-5	450	341
Gray's Woods.....	2002	2011	K-5	550	428
Houserville ⁽³⁾	1959	1968	3-5	0	178
Lemont ⁽³⁾	1939	1966	K-2	0	191
Spring Creek ⁽³⁾	2019	---	K-5	450	N/A
Park Forest.....	2005	---	K-5	525	492
Radio Park ⁽³⁾	1963	2019	K-5	600	377
Mount Nittany.....	2011	---	K-5	450	361
<i>Secondary:</i>					
Mount Nittany Middle	1995	1995	6-8	1,076	769
Park Forest Middle.....	1971	1995/07	6-8	1,094	758
High School ⁽⁴⁾	1957	1965/89/99/ 2018/2019	6-12	3,456	2,420

(1) Effective Fall 2019

(2) As of May 2019

(3) Upon completion of construction of the Elementary Project, Houserville will be replaced with a new Spring Creek Elementary School with a rated pupil capacity of 450. Spring Creek will open in the fall of 2019. Lemont Elementary School will be closed upon completion of the Elementary Project.

(4) Contains a North and South building which includes the high school and the Education Alternatives program. In 2015 a renovation and expansion project began on the High School North and South buildings, which will create a State College Area High School (SCAHS) and North Building (North). In January 2018, Phase 1 of this project was completed, resulting in the opening of a significant portion of SCAHS. Effective with the start of the 2019-20 school year, the total rated pupil capacity of these buildings will be 3,456. Additional renovations at the North building will continue during the 2019-20 fiscal year. Enrollment in 2017-18 includes the Education Alternatives program previously located on Fairmont Avenue.

Source: School District Officials.

Enrollment Trends

The following table presents recent trends in school enrollment and projections of enrollment over the next two years.

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TABLE 2
STATE COLLEGE AREA SCHOOL DISTRICT
ENROLLMENT TRENDS

Actual Enrollments				Projected Enrollments (1)			
<u>School Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>	<u>School Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2010-11	3,470	3,499	6,969	2019-20	3,021	4,048	7,069
2011-12	3,455	3,401	6,856	2020-21	3,054	4,153	7,207
2012-13	3,407	3,410	6,817	2021-22	3,073	4,181	7,254
2013-14	3,382	3,393	6,775				
2014-15	3,423	3,353	6,776				
2015-16	3,421	3,366	6,787				
2016-17	3,438	3,343	6,781				
2017-18	3,408	3,387	6,795				
2018-19	3,537	3,357	6,894				

(1) Projected enrollments based on 2017 Decision Insite Projections.

Note: Figures do not include charter school attendees.

Source: School District Officials

SCHOOL DISTRICT FINANCES

Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education ("PDE"). An annual operating budget is prepared by the Superintendent and Finance and Operations Officer and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

Financial Reporting

The School District keeps its books and prepares its financial reports according to a modified accrual basis of accounting. Major accrual items are payroll taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units.

The School District's financial statements are audited annually by a firm of independent certified public accountants, as required by Commonwealth law. The firm of Baker Tilly Virchow Krause, LLP, State College, Pennsylvania, currently serves as auditor to the School District.

The financial report of the School District included as APPENDIX C of this Official Statement has been audited by Baker Tilly Virchow Krause, LLP for the Fiscal Year ended June 30, 2018.

Budgeting Process in School Districts under the Taxpayer Relief Act

Procedures for Adoption of the Annual Budget. Under the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006 of the Pennsylvania General Assembly, as amended (the "Taxpayer Relief Act"), all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year of such budget. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days' public notice of its intent to adopt the final budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy above the "Index" (defined below), the preliminary budget must be submitted to PDE no later than 85 days prior to the date of the election immediately preceding the fiscal year of such budget. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (*see "The Taxpayer Relief Act"* herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under the Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (*see "The Taxpayer Relief Act"* herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the applicable board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

Note that any tax increases necessary to pay principal and interest on the Bonds will be subject to the restrictions set forth in the Taxpayer Relief Act.

Summary and Discussion of Financial Results

A summary of the General Fund balance sheet and changes in fund balances is presented in Tables 3 and 4. Table 5 shows revenues and expenditures for the past five years. The School District's approved budget for the 2018-2019 fiscal year includes revenues of \$158,110,347 and expenditures of \$158,873,467 and also includes planned use of fund balance of \$1,207,573. The 2019-2020 budget approved by the School District on June 3, 2019 includes revenues of \$163,412,382 and expenditures of \$163,938,228 and also includes planned use of fund balance of \$659,620.

TABLE 3
STATE COLLEGE AREA SCHOOL DISTRICT
SUMMARY OF COMPARATIVE GENERAL FUND BALANCE SHEET
(YEARS ENDING JUNE 30)

	2014	2015	2016	2017	2018
ASSETS					
Cash and Cash Equivalents				\$31,439,170	\$37,212,395
Taxes Receivable	1,840,205	2,699,109	2,559,775	2,034,978	2,314,023
Inter-fund Receivable	90,397	401,815	671,527	2,818,918	574,449
Intergovernmental Receivables	3,128,432	3,934,347	4,675,142	5,856,450	6,527,879
Inventories	1,701,632	1,785,035	1,885,449	1,932,848	1,801,683
Other Assets	<u>1,178,569</u>	<u>79,703</u>	<u>196,639</u>	<u>137,429</u>	<u>133,281</u>
TOTAL ASSETS	\$54,185,193	\$54,392,843	\$53,355,863	\$44,219,793	\$48,563,710
LIABILITIES					
Accounts Payable	\$1,163,676	\$877,557	\$1,581,682	\$673,558	\$1,113,997
Accrued Salaries and Benefits	9,274,067	9,902,404	10,578,229	11,200,150	11,749,727
Interfund Payables	15,596,318	14,441,769	11,871,654	3,479,399	8,109,400
Payroll Deductions & Withholding	4,751,544	5,601,045	6,614,107	7,576,669	8,163,785
Deferred Revenue	922,164	1,014,659	1,018,575	1,124,701	1,229,051
Other	<u>258,968</u>	<u>269,458</u>	<u>277,847</u>	<u>310,288</u>	<u>295,380</u>
TOTAL LIABILITIES	\$31,966,737	\$32,106,892	\$31,942,094	\$24,364,765	\$30,661,340
FUND BALANCE					
Non-Spendable	\$1,701,632	\$1,785,035	\$1,885,449	\$1,932,848	\$1,801,683
Committed	10,772,000	10,222,000	8,413,719	6,034,715	3,847,987
Unassigned	<u>9,744,824</u>	<u>10,278,916</u>	<u>11,114,601</u>	<u>11,887,465</u>	<u>12,252,700</u>
TOTAL FUND BALANCE	\$22,218,456	\$22,285,951	\$21,413,769	\$19,855,028	\$17,902,370
TOTAL LIABILITIES AND FUND BALANCE	\$54,185,193	\$54,392,843	\$53,355,863	\$44,219,793	\$48,563,710

Source: School District Annual Financial Reports.

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TABLE 4
STATE COLLEGE AREA SCHOOL DISTRICT GENERAL FUND
SUMMARY OF CHANGES IN FUND BALANCE*
(YEARS ENDING JUNE 30)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Beginning Fund Balance	\$22,213,349	\$22,218,456	\$22,285,951	\$21,413,769	\$19,855,028
Revenues over (under) Expenditure	<u>5,107</u>	<u>67,495</u>	<u>(872,182)</u>	<u>(1,558,741)</u>	<u>(1,952,658)</u>
Ending Fund Balance	\$22,218,456	\$22,285,951	\$21,413,769	\$19,855,028	\$17,902,370

*Totals may not add due to rounding.

Revenue and Expenses

The School District received \$124,679,073 in revenue in its fiscal year ended June 30, 2014, \$130,642,862 in revenue in its fiscal year ended June 30, 2015, \$139,762,228 in its fiscal year ended June 30, 2016, \$149,444,213 in revenue in its fiscal year ended June 30, 2017, and \$153,159,772 in revenue in its fiscal year ended June 30, 2018.

The School District expenditures were \$124,673,966 in its fiscal year ended June 30, 2014, \$130,575,367 in its fiscal year ended June 30, 2015, \$140,634,410 in its fiscal year ended June 30, 2016, \$151,002,954 in its fiscal year ended June 30, 2017, and \$155,112,430 in its fiscal year ended June 30, 2018. Expenditures in such fiscal years included expenditures relating to a settlement the School District entered into with Royal Bank of Canada ("RBC") related to a swap transaction. The School District agreed to pay \$9,000,000 to RBC in six varying annual installments beginning in May, 2013. Total payments made by the School District were \$6,000,000 in fiscal year 2013, \$800,000 in fiscal year 2014, and \$550,000 in fiscal years June 30, 2015 through 2018. Payments are included under Debt Service in Table 5 herein.

The School District expenditures include tuition and related costs for students residing in the School District who attend charter schools. The number of charter school students totaled 385 in FY 2014-15, 450 in FY 2015-16, 404 in FY 2016-17 and 417 in FY 2017-18, and is projected to decrease to approximately 367 for FY 2018-19. Total charter school expense was approximately \$5,051,000 in FY 2014-15, \$6,200,000 in FY 2015-16, \$5,904,000 in FY 2016-17 and \$6,729,000 in FY 2017-18, and is projected to decrease to approximately \$6,158,000 for FY 2018-19.

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TABLE 5

**STATE COLLEGE AREA SCHOOL DISTRICT
SUMMARY OF SCHOOL DISTRICT GENERAL FUND
REVENUES AND EXPENDITURES*
(FOR YEARS ENDING JUNE 30)**

REVENUE	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Local Sources	\$103,438,471	\$107,281,646	\$115,076,626	\$119,738,829	\$124,215,479
State Sources	19,850,154	21,832,411	23,174,708	28,226,039	27,351,253
Federal Sources	<u>1,390,448</u>	<u>1,528,805</u>	<u>1,510,894</u>	<u>1,479,345</u>	<u>1,593,040</u>
TOTAL REVENUE	\$124,679,073	\$130,642,862	\$139,762,228	\$149,444,213	\$153,159,772
EXPENDITURES:					
Instruction	\$67,910,608	\$71,961,887	\$77,392,846	\$80,969,824	\$85,556,635
Pupil Personnel	3,943,616	4,122,808	4,444,952	4,766,454	5,080,463
Instructional Staff	4,175,778	4,372,988	4,598,410	5,083,371	5,158,111
Administration	6,023,703	6,374,607	7,135,958	7,148,699	7,737,119
Pupil Health	1,167,953	1,273,641	1,395,600	1,531,259	1,529,259
Business	1,094,959	1,017,512	1,157,771	1,364,669	1,417,944
Operation and Maintenance	8,152,562	8,467,486	8,473,417	9,349,720	9,935,707
Student Transportation	5,713,055	5,599,551	6,071,699	6,107,409	6,399,828
Support Services-Central	4,276,250	4,830,200	4,709,572	5,743,445	5,857,970
Other Support Services	-	-	-	-	-
Operation of Non-instructional Services	2,467,166	2,587,968	2,682,331	2,786,038	2,803,369
Debt Service	875,680	598,930	567,090	550,000	550,000
Facilities Acquisition, Construction	29,775	764	306,892	78,139	5,029
Budgetary Reserve	-	-	-	-	-
Fund Transfers	<u>18,842,861</u>	<u>19,367,025</u>	<u>21,697,872</u>	<u>25,523,927</u>	<u>23,080,996</u>
TOTAL EXPENDITURES	<u>\$124,673,966</u>	<u>\$130,575,367</u>	<u>\$140,634,410</u>	<u>\$151,002,954</u>	<u>\$155,112,430</u>
SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES	\$5,107	\$67,495	\$(872,182)	\$(1,558,741)	\$(1,952,658)

*Totals may not add due to rounding.

TAXING POWERS OF THE SCHOOL DISTRICT

In General

Subject to certain limitations imposed by the Taxpayer Relief Act, the School District is empowered by the Public School Code and other statutes to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
 - a. for minimum salaries and increments of the teaching and supervisory staff;
 - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
 - c. to pay interest and principal on any indebtedness incurred pursuant to the Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
 - d. to pay for the amortization of a bond or note issue which provided funding for construction of a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (the "Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth — "STEB") multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

The Taxpayer Relief Act (Act 1)

Under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (the "Taxpayer Tax Relief Act" or "Act 1"), a school district may not levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act, or increase the rate of any tax for school purposes by more than the Index, unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions therein applies. On June 30, 2011, the General Assembly adopted legislation (Act 25 of 2011) amending Act 1 by eliminating several exceptions previously permitted under Act 1 and providing for the rescission of certain prior approved referendum exceptions for disaster/emergency costs, implementation of a court order, school construction and non-academic school construction (effective after the last payment of principal and interest on debt incurred to finance the same). The exceptions currently available under the Taxpayer Relief Act are summarized as follows:

1. to pay interest and principal on indebtedness incurred (i) prior to November 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004 (the School District did not so elect), or (iii) to pay interest and principal on any indebtedness approved by the voters at referendum;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances;
3. to make payments into the State Public School Employees' Retirement System when the increase in the actual dollar amount of estimated payments between the current year and the upcoming year is greater than the Index.

A school district intending to utilize the foregoing exceptions is entitled to apply to PDE for approval thereof, if and to the extent a tax increase greater than the Index is needed in any particular fiscal year. The Taxpayer Relief Act provides that PDE shall approve a school district's request if a review of the data demonstrates that the school district qualifies for the exception sought and the sum of the dollar amounts of all exceptions for which the school district qualifies is not more than what is necessary to balance the budget after giving effect to the revenue to be raised by the allowable increase under the Index. There can be no assurance, however, that approval will be given by PDE to utilize a referendum exception in any future fiscal year or years.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by the court or PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September 30 of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the Federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending the following June 30 (the "Index"). If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

THE FOREGOING SUMMARY OF THE TAXPAYER RELIEF ACT IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF THE TAXPAYER RELIEF ACT NOR A LEGAL INTERPRETATION OF ANY PROVISION OF THE TAXPAYER RELIEF ACT, AND A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF THE TAXPAYER RELIEF ACT AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Status of Bonds under Act 1

The Bonds described in this Official Statement do not represent debt that was approved ("incurred") by the board of school directors of the School District prior to the effective date of Act 1. Accordingly, the board of school directors may not apply to PDE to use the Act 1 referendum exception for previously incurred debt if a tax increase greater than the Index is needed to provide for payment of principal or interest on the Bonds.

Act 130 of 2008

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax ("PIT") in accordance with the Taxpayer Relief Act, an increased PIT, in a revenue neutral manner. To so replace an occupation tax, the applicable board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

Act 48 of 2003

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unreserved undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<u>Total Budgeted Expenditures</u>	<u>Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures</u>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

"Estimated ending unreserved fund balance" is defined in Pennsylvania Act 2003-48 as that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district's budget was adopted and held in the general fund accounts of the school district.

Potential Future Legislation

Legislation has been introduced from time to time in the Pennsylvania legislature containing language that would revise the funding sources for school districts in the Commonwealth. As of the date hereof, none of these proposals have been signed into law. To the extent that any future legislation contains material changes to the local revenue sources used to fund School District expenditures, the School District may be positively or negatively affected by such changes, which could materially affect the amount of local funds permitted to be raised by the School District to pay its debt service obligations, including its obligations with respect to the Bonds.

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Tax Levy Trends

Table 6 shows the trend of tax rates levied by the School District. Table 7 shows the comparative trend of real property tax rates for the School District, the County and the municipalities within the School District.

TABLE 6

STATE COLLEGE AREA SCHOOL DISTRICT TAX RATES

Year	Real Estate (mills)	Real Estate Transfer (%)	Earned Income (%)	Local Services (\$)
2009-10	34.850	0.50	0.95	5.00
2010-11	35.900	0.50	0.95	5.00
2011-12	36.850	0.50	0.95	5.00
2012-13	37.730	0.50	0.95	5.00
2013-14	38.750	0.50	0.95	5.00
2014-15	39.506	0.50	0.95	5.00
2015-16	41.674	0.50	0.95	5.00
2016-17	43.473	0.50	0.95	5.00
2017-18	44.147	0.50	0.95	5.00
2018-19	45.206	0.50	0.95	5.00
2019-20	46.088	0.50	0.95	5.00

Source: School District Officials.

TABLE 7

STATE COLLEGE AREA SCHOOL DISTRICT COMPARATIVE REAL PROPERTY TAX RATES (MILLS ON ASSESSED VALUE)

	2015	2016	2017	2018	2019
School District.....	39.506	41.674	43.473	44.147	45.206
Centre County	7.840	7.840	7.840	7.840	7.840
Benner Township	1.890	1.890	1.890	1.890	1.890
College Township	4.900	5.400	5.400	5.400	5.400
Ferguson Township	2.422	2.422	2.422	2.422	2.422
Halfmoon Township	4.980	4.980	4.980	4.980	4.980
Harris Township	5.300	5.300	5.400	5.300	5.300
Patton Township.....	8.900	9.500	9.500	9.500	9.500
State College Borough.....	14.400	16.400	16.400	16.400	16.760

Source: PA Municipal Statistics Tax Reports, Center for Local Government Services and local officials.

Real Property

The real property tax (excluding delinquent collections) produced \$98,229,939 in revenues in 2017-18, approximately 79% of total local revenue. The School District's fiscal year is from July 1 through June 30 and tax bills are issued by the School District on July 1 of each year. Taxpayers who remit within 60 days receive a 2 percent discount, and those who remit subsequent to 120 days after July 1 are assessed a 10 percent penalty.

The following tables summarize recent trends of assessed and market valuations of real property and real property tax collection data. The last countywide reassessment in Centre County was completed in 1995.

TABLE 8

**STATE COLLEGE AREA SCHOOL DISTRICT
REAL PROPERTY ASSESSMENT DATA**

<u>Year</u>	<u>Market Value</u>	<u>Assessed Value</u>	<u>Ratio</u>
2009-10.....	\$5,330,130,200	\$2,092,898,575	39.27%
2010-11.....	5,812,141,193	2,096,773,320	36.08%
2011-12.....	5,909,669,267	2,127,193,390	36.00%
2012-13.....	6,282,030,871	2,148,202,125	34.20%
2013-14.....	6,331,911,746	2,161,495,415	34.14%
2014-15.....	6,595,927,472	2,198,791,435	33.34%
2015-16.....	6,692,476,020	2,230,381,115	33.33%
2016-17.....	6,899,233,011	2,252,001,575	32.64%
2017-18.....	6,979,885,220	2,277,933,085	32.64%
2018-19.....	7,338,941,664	2,319,909,305	31.61%

Source: Pennsylvania State Tax Equalization Board.

TABLE 9

**STATE COLLEGE AREA SCHOOL DISTRICT
REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY**

	<u>2019 Market Value</u>	<u>2019 Assessed Value</u>	<u>2018 Market Value</u>	<u>2018 Assessed Value</u>
<i>School District</i>	\$7,338,991,664	\$2,319,909,305	\$6,979,885,220	\$2,277,933,085
Benner Township (Portion)	19,069,458	6,414,225	18,427,563	6,413,555
College Township	1,240,653,154	445,954,750	1,214,332,390	441,065,755
Ferguson Township	1,807,454,072	587,527,440	1,757,836,345	582,704,995
Half Moon Township	228,975,154	76,798,635	218,175,174	75,051,645
Harris Township	625,935,558	205,666,205	594,998,341	200,390,110
Patton Township	1,487,419,159	469,988,355	1,402,933,677	463,882,620
State College Borough	1,929,485,109	527,559,695	1,773,181,728	508,424,405
Centre County	10,917,556,884	3,513,536,275	10,494,803,957	3,461,510,950

Source: Pennsylvania State Tax Equalization Board.

TABLE 10

**STATE COLLEGE AREA SCHOOL DISTRICT
ASSESSMENT BY LAND USE**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	\$1,369,747,215	\$1,387,384,905	\$1,406,707,700	\$1,429,142,375	\$1,448,429,585
Trailers	1,136,540	1,055,185	1,043,020	1,066,990	1,036,510
Seasonal	849,035	911,410	919,715	919,715	925,965
Lots	19,495,505	18,490,515	17,690,545	18,838,660	17,678,600
Industrial	17,055,335	16,646,130	15,233,135	15,203,585	14,973,685
Commercial	730,848,620	745,855,450	750,113,860	752,329,185	775,455,190
Agriculture	55,282,650	55,585,210	55,965,170	55,945,220	56,963,650
Land.....	3,843,335	3,919,110	3,795,230	3,954,155	3,912,920
Oil/Gas/Mineral	<u>533,200</u>	<u>533,200</u>	<u>533,200</u>	<u>533,200</u>	<u>533,200</u>
Total	<u>\$2,198,791,435</u>	<u>\$2,230,381,115</u>	<u>\$2,252,001,575</u>	<u>\$2,277,935,102</u>	<u>\$2,319,911,323</u>

Source: Pennsylvania State Tax Equalization Board.

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TABLE 11

**STATE COLLEGE AREA SCHOOL DISTRICT
REAL PROPERTY TAX COLLECTION DATA**

<u>Year</u>	<u>Assessed Valuation</u>	<u>Mills</u>	<u>Adjusted Levy</u>	<u>Current Collections</u>	<u>Current Collections % of Adjusted Levy</u>	<u>Delinquent Collections⁽¹⁾</u>	<u>Total Collections</u>	<u>Total Collections % of Adjusted Levy</u>
2008-09	\$2,065,209,700	33.722	\$68,218,479 ⁽²⁾	\$65,800,431	96.5%	\$1,252,068	\$67,052,499	98.3%
2009-10	2,100,273,380	34.850	71,766,058	69,444,550	96.8%	1,488,163	70,932,713	98.8%
2010-11	2,119,207,285	35.900	74,639,774	72,100,207	96.6%	1,528,193	73,628,400	98.6%
2011-12	2,132,960,140	36.850	77,172,857	74,525,877	96.6%	1,121,701	75,647,578	98.0%
2012-13	2,150,370,450	37.730	79,714,090	77,275,529	96.9%	2,282,294	79,557,823	99.8%
2013-14	2,167,709,600	38.750	82,566,058	80,135,092	97.1%	2,499,490	82,634,582	100.1%
2014-15	2,217,341,910	39.506	86,175,420	83,695,164	97.1%	1,896,271	85,591,435	99.3%
2015-16	2,239,952,600	41.674	91,925,344	89,284,065	97.1%	1,951,556	91,235,621	99.2%
2016-17	2,265,434,185	43.473	97,061,119	94,347,014	97.2%	1,725,346	96,072,360	99.0%
2017-18	2,296,149,400	44.147	99,943,598	97,237,945	97.3%	2,157,912	99,395,857	99.5%

(1) Interim tax receipts have been added to delinquent tax receipts beginning in 2011-12. Interim tax billings represent billings for prior period taxes, and therefore are included in delinquent taxes so that total tax collections for the period are represented in the reporting.

(2) 2008-09 was the first year the School District received Homestead Exclusion money from the Commonwealth from gambling revenue. An amount equal to approximately \$1,424,000 of gambling funds was subtracted from the product of the assessed valuation multiplied by the millage to get the adjusted levy.

Source: School District Financial Reports, School District Officials.

Note: The difference in the assessed valuations shown in Table 8 through Table 11 is a result of the Pennsylvania State Tax and Equalization Board's valuations being based on a calendar year and the School District's valuations being based on its fiscal year which ends on June 30.

The ten largest real property taxpayers, together with 2018-19 assessed values, are shown in Table 12. The aggregate assessed value of these ten taxpayers totals approximately 4.3 percent of total assessed value.

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TABLE 12

**STATE COLLEGE AREA SCHOOL DISTRICT
TEN LARGEST REAL PROPERTY TAXPAYERS, 2018-19**

Owner	Property	Assessed Value
Geisinger Clinic	Medical Buildings	\$18,025,540
Circleville Road Partners	Apartments	14,747,015
Metropolitan at State College	Commercial and Residential Property	14,402,980
Foxdale Village Corp.	Apartments	11,237,105
Highland Holding Group Inc.	Commercial and Residential Properties	10,419,825
Jefferson at State College	Apartments	10,246,530
Toftrees Apartments Ltd.	Apartments	10,181,545
Nittany Centre Realty LLC	Retail	9,948,680
Minitab Inc.	Software and Services	9,190,030
Juniper State College RE	Assisted Living/Skilled Nursing	8,970,335
Assessed Value of Top 10		<u>\$116,369,605</u>

Source: School District Officials.

Note: The Pennsylvania State University (PSU) Taxable properties have historically been included in the list of top ten real property taxpayers within the School District. Properties classified as PSU Taxable properties are primarily arrangements in which the land is owned by PSU but the buildings on these properties are owned and operated by individuals, partnerships or corporations who are responsible to pay the real estate tax. None of the individual properties within this group have a value in the range of the top ten listed above, and therefore it was deemed appropriate to exclude this grouping of properties from the list.

Other Taxes

Under Act 511, the School District collected \$20,432,253 in other taxes in 2017-18. Its limit under Act 511, equal to 12 mills on the market value of real property, was approximately \$83,758,000. Among the Act 511 taxes collected last year are:

Earned Income Tax. The School District levies a tax of 0.95% on earned income of residents. In 2017-18 the collected portion of this tax yielded \$17,870,617 or approximately 11.7 percent of total revenue.

Local Services Tax (also known as Emergency and Municipal Services Tax and Occupational Privilege Tax). A tax of \$5.00 is levied on each person with an occupation. In 2017-18 the collected portion of this tax yielded \$385,739 or less than one percent of total revenue.

Real Estate Transfer. The School District levies a tax of 0.5% of the value of real estate transfers. In 2017-18 the collected portion of this tax yielded \$2,465,823 or approximately 1.6 percent of total revenue.

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Commonwealth Aid to School Districts

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

Basic education funding is allocated to all school districts in an amount equal to: (1) a fixed sum equal to the school district's Fiscal Year 2014-15 basic educational funding; plus (2) an additional increment determined annually pursuant to statutory formula which adjusts a school district's average daily membership by a number of factors specific to the composition of the student population as well as the school district's median household income, local tax effort and capacity to generate local revenue. The additional increment as calculated above for any individual school district may be zero.

The School District's Fiscal Year 2018-19 funding amount was \$7,724,156.

Historical information concerning the calculation of the School District's basic education funding can be found on the Pennsylvania Department of Education's website at <https://www.education.pa.gov>.

School districts may also receive state aid for special education, pupil transportation, vocational education, and health services, among other things.

Current Lack of State Appropriations for Debt Service Subsidies

State law presently provides that the School District will receive reimbursement from the State for a portion of the debt service on the Bonds after said Bonds have received final approval of the Department of Education. State reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Market Value Aid Ratio or Capital Account Reimbursement Fraction (CARF), whichever is higher. The CARF is currently higher at 20.94%. The "Reimbursable Percentage" is determined upon a school district's application for reimbursement for construction and reconstruction projects under the "Planning Construction Workbook", known as "PlanCon". In future years, state reimbursement for debt service on the Bonds may change as a result of future legislation or elimination of the PlanCon program.

In May of 2016, the Commonwealth enacted appropriation legislation known as Act 25 ("Act 25"), which contains authorization for the Commonwealth Finance Authority ("CFA") to issue up to \$2.5 billion of debt to fund PlanCon reimbursements to school districts. Act 25 also instituted a moratorium on new projects entering the PlanCon process while an advisory committee established under Act 25 considers amendments to the PlanCon reimbursement program. This moratorium went into effect on May 15, 2016 and expired on June 30, 2017. On November 6, 2017, House Bill 178 became law without the signature of the Governor and became known as Act 55 of 2017. Contained in Act 55 of 2017 was an extension of the PlanCon moratorium through the end of the 2017-18 fiscal year and a retroactive effective date of July 1, 2017. Subsequently, the Commonwealth enacted Act 42 of 2018, which permitted PlanCon applications submitted between July 1, 2017 and November 6, 2017, and whose school district votes to proceed with construction and award bids on their construction contracts no later than July 1, 2021, to receive PlanCon funding as permitted by law, if made available by the Commonwealth. The moratorium on PlanCon submittals has been extended twice since the enactment of Act 55 of 2017, most recently on June 28, 2019, when Governor Wolf signed into law Act 16 of 2019, which continues the moratorium through the end of the 2019–20 fiscal year.

To date, the CFA has issued \$1,559,680,000, to provide for PlanCon reimbursements owed to school districts, including the issuance of its Revenue Bonds, Series A of 2016 (Federally Taxable) in the principal amount of \$758,185,000 issued on October 31, 2016, as well as its Revenue Bonds, Series A of 2018 (Federally Taxable) in the total amount of \$412,520,000 issued on January 18, 2018 and its \$388,975,000 Revenue Bonds, Series A of 2019 (Federally Taxable) issued on May 22, 2019. It is expected that proceeds of these issues have been and will continue to be used to provide PlanCon reimbursement that is owed to the School District for past and current fiscal years. However, the School District cannot be certain that any future PlanCon reimbursement will be received by PDE as the ability for CFA to issue additional bonds in the future to fund future PlanCon reimbursements owed to school districts may impact the availability of PlanCon reimbursements payable to the School District. Any failure by the

Commonwealth to adopt a timely budget and enact necessary spending authorizations could have a material adverse effect upon the School District's anticipated receipt of PlanCon reimbursements.

There can be no assurances that the School District will be able to successfully apply for, be awarded, and receive sufficient PlanCon reimbursement for the costs of any current or future projects of the School District. A failure by the School District to receive such reimbursement could force the School District to apply other available funds, if any, toward the completion costs of the Project and may have a material adverse effect on the financial resources of the School District to fund other obligations, including payment of debt service on the Bonds.

Legislation has been introduced from time to time in the Pennsylvania legislature containing language that would revise or even abolish the debt service reimbursement program for Pennsylvania school districts. As of the date hereof, and except as described above, none of these proposals have been signed into law. To the extent that any future legislation contains material changes to the PlanCon program as it is structured currently, the amount of PlanCon reimbursement to the School District may be positively or negatively affected, which could materially impact the amount of local funds needed to be raised by the School District to pay debt service on its debt obligations.

The School District received \$321,430 in debt service reimbursement related to its outstanding bonds in 2017-2018. In future years, this amount may change as the School District's CARF changes or as a result of future legislation. The Elementary Project and State High Project are eligible for PlanCon reimbursement at reimbursement percentages expected to be approximately 20%.

DEBT AND DEBT LIMITS

Debt Statement

Table 13, which follows, shows the debt of the School District as of August ___, 2019 assuming (1) the issuance of both the 2019A Bonds and the 2019B Bonds and (2) the issuance of the 2019A Bonds but not the 2019B Bonds.

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TABLE 13
STATE COLLEGE AREA SCHOOL DISTRICT
DEBT STATEMENT
(AS OF AUGUST 1, 2019)

	GROSS OUTSTANDING (2019A ONLY)	GROSS OUTSTANDING (2019A AND 2019B)
<u>ELECTORAL DEBT</u>		
General Obligation Bonds, Series of 2015 (last maturity 2040)	\$69,585,000	\$69,585,000
<u>NONELECTORAL DEBT</u>		
General Obligation Bonds, Series A of 2019 (the "2019A Bonds")	\$ 22,025,000*	\$ 22,025,000*
General Obligation Bonds, Series B of 2019 (the "2019B Bonds")	-	10,475,000*
General Obligation Bonds, Series of 2018 (last maturity 2044)	51,285,000	51,285,000
General Obligation Bonds, Series of 2017 (last maturity 2043)	41,760,000	41,760,000
General Obligation Bonds, Series B of 2015 (last maturity 2028)	17,930,000	17,930,000
General Obligation Bonds, Series A of 2014 (last maturity 2022)	1,000,000	1,000,000
General Obligation Bonds, Series B of 2014 (last maturity 2028)	5,730,000	5,730,000
General Obligation Bonds, Series of 2013 (last maturity 2022)	1,470,000	0
General Obligation Bonds, Series of 2012 (last maturity 2029)	<u>11,395,000</u>	<u>0</u>
TOTAL NONELECTORAL DEBT	\$152,595,000*	\$150,205,000*
TOTAL LEASE RENTAL DEBT	\$ <u>0</u>	\$ <u>0</u>
TOTAL PRINCIPAL OF DIRECT DEBT	<u>\$222,180,000*</u>	<u>\$219,790,000*</u>

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* Preliminary, subject to change.

Table 14 presents the overlapping indebtedness and debt ratios of the School District. After issuance of the Bonds, the principal amount of direct debt of the School District will total \$222,180,000*. After adjustment for available funds and estimated Commonwealth aid, the local effort of direct debt will total \$208,063,120*.

TABLE 14

**STATE COLLEGE AREA SCHOOL DISTRICT
BONDED INDEBTEDNESS AND DEBT RATIOS****

DIRECT DEBT	Gross	Local Effort or Net of Available Funds and Estimated State Aid ⁽¹⁾
Electoral Debt ⁽¹⁾	\$ 69,585,000	\$ 65,450,952 ⁽²⁾
Nonelectoral Debt*	152,595,000	144,973,722 ⁽²⁾
Lease Rental Debt	-	-
TOTAL DIRECT DEBT	\$ 222,180,000	\$ 210,424,673
OVERLAPPING DEBT		
Centre County, General Obligation ⁽³⁾	\$ 16,136,369	\$ 16,136,369
Municipal Debt	56,268,968	56,268,968
TOTAL OVERLAPPING DEBT*	\$ 72,405,337	\$ 72,405,337
TOTAL DIRECT AND OVERLAPPING DEBT*	\$ 294,585,337	\$ 282,830,011
DEBT RATIOS		
Per Capita (2010)	\$3,257.03	\$3,127.06
Percent 2018 Assessed Value	12.70%	12.19%
Percent 2018 Market Value	4.01%	3.85%

** Includes the Bonds offered through this Official Statement.

⁽¹⁾ Gives effect to current appropriations for payment of debt service and estimated future Commonwealth reimbursement on the Bonds based on current Aid Ratio. See "Commonwealth Aid to School Districts."

⁽²⁾ Estimate based on preliminary Reimbursable Percentages.

⁽³⁾ Pro rata 62.44% share of \$25,843,000 principal amount outstanding.

* Preliminary, subject to change.

Debt Limit and Remaining Borrowing Capacity

The statutory borrowing limit of the School District under the Debt Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Debt Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

Total Revenues for 2016-17	\$149,444,213
Total Revenues for 2017-18	153,159,772
Estimated Total Revenues for 2018-19 ⁽¹⁾	<u>164,007,691</u>
Total Revenues, Past Three Years	\$466,611,676
Annual Arithmetic Average (Borrowing Base)	<u>\$155,537,225</u>

⁽¹⁾ Unaudited, and subject to change.

Under the Debt Act as presently in effect, no school district may incur any nonelectoral debt or lease rental debt, if the aggregate net principal amount of such new debt together with any other net nonelectoral debt and lease rental debt then outstanding, would cause the net nonelectoral debt plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

	<u>Legal Limit</u>	<u>Net Debt Outstanding⁽¹⁾</u>	<u>Remaining Borrowing Capacity</u>
Net Nonelectoral Debt and Lease Rental Debt Limit:			
225% of Borrowing Base	\$349,958,756	\$152,595,000	\$197,363,756

⁽¹⁾ Preliminary, subject to change. Does not reflect credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by Commonwealth aid. Includes the Bonds being offered through this Official Statement. Excludes the School District's General Obligation Bonds, Series of 2015, which is Electoral Debt that does not count against legal debt limits.

Debt Service Requirements

Table 15 presents the debt service requirements on the School District's outstanding general obligation and lease rental indebtedness including debt service on the Bonds.

Table 16 presents data on the extent to which Commonwealth aid provides coverage for debt service and lease rental requirements.

The School District has never defaulted on the payment of debt service.

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TABLE 15

**STATE COLLEGE AREA SCHOOL DISTRICT
DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 6/30	Other General Obligation Debt¹	<u>Series A of 2019</u>			<u>Series B of 2019</u>			Total Requirements
		<u>Principal</u>	<u>Interest</u>	<u>Subtotal</u>	<u>Principal</u>	<u>Interest</u>	<u>Subtotal</u>	
2020	\$16,240,608							\$16,240,608
2021	16,282,250							16,282,250
2022	16,253,948							16,253,948
2023	16,179,000							16,179,000
2024	16,186,250							16,186,250
2025	16,188,850							16,188,850
2026	16,175,331							16,175,331
2027	15,150,631							15,150,631
2028	15,148,969							15,148,969
2029	12,588,475							12,588,475
2030	12,598,638							12,598,638
2031	11,319,425							11,319,425
2032	11,326,113							11,326,113
2033	11,323,525							11,323,525
2034	11,321,188							11,321,188
2035	11,323,688							11,323,688
2036	11,319,888							11,319,888
2037	11,319,450							11,319,450
2038	11,318,613							11,318,613
2039	11,313,913							11,313,913
2040	11,314,688							11,314,688
2041	6,059,775							6,059,775
2042	6,060,925							6,060,925
2043	6,057,388							6,057,388
2044	<u>3,444,000</u>							<u>3,444,000</u>
Total	\$303,815,524							\$303,815,524

¹ Includes debt service on the Series 2012 and 2013 Bonds to be refunded with proceeds of the 2019B Bonds.

TABLE 16

**STATE COLLEGE AREA SCHOOL DISTRICT
COVERAGE OF DEBT SERVICE AND LEASE RENTAL
REQUIREMENTS BY COMMONWEALTH AID***

2017-18 Commonwealth Aid Received.....	\$27,427,944
2018-19 Debt Service Requirements	\$12,743,774
Maximum Future Debt Service Requirements after Issuance of Bonds.....	\$ _____
Coverage of 2018-19 Debt Service Requirements	2.15 times
Coverage of Maximum Future Debt Service Requirements after Issuance of Bonds	___ times

*Assumes current Commonwealth Aid Ratio. See "Commonwealth Aid to School Districts". Assumes issuance of the Bonds.

Future Financing

The School District currently estimates the total cost of capital projects (including the Project as well as other planned capital projects) at approximately \$34,700,000 over the period 2020-2023. The balance of these projects not funded by the 2019A Bonds will be funded from the School District's available funds. The amounts and timing of future capital expenditures are likely to vary.

LABOR RELATIONS

School District Employees

There are presently 1,339 employees of the School District, including 718 teachers and administrators and 589 support personnel (secretaries, maintenance staff, cafeteria staff and teacher aides).

The School District's professional employees, other than administrators, are represented by the State College Area Education Association (SCAEA), an affiliate of the Pennsylvania State Education Association (PSEA) and the National Education Association. The pay schedules for these employees are defined in a five year contract that expires June 30, 2020.

The American Federation of State, County and Municipal Employees, Council 83 represents the school bus drivers as one bargaining unit, and custodial, maintenance and food service employees as another bargaining unit. The contract for bus drivers, custodial, maintenance, and food service is a 5-year contract that expires June 30, 2021.

All administrators of the School District, except the Superintendent, the Assistant Superintendent, the Finance and Operations Officer, and the Director of Human Resources are represented as various groups under Act 93 of 1984. These groups currently have 3-year compensation plan agreements, which will expire on June 30, 2022.

The secretary/clerical and para-professional employees are represented by PSEA. This collective bargaining agreement expires June 30, 2022.

SCHOOL DISTRICT PENSION PROGRAM

Pension Program

The School District contributes to the Public School Employees' Retirement System of Pennsylvania ("PSERS"), a governmental cost-sharing, multiple-employer defined benefit pension plan. PSERS is administered by the PSERS Board of Trustees. All of the School District's full-time and part-time salaried employees, or part-time employees who work 80 or more days in a school year or over 500 hours per year are required to participate in the program. The PSERS System provides retirement and disability benefits, legislatively mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended, 24 Pa. C.S. §§8101-8535) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The contribution policy is established in the Public School Employee Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Currently, each party to the program contributes a fixed percentage of the employee's salary. Contributions required of employers are based upon an actuarial valuation. Employees belonging to PSERS prior to July 22, 1983, contribute 5.25% of their salary, and employees who joined PSERS on or after July 22, 1983, contribute 6.25% of their salary. On February 17, 2002, Governor Mark Schweiker signed Act 9 which created a new membership class that sets the employee contribution rate at 7.50% of the employee's salary for those employees hired on or after July 1, 2001. Act 9 also provides an option for those employees hired prior to July 1, 2001, to elect a contribution rate of 6.50% if they were hired before July 22, 1983, or 7.50% if they were hired on or after July 22, 1983.

Act 120 of 2010 was passed by the General Assembly on November 15, 2010 and signed by former Governor Rendell on November 23, 2010. The benefit reductions contained in this legislation only impact individuals who become new members of PSERS on or after July 1, 2011. New members will have the option of selecting one of 2 new classes. The members selecting class T-E, will contribute a base rate of 7.5% with "shared risk" contribution levels between 7.5% and 9.5% and a pension multiplier of 2.0%. Members selecting class T-F will contribute a base rate of 10.3% with shared risk contribution levels between 10.3% and 12.3% and a pension multiplier of 2.5%.

"Shared risk" means the employer and any employee hired after July 1, 2011 are jointly responsible for any investment losses in the future. There would be no increase to the employee contribution rate where there has not been an equivalent increase in the employer contribution rate. Likewise there would be no increase to the employee contribution rate if the system is funded at 100% or more. The member contribution rate will stay within the specified range allotted for Class T-E or T-F, but could increase or decrease every three years starting July 1, 2015, depending on the investment performance of PSERS. Beginning with the annual actuarial valuation performed for the period ending June 30, 2014 and every three years thereafter, a comparison of the actual investment rate of return to the assumed rate of return for the previous 10-year period will be made. If the actual rate of return is less than the assumed rate (for PSERS, the assumed rate of return is 8% annually) by 1% or more, the employee contribution rate will increase by ½% per year, up to a maximum increase of 2%. If the actual rate is equal to or more than the assumed rate, the total membership contribution rate will decrease by ½%. New hires will contribute at the rate in effect when they are hired. Act 120 prohibits the use of pension obligation bonds to prop up or mask funded status.

New members' benefits have been reduced as follows: employees cannot withdraw contributions and interest in a lump sum when retiring (the lump sum option currently permits retiring employees to withdraw all of their contributions upon retirement, and still receive a monthly benefit for the remainder of their life); the vesting period is increased from 5 to 10 years; for normal retirement, employees must work until age 65 with a minimum of 3 years of service, or attain a total combination of age and service that is equal to or greater than 92, with a minimum of 35 years of service; the pension benefit cannot exceed the employee's final average salary; the cost to purchase most types of nonschool or nonstate service credit (other than intervening military service) will be the full actuarial cost of the service.

Act 5 of 2017 was signed by Governor Wolf on June 12, 2017. Under this legislation, Class TE and Class TF members became eligible to elect a cost neutral Option 4 lump sum distribution of all or a portion of the member's accumulated contributions at retirement. The current defined benefit plan will no longer be available to new members

after June 30, 2019. Act 5 restricted the actuarial value of assets to be no less than 70% and no more than 130% of the market value of assets. This modification had no effect on the System's unfunded accrued liability developed in the June 30, 2017 valuation.

Contribution rates for employers (like the School District), using the June 30, 2017 valuation, are approximately 34.29% for 2019-2020, and projected to rise to 36.3% through 2023-2024. This valuation assumes a 7.25% rate of return. The actual contribution rates for the 2015-2016, 2016-2017 and 2017-2018 fiscal years were set at 25.84%, 30.03% and 32.57%, respectively. The rate for 2018-2019 was 33.43%. Both the School District and the Commonwealth are responsible for paying a portion of the employer's share. School entities are responsible for paying 100% of the employer share of the contributions to PSERS, and the Commonwealth reimburses the employer for one-half of this share. The School District contributions are made on a quarterly basis and employee contributions are deducted monthly from each paycheck and remitted monthly.

The following table shows the annual School District contributions for the last ten fiscal years. The School District is current in all payments.

<u>Year</u>	<u>School District Contribution</u>
2009-10	\$2,873,898
2010-11	3,537,772
2011-12	4,768,262
2012-13	7,095,629
2013-14	9,607,872
2014-15	12,229,790
2015-16	14,674,971
2016-17	17,936,116
2017-18	20,220,445
2018-19.....	22,030,474

At June 30, 2018, the School District reported a liability of \$236,077,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2016 to June 30, 2017. The School District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School District's proportion was .4780%, which was an increase of .006% from its proportion measured as of June 30, 2017.

Source: School District Financial Statements.

About the Pennsylvania Public School Employees' Retirement System

Please refer to the PSERS website, www.psers.state.pa.us, for additional information.

PSERS is the 18th largest state-sponsored defined benefit pension in the nation and has a membership of more than 255,000 active members and over 230,000 annuitants and beneficiaries receiving benefits. For more information visit PSERS' website at www.psers.state.pa.us

Under GASB 25, PSERS' funded ratio for the pension plan decreased from 57.3% at June 30, 2016 to 56.3% as of the latest actuarial valuation dated June 30, 2017. This decrease was primarily due to experience losses on investment assets and employer contributions that were less than the normal cost plus interest on the unfunded liability.

Under GASB 67, PSERS' pension plan ratio of fiduciary net position to total pension liability, increased from 51.8% as of June 30, 2017 to 54.0% as of June 30, 2018. This increase is due to the increase in investment assets

outpacing the increase in future benefits calculated in the Total Pension Liability. This ratio is more susceptible to volatility, as the fair value of assets is used in the measurement.

The PSERS financial statements in the Comprehensive Annual Financial Report ("CAFR") are presented in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The Fund's complete report is available on the PSERS website on the Internet: www.psers.state.pa.us.

Source: PSERS.state.pa.us

Single-Employer Defined Benefit OPEB Plan

The School District is obligated under collective bargaining agreements to provide health insurance coverage for both currently retired and future retired professional employees, and to provide retirement severance pay for existing employees. The total Other Post-Employment Benefit (OPEB) liability of the School District as of June 30, 2018 was \$4,912,995 based on a roll-forward for the most recent actuarial valuation on July 1, 2016.

The School District has not advance funded or established a funding methodology for the annual OPEB costs or the net OPEB Obligation. For the 2017-18 Fiscal Year, 45 retirees and eligible dependents received postemployment healthcare benefits. Retiree contributions are based on weighted averages for the medical premiums, increasing at the same rate as the health care cost trend rate. The School District's pay-as-you-go cost, of \$453,924 has been applied toward the annual OPEB cost.

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deduction from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Health Insurance Premium Assistance Program

The System (PSERS) provides premium assistance which is a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the PSERS' health options program or employer-sponsored health insurance program.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School District were \$528,764 for the year ended June 30, 2018.

OPEB Liability

At June 30, 2018, the School District reported a liability of \$9,741,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The School District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School District's proportion was 0.4780 percent, which was an increase of 0.006 from its proportion measured as of June 30, 2017.

For a full description of the School District's Single Employer Defined Benefit OPEB Plan and the School District's participation in the PSERS Multi-Employer Defined Benefit OPEB Plan, see Note 17 in the School District's Annual Financial Report included in Exhibit C.

Source: District Financial Statements

LITIGATION

At the time of settlement, the President or Vice President and Solicitor of the School District, will deliver a certificate dated as of the date of delivery of and payment for the Bonds, certifying that there is no litigation pending which challenges the validity or enforceability of the Bonds; or in the event that such litigation is pending, a description of the nature of such litigation, together with an opinion of legal counsel approved by the School District to the effect that such litigation is without legal merit.

DEFAULTS AND REMEDIES

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Debt Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Debt Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Debt Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Debt Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

TAX EXEMPTION

State Tax Matters

In the opinion of Bond Counsel, the Bonds and the interest income therefrom, are free from taxation for purposes of personal income, corporate net income and personal property taxes within the Commonwealth.

Federal Income Tax Matters

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that interest on the Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal alternative minimum tax.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The School District has covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion regarding the Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Clark Hill PLC.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excludible from gross income for Federal and Pennsylvania income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing of the Bonds on the tax liabilities of the individual or entity.

Receipt of tax-exempt interest, and ownership, or disposition of the Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers. Such effects include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of social security or railroad retirement benefits, under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Bond may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, the residence of a holder of Bonds in a state other than Pennsylvania, or being subject to tax in a state other than Pennsylvania, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Bonds.

Original Issue Discount

Certain of the Bonds may be offered and sold to the public at an original issue discount ("OID") from the amounts payable at their maturity (such Bonds are referred to herein as the "Tax-Exempt Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of Underwriter or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Tax-Exempt Discount Bonds, the amount of the accrual will be based upon a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Tax-Exempt Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns such Bond is added to the purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Tax-Exempt Discount Bond and thus, in practical effect, is treated as stated interest, which is excludible from gross income for federal income tax purposes.

Holders of Tax-Exempt Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

Original Issue Premium

Certain of the Bonds may be sold at an original issue premium (the "Acquisition Premium") (such Bonds are referred to herein as the "Premium Bonds"). Under the Code, the premium on the Premium Bonds is an adjustment to basis and must be amortized. No deduction is allowable on account of such premium. The method of amortization may be the method regularly employed by the taxpayer if such method is reasonable, or, in all other cases, must be the method prescribed by applicable Treasury Regulations, which provide that the amortizable bond premium is an amount which bears the same ratio to the premium on the Premium Bonds as the number of months in the taxable year during which the bond or note was held by the taxpayer bears to the number of months from the beginning of the taxable year (or, if the bond or note was acquired in the taxable year, from the date of acquisition) to the date of maturity. The basis of the Premium Bonds is reduced by the amount of the amortizable premium.

Holders of the Premium Bonds purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the School District will agree:

- (i) to file annually, with the Municipal Securities Rulemaking Board (the "MSRB"), on or before March 31, 2020 and March 31 of each year thereafter, as long as the Bonds remain outstanding or are not defeased, for the fiscal year ending on the preceding June 30, beginning with the fiscal year ending June 30, 2019, the following financial information and operating data with respect to the School District:
 - the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards
 - a summary of the budget for the current fiscal year
 - the assessed value and aggregate market value of all taxable real estate for the current fiscal year

- the taxes and millage rates imposed for the current fiscal year
 - the real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year's levy and as an aggregate dollar amount), (3) the amount of real estate taxes collected that represented taxes levied in prior years (expressed as an aggregate dollar amount), and (4) the total amount of real estate taxes collected (expressed both as a percentage of the current year's levy and as an aggregate dollar amount)
 - a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the current fiscal year
 - pupil enrollment figures, including enrollment at the end of the most recent fiscal year, current enrollment and projected enrollment for the beginning of the next fiscal year, including a breakdown between elementary and secondary enrollment (to the extent reasonably feasible)
- (ii) In a timely manner but in any event not in excess of ten days after the occurrence of the event, to file with the MSRB, notice of the occurrence of any of the following events with respect to the Bonds ("reportable events"): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the School District; (13) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation (as defined in the Rule) of the School District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the School District, any of which affects holders of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the School District, any of which reflect financial difficulties.
- (iii) to file, in a timely manner, with the MSRB, notice of the failure of the School District to provide the information set forth in subparagraph (i) above on or before the date specified above.

Note: the SEC requires the listing of (1) through (16) in subsection (ii) above, although some events may not be applicable to the Bonds.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above. However, the School District does not commit to provide any such notice of the occurrence of any events except those specifically listed above. All filings with the MSRB described above will be made on the MSRB's Electronic Municipal Market Access System ("EMMA") in PDF files formatted so that they are word searchable, as required by the MSRB.

The School District will reserve the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the School District no longer remains an "obligated person" with respect to the Bonds within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders or beneficial owners of the Bonds and shall be enforceable by the holders or beneficial owners of such Bonds; provided that the Bondholders' right to enforce the provisions of the undertaking shall be limited to a right to obtain specific performance of the School District's obligations thereunder and any failure by the School District to comply with the provisions of the continuing disclosure undertaking shall not be an event of default with respect to the Bonds.

The School District failed to file with the MSRB some or all of its annual financial and operating data in a timely manner in the past five years as required by its continuing disclosure undertakings. The School District did not file operating data due December 27, 2012 until November 11, 2014. The School District subsequently filed notices of the late filing noted above.

With regards to the reportable events listed in subsection (ii) above, some of the School District's bond issues that have been outstanding during the past five (5) years have been insured by various bond insurance companies that have received rating downgrades and upgrades by both S&P and Moody's. While these rating changes were not reported by the School District by filing a reportable event notice, this information was otherwise publicly available from widely accepted information sources.

RATING

Moody's Investor Service, Inc. ("Moody's") has assigned the School District an underlying rating of "Aa1" with respect to the Bonds. Such rating reflects only the view of such organizations and any desired explanation of the significance of such rating should be obtained from Moody's at the following address: 7 World Trade Center, 250 Greenwich Street, New York, NY 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by BofA Securities, Inc., New York, New York, (the "Underwriter"). The Underwriter has agreed to purchase all of the Bonds at a purchase price of \$_____ (consisting of the par amount of the Bonds of \$_____ less Underwriter's discount of \$_____ plus net original issue premium of \$_____). The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions contained in the purchase contract between the School District and the Underwriter (the "Purchase Contract"). The Purchase Contract provides that the Underwriter will purchase all of the Bonds if any are purchased.

The Bonds are being offered for sale to the public at the prices shown on the inside cover pages hereof. The Underwriter reserve the right to lower such initial offering prices as it deems necessary on connection with the marketing of the Bonds. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial public offering price or prices set forth in the Official Statement. The Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriter and its affiliates are full service institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the School District, for which they received or will received customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivatives securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities may involve securities and instruments of the School District.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

BofA Securities, Inc., the Underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for its selling efforts with respect to the Bonds.

LEGAL OPINIONS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Clark Hill PLC, of Pittsburgh, Pennsylvania, Bond Counsel whose approving legal opinion is printed on the Bonds. Certain legal matters will be passed upon for the Underwriter by Eckert Seamans Cherin & Mellott, LLC, of Pittsburgh, Pennsylvania, as Underwriter's Counsel. Certain legal matters will be passed upon for the School District by Scott C. Etter, Esquire, Etter Law Firm LLC, of State College, Pennsylvania, School District Solicitor.

FINANCIAL ADVISOR

The School District has retained NW Financial Group, LLC, Kenilworth, Pennsylvania, as financial advisor (the "Financial Advisor") in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. NW Financial Group, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

MISCELLANEOUS

The information set forth in this Official Statement had been obtained from the School District and from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representation of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Resolution, and the statutes summarized herein and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents or statutes, copies of which will be furnished by the School District or the Financial Advisor upon request. The information assembled in this Official Statement is not to be construed as a contract with holders of the Bonds.

Use of the words "shall," "will," "must," or other words of similar import or meaning in summaries of documents or law in this Official Statement to describe future events or continuing obligations is not intended as a representation that such event will occur or such obligations will be fulfilled, but only that the document or law requires or contemplates such event to occur or such obligation to be fulfilled.

The School District has authorized the distribution of this Official Statement.

STATE COLLEGE AREA SCHOOL DISTRICT
(Centre County, Pennsylvania)

By: _____
President, Board of School Directors

**APPENDIX A – DEMOGRAPHIC AND ECONOMIC
INFORMATION RELATING TO THE STATE COLLEGE AREA SCHOOL DISTRICT**

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Population

Table A-1 shows recent population trends for the State College Area School District (the "School District"), Centre County and the Commonwealth of Pennsylvania (the "Commonwealth"). The School District's population increased from 84,623 to 92,977 between 2000 and 2010 gaining 8,354 residents or an increase of 9.87 percent. Table A-2 shows 2010 age composition in Centre County and for the Commonwealth.

**TABLE A-1
RECENT POPULATION TRENDS**

<u>Area</u>	<u>2000</u>	<u>2010</u>	<u>Percentage Change 2000-2010</u>	<u>2018 Estimate*</u>	<u>Percentage Change 2010-2018*</u>
School District	84,623	92,977	9.87%	93,868	0.95%
Centre County	135,758	154,127	13.53	162,805	5.16%
Pennsylvania	12,281,054	12,709,630	3.49	12,807,060	0.76%

Source: U.S. Bureau of the Census, and the Pennsylvania State Data Center-1990 & U.S. Census Bureau, 2011-2015 American Community Survey 5-year Estimates, 2010 American Community Survey

* 2018 American Community Survey 1-Year Estimates

**TABLE A-2
AGE COMPOSITION**

	<u>0-17 Years</u>	<u>18-64 Years</u>	<u>65+ Years</u>
School District	12.5%	77.4%	10.1%
Centre County	15.0	70.8	14.2
Pennsylvania	20.7	61.1	18.2

Source: U.S. Census Bureau, 2018 American Community Survey 1-Year Estimates.

Employment

With the presence of The Pennsylvania State University (the "University"), the main industry in the School District is education, with most of the non-student residents of the School District employed in white collar, professional positions.

Most of the manufacturing and industrial activity exists within three industrial groups: Stone, Clay, Glass & Construction; Electrical Machinery, Equipment & Supplies; and Instruments & Related Products. Members of the University faculty have founded several companies engaged in research and development work. The larger employers located within or near the School District include:

Name	Product or Service	Approximate Full Time Employment
The Pennsylvania State University	Education	13,249
Mount Nittany Medical Center	Healthcare	2,365
State College Area School District	Education	1,792
Pennsylvania State Government	Government	1,074
Wal-Mart Associates	Retail	732
Glenn O. Hawbaker Inc.	Construction	700
HRI Inc.	Paving	692
Weis Markets Inc.	Grocery	631
Centre County Government	Government	586
Geisinger Medical Group	Healthcare	563

Source: Centre Daily Times; September 18, 2017.

Table A-3 shows nonfarm jobs for the State College, PA MSA and net change from June 2015 to June 2016.

**TABLE A-3
STATE COLLEGE, PA
(Centre County)
NONFARM JOBS**

	May 2019 Employment⁽¹⁾	April 2019 Employment	May 2018 Employment	Over the Year Change
Total Nonfarm	83,000	83,700	80,900	2.60%
Manufacturing	4,200	4,100	4,100	2.40%
Trade, Transportation and Utilities	9,700	9,600	9,600	1.00%
Professional and Business Services	7,500	7,500	7,100	5.60%
Education and Health Services	10,200	10,300	10,100	1.00%
Leisure and Hospitality	7,100	7,300	7,700	1.40%
Government	34,200	35,000	33,100	3.30%

Source: United States Department of Labor, Bureau of Labor Statistics

⁽¹⁾ Preliminary as of May 2019.

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Table A-4 shows recent trends in employment and unemployment for the County and the Commonwealth. The unemployment rate for the County has been lower than that for the Commonwealth during the period shown.

TABLE A-4
RECENT TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
(Centre County)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018⁽¹⁾</u>
<i>Centre County</i>					
Civilian Labor Force (000)	77.889	78.854	79.216	79.498	81.785
Employment (000)	75.102	76.032	76.270	76.976	76.398
Unemployment (000)	2.787	2.821	2.946	2.522	2.387
Unemployment Rate	3.6%	3.60%	3.70%	3.20%	2.90%
<i>Pennsylvania</i>					
Civilian Labor Force (000)	6,343.60	6,417.20	6,454.20	6,391.10	6,450.40
Employment (000)	5,976.20	6,069.60	6,102.70	6,092.9	6,179.90
Unemployment (000)	367.50	347.60	351.50	299.00	270.50
Unemployment Rate	5.80%	5.40%	5.40%	4.70%	4.20%

⁽¹⁾ Preliminary as of December 2018.

Source: United States Department of Labor, Bureau of Labor Statistics

Income

The data in Table A-5 shows trends in per capita income for the School District, Centre County and the Commonwealth over the 2000-2010 period. Per capita income in the School District and in the County is lower than per capita income in the Commonwealth, but per capita income in the School District is somewhat higher than Centre County.

TABLE A-5
RECENT TRENDS IN PER CAPITA INCOME*

	<u>2000</u>	<u>2010</u>	<u>Percentage Change 2000-2010</u>	<u>2017</u>
School District	\$18,306	\$24,143	31.9%	\$28,130
Centre County	18,020	23,744	31.8%	28,545
Pennsylvania	20,880	27,049	29.5%	31,476

* Income is defined by the Bureau of the Census as the sum of wage and salary income, non-farm self-employment income, net self-employment income, Social Security and Railroad retirement income, public assistance income, interest, dividends, pensions, etc. before deductions for personal income taxes, Social Security, etc. School District income is the population-weighted average for political subdivisions.

Source: 2000 Census, Pennsylvania State Data Center & U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates.

Utilization of Land Area

The area that includes the School District is predominantly agricultural and woodland. The School District has a rich agricultural heartland. The average production value per Centre County farm is considerably higher than for the Commonwealth as a whole.

Education

The overwhelming influence on the character and structure of the School District and of central Pennsylvania is the existence of the University. It enrolls more than 80,000 students at 24 campus locations statewide, and offers instruction in more than 160 baccalaureate and 150 graduate programs. The University Park campus of the University, with an enrollment of some 46,600 students, is an administrative and research hub. The campus is located adjacent to the community of State College Borough.

Transportation

Transportation in the area includes University Park Airport, 4 miles to the north. Rail freight service is provided by Conrail, and passenger service is provided by Amtrak at Lewistown to the south. Major highways include U.S. 322, U.S. 220 and I-99, a main north-south route, State routes 26, 45, 53 and 64 and the Keystone Shortway (Interstate 80), a major east-west limited access highway. The Harrisburg-Lewistown Expressway provides a limited access four-lane connection to the state capital, the Pennsylvania Turnpike and other major routes.

Housing

Housing within the School District is comprised of predominantly owner-occupied single family houses located in residential and rural settings, with an increasing number of apartments. Single-family housing is expected to continue to predominate, and future construction within the area is expected by School District officials to be primarily of single-family housing.

Between 2000 and 2010, the number of dwelling units in the School District rose from 30,417 to 34,649, which is an increase of 4,232 units. The median home value in the School District is estimated to be in the \$225,300 range.

Utilities

Utility services for the area covered by the School District are provided by West Penn Power Electric Company and Windstream. Water and sewer service is primarily provided by the University Area Joint Authority and State College Borough Water Authority.

APPENDIX B
FORM OF OPINION OF BOND COUNSEL

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FORM OF OPINION OF BOND COUNSEL

The form of the approving legal opinion of Clark Hill PLC, Bond Counsel, is set forth below. The actual opinion will be delivered on the date of delivery of the Bonds and may vary from the form set forth to reflect circumstances both factual and legal at the time of such delivery. Recirculation of this Preliminary Official Statement shall create no implication that Clark Hill PLC has reviewed any of the matters set forth in such opinion subsequent to the date thereof.

To and for the attention
of the Purchaser of the
Described Bonds:

_____, 2019

We have served as Bond Counsel to the State College Area School District (Centre County, Pennsylvania) (the "Local Government Unit") and do hereby undertake to advise you in connection with the issuance, sale and delivery of its \$ _____, aggregate principal amount, General Obligation Bonds, Series A of 2019 (the "2019A Bonds") and \$ _____ aggregate principal amount, General Obligation Bonds, Series B of 2019 (the "2019B Bonds," and, together with the 2019A Bonds, the "Bonds") issued in fully registered form, dated and bearing interest from _____, 2019 and maturing on various annual dates ending on November 15, _____. The Bonds are subject to redemption at the option of the Local Government Unit, on or after _____.

In that capacity, we have examined the Constitution of the Commonwealth of Pennsylvania; the Public School Code of 1949, Act of March 10, 1949, P.L. 30, No. 14, as amended (the "School Code"); the Local Government Unit Debt Act, as codified by the Act of December 19, 1996 (P.L. 1158, No. 177), as amended (the "Debt Act"); the formal action of the Governing Body of the Local Government Unit authorizing the incurrence of nonelectoral debt evidenced by the Bonds (the "Debt Ordinance"); the corresponding Certificate of Approval of the Department of Community and Economic Development; the Internal Revenue Code of 1986, as amended (the "Tax Code"); the Federal Income Tax Certificate of an authorized officer; and such other certificates, proceedings and law as we deemed necessary in order to render this opinion. Unless separately noted, we have not independently verified factual certifications made to us by the Local Government Unit, its officers and agents during the course of our engagement.

Both principal of and interest on the Bonds are payable at the designated corporate trust office of Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania as Paying Agent for the Local Government Unit; the bank has additionally been appointed Registrar and Sinking Fund Depository for the Bonds.

Based on the foregoing, we are of the opinion on this date as follows:

1. The Bonds are valid and binding general obligations of the Local Government Unit.
 - (a) The Bonds are issued for a valid purpose under the School Code.
 - (b) The Bonds, and all other outstanding debt of the Local Government Unit, are within constitutional and statutory limitations.

(c) The Debt Ordinance authorizing the Bonds was duly and properly enacted and is in full force and effect.

(d) The Bonds conform, in all substantial respects, to the form provided in the Debt Ordinance.

2. The Bonds are secured by a pledge of the full faith, credit and all available taxing power of the Local Government Unit. The Local Government Unit has effectively covenanted in the Debt Ordinance to include the amount of debt service on this issue, in each fiscal year for which such sums are due, in its budget for that year; to appropriate such amount to the payment of such debt service; and to pay or cause to be paid, from time to time as and when due, the principal of the Bonds and the interest thereon on the dates, at the place and in the manner stated in the Bonds.

3. Presently included among the general revenues of the Local Government Unit available for the payment of the Bonds are ad valorem real estate taxes, whose levy is subject to the limitations of Pennsylvania Act No. 1 of Special Session of 2006 ("Act 1"), as amended. The pledge of ad valorem taxes to the payment of debt service on the Bonds is not be unlimited, and may be constrained, generally, to rates established at the time of adoption of the fiscal 2019/2020 budget, as adjusted by an annual index.

4. The Bonds are payable and enforceable according to their own terms, those of the Debt Ordinance and all provisions of the Debt Act; however, any such payment and enforcement could be restrained by a court of proper jurisdiction operating under the authority of bankruptcy, receivership and other similar laws of accommodation and adjustment of creditors' rights, as then applicable.

5. The Bonds, having all the qualities and incidents of securities under Article 8 of the Uniform Commercial Code, are negotiable instruments.

6. The Bonds are an authorized investment, under the Probate, Estates and Fiduciaries Code, as amended, for fiduciaries and personal representatives (as such terms are therein defined) within the Commonwealth of Pennsylvania.

7. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Bonds (including, in the case of Bonds sold at an original issue discount, the difference between the original offering price and par) is excludible from gross income for Federal income tax purposes. Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Tax Code, in computing the alternative minimum tax. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Tax Code. We express no opinion as to any other Federal income tax consequence arising from ownership of the Bonds.

8. The Bonds, and interest income therefrom, are free from taxation for purposes of personal income, corporate net income and personal property taxes within the Commonwealth of Pennsylvania.

Very truly yours,

CLARK HILL PLC

APPENDIX C
AUDITED FINANCIAL REPORT
(FOR FISCAL YEAR ENDED JUNE 30, 2018)

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State College Area School District

Financial Statements and
Supplementary Information

June 30, 2018



BAKER TILLY

Candor. Insight. Results.

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State College Area School District

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Independent Auditors' Report

Board of Education
State College Area School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of State College Area School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of State College Area School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Notes 1 and 18 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018 to conform with accounting principles generally accepted in the United States of America. The District recognized its total other postemployment benefits liability ("OPEB"), restated its beginning net position for this adoption, expanded its note disclosures and included required supplementary information with respect to total OPEB. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 4 through 17, the schedule of District's proportionate share of the net pension liability on page 57, the schedule of District's pension contributions on page 58, the schedule of District's proportionate share of the net OPEB liability on page 59, the schedule of District's OPEB contributions on page 60 and the schedule of changes in total OPEB liability and related ratios on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 62-63) is presented for purposes of additional analysis and is not a required part of the basic financial statements. In addition, the Schedule of Expenditures of Federal Awards (page 64), as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
November 12, 2018

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

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, 2018. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

State College Area School District

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Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Funds

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

Notes to Financial Statements

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

State College Area School District

Management's Discussion and Analysis (Unaudited)
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Government-Wide Financial Analysis

Condensed Statement of Net Deficit
June 30, 2018

	Governmental Activities	Business-Type Activity	Total
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 172,745,273	\$ 255,558	\$ 173,000,831
Noncurrent assets	209,334,147	127,301	209,461,448
Deferred outflows of resources	42,824,597	859,180	43,683,777
Total	<u>\$ 424,904,017</u>	<u>\$ 1,242,039</u>	<u>\$ 426,146,056</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current liabilities	\$ 36,146,431	\$ 148,255	\$ 36,294,686
Long-term liabilities:			
Due within one year	7,335,000	-	7,335,000
Due after one year	465,400,869	5,122,844	470,523,713
Total liabilities	<u>508,882,300</u>	<u>5,271,099</u>	<u>514,153,399</u>
Deferred inflows of resources	<u>2,092,014</u>	<u>42,986</u>	<u>2,135,000</u>
Net deficit:			
Net investment in capital assets	55,776,274	127,301	55,903,575
Restricted	82,908	-	82,908
Unrestricted (deficit)	(141,929,479)	(4,199,347)	(146,128,826)
Total net deficit	<u>(86,070,297)</u>	<u>(4,072,046)</u>	<u>(90,142,343)</u>
Total	<u>\$ 424,904,017</u>	<u>\$ 1,242,039</u>	<u>\$ 426,146,056</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2018

Condensed Statement of Activities
For the Year Ended
June 30, 2018

	Governmental Activities	Business-Type Activity	Total
Revenues:			
Program revenues:			
Charges for services	\$ 1,614,736	\$ 2,566,886	\$ 4,181,622
Operating grants and contributions	20,559,988	1,409,506	21,969,494
General revenues:			
Taxes levied, net	120,752,937	-	120,752,937
Grants, subsidies and contributions not restricted	9,148,206	-	9,148,206
Other	2,609,288	-	2,609,288
Total revenues	154,685,155	3,976,392	158,661,547
Program expenses:			
Instruction	89,814,795	-	89,814,795
Instructional student support	12,082,049	-	12,082,049
Administration and financial support services	15,645,891	-	15,645,891
Operation and maintenance of plant services	15,447,993	-	15,447,993
Pupil transportation	6,466,839	-	6,466,839
Student activities	2,815,891	-	2,815,891
Community services	86,998	-	86,998
Interest on long-term debt	6,982,183	-	6,982,183
Unallocated depreciation	374,410	-	374,410
Loss on disposal of capital assets	3,560,839	29,527	3,590,366
Food service	-	4,139,415	4,139,415
Total program expenses	153,277,888	4,168,942	157,446,830
Change in net position	1,407,267	(192,550)	1,214,717
Net deficit, beginning, as previously reported	(75,479,221)	(3,564,277)	(79,043,498)
Effect of adoption of GASB No. 75	(11,998,343)	(315,219)	(12,313,562)
As restated	(87,477,564)	(3,879,496)	(91,357,060)
Net deficit, ending	\$ (86,070,297)	\$ (4,072,046)	\$ (90,142,343)

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2018

Condensed Statement of Net Deficit
(As Previously Reported)
June 30, 2017

	Governmental Activities	Business-Type Activity	Total
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 115,310,131	\$ 323,131	\$ 115,633,262
Noncurrent assets	158,693,980	157,241	158,851,221
Deferred outflows of resources	46,134,853	920,412	47,055,265
Total	<u>\$ 320,138,964</u>	<u>\$ 1,400,784</u>	<u>\$ 321,539,748</u>
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current liabilities	\$ 30,769,723	\$ 163,517	\$ 30,933,240
Long-term liabilities:			
Due within one year	5,245,000	-	5,245,000
Due after one year	357,225,202	4,752,804	361,978,006
Total liabilities	<u>393,239,925</u>	<u>4,916,321</u>	<u>398,156,246</u>
Deferred inflows of resources	<u>2,378,260</u>	<u>48,740</u>	<u>2,427,000</u>
Net deficit:			
Net investment in capital assets	54,213,872	157,241	54,371,113
Restricted	80,870	-	80,870
Unrestricted (deficit)	(129,773,963)	(3,721,518)	(133,495,481)
Total net deficit	<u>(75,479,221)</u>	<u>(3,564,277)</u>	<u>(79,043,498)</u>
Total	<u>\$ 320,138,964</u>	<u>\$ 1,400,784</u>	<u>\$ 321,539,748</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Condensed Statement of Activities
(As Previously Reported)
For the Year Ended
June 30, 2017

	Governmental Activities	Business-Type Activity	Total
Revenues:			
Program revenues:			
Charges for services	\$ 1,549,545	\$ 2,482,495	\$ 4,032,040
Operating grants and contributions	21,671,576	1,339,428	23,011,004
General revenues:			
Taxes levied, net	116,939,021	-	116,939,021
Grants, subsidies and contributions not restricted	8,967,545	-	8,967,545
Other	875,372	-	875,372
Total revenues	<u>150,003,059</u>	<u>3,821,923</u>	<u>153,824,982</u>
Program expenses:			
Instruction	86,396,661	-	86,396,661
Instructional student support	11,677,081	-	11,677,081
Administration and financial support services	15,027,506	-	15,027,506
Operation and maintenance of plant services	12,651,474	-	12,651,474
Pupil transportation	6,201,135	-	6,201,135
Student activities	2,781,097	-	2,781,097
Community services	102,423	-	102,423
Interest on long-term debt	4,822,039	-	4,822,039
Unallocated depreciation	394,174	-	394,174
Food service	-	4,294,103	4,294,103
Total program expenses	<u>140,053,590</u>	<u>4,294,103</u>	<u>144,347,693</u>
Change in net position before transfers	9,949,469	(472,180)	9,477,289
Transfers	<u>(265,969)</u>	<u>265,969</u>	<u>-</u>
Change in net position	9,683,500	(206,211)	9,477,289
Net deficit, beginning	<u>(85,162,721)</u>	<u>(3,358,066)</u>	<u>(88,520,787)</u>
Net deficit, ending	<u>\$ (75,479,221)</u>	<u>\$ (3,564,277)</u>	<u>\$ (79,043,498)</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

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Total net position of the District increased \$1,214,717 in 2018. Net position of governmental activities increased by \$1,407,267, while net position of the business-type activity decreased \$192,550.

The District had \$153,277,888 in expenses related to governmental activities in 2018; only \$22,174,724 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$132,510,431 also provided for these programs. The \$1,407,267 increase in governmental activities net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$192,550 as a result of the net loss of the food service operation.

The June 30, 2018, government-wide financial statements reflect the District's estimated share of the PSERS liability and related deferred outflows and inflows of resources, as required under GASB 68. GASB 75 was adopted in 2018, as required, replacing GASB 45 to include the liability and deferred outflows and inflows of resources related to postemployment benefits other than pension (OPEB), primarily health insurance. The balance as of June 30, 2017 below has been adjusted to include the impact of GASB 45, as OPEB liability had not previously been included in this table. Below is a schedule showing the impact GASB 45, 68 and 75 on the unrestricted net position as of June 30, 2017 and 2018.

	Total Net Position	GASB 45, 68 and 75 (Pension and OPEB Impact)	Total Excluding GASB 45, 68 and 75 Impact	Unrestricted Net Position Excluding GASB 45, 68 and 75 Impact
Governmental Activities:				
At June 30, 2017	\$ (75,479,221)	\$ (188,751,025)	\$ 113,271,804	\$ 58,977,062
GASB 75 adoption	(11,998,343)	(11,998,343)	-	-
June 30, 2017, restated	(87,477,564)	(200,749,368)	113,271,804	58,977,062
Change in net position	1,407,267	(5,303,253)	6,710,520	5,146,080
Ending at June 30, 2018	<u>\$ (86,070,297)</u>	<u>\$ (206,052,621)</u>	<u>\$ 119,982,324</u>	<u>\$ 64,123,142</u>
Business-Type Activities:				
At June 30, 2017	\$ (3,564,277)	\$ (3,826,531)	\$ 262,254	\$ 105,013
GASB 75 adoption	(315,219)	(315,219)	-	-
June 30, 2017, restated	(3,879,496)	(4,141,750)	262,254	105,013
Change in net position	(192,550)	(121,211)	(71,339)	(41,399)
Ending at June 30, 2018	<u>\$ (4,072,046)</u>	<u>\$ (4,262,961)</u>	<u>\$ 190,915</u>	<u>\$ 63,614</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2018

As of June 30, 2018, excluding the impact of changes in position recorded based on GASB 68 and 75, \$64,123,142 of unrestricted net position of the \$119,982,324 of total net position was available to meet the District's ongoing obligations to employees and creditors for governmental activities. The remaining net position of \$55,859,182, is invested in capital assets and restricted for capital projects and debt service.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2017-2018 fiscal year were \$153,159,772 compared to \$149,444,213 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2017 - 2018</u>	<u>2016 - 2017</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 124,215,479	\$ 119,738,829	\$ 4,476,650	3.7 %
State sources	27,351,253	28,226,039	(874,786)	(3.1) %
Federal sources	<u>1,593,040</u>	<u>1,479,345</u>	<u>113,695</u>	7.7 %
Total	<u>\$ 153,159,772</u>	<u>\$ 149,444,213</u>	<u>\$ 3,715,559</u>	2.5 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$4,476,650 primarily related to increases in real estate taxes. Real estate taxes, including supplemental tax billings, increased \$3,251,570 with approximately \$1,472,000 related to an increase in the millage rate from 43.473 mills to 44.1468 mills per \$1,000 of assessed value. Rebates totaling \$88,260 offset real estate tax revenue. The District implemented a Supplemental Tax Rebate Program in the 2015-16 fiscal year, which provides property tax rebates to senior citizens, widows, widowers and disabled persons who meet certain income eligibility guidelines and who are homeowners. Earned income tax revenue increased approximately \$730,700 and tuition increased \$170,300 related to expansion of the District's Community Education Extended Learning Program. Revenue also increased \$371,000 related to an increase in the rate of earnings on investments.

State College Area School District

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State revenues are derived primarily from state subsidies for basic education, special education and transportation. State revenues also include a 50% reimbursement for social security and retirement costs, as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues decreased \$874,786. Reimbursement for retirement costs increased approximately \$1,216,000 due to an increase in salaries and an increase in the employer contribution rate for the state's retirement plan. Basic Education increased \$180,700 related to an increase in state funding and social security reimbursement increased \$101,600. These increases are offset by a decrease of \$262,800 in principal and interest reimbursement related primarily to a retroactive reimbursement in the prior year resulting from state funding delays. The District also received a \$2,000,000 Alternative and Clean Energy Grant from the Pennsylvania Department of Community & Economic Development ("DCED") in the prior year, which contributed to the decrease in state revenue.

Federal revenues include primarily Title I, II and III grants and the School Based ACCESS program.

Expenditures

Expenditures for the 2017-2018 fiscal year were \$155,112,430 compared to the 2016-2017 fiscal year of \$151,002,954 or a 2.7% increase. The following table shows the expenditures by object category:

	2017 - 2018	2016 - 2017	Change Increase (Decrease)	% Change	
Salaries and benefits	\$ 106,955,676	\$ 101,414,129	\$ 5,541,547	5.5	%
Professional services	3,022,010	3,328,268	(306,258)	(9.2)	%
Purchased property services	1,287,090	1,332,485	(45,395)	(3.4)	%
Other purchased services	12,671,679	11,707,191	964,488	8.2	%
Supplies	6,261,850	5,894,964	366,886	6.2	%
Property	1,015,525	971,110	44,415	4.6	%
Other objects	333,012	435,847	(102,835)	(23.6)	%
Other uses of funds	23,565,588	25,918,960	(2,353,372)	(9.1)	%
Total	<u>\$ 155,112,430</u>	<u>\$ 151,002,954</u>	<u>\$ 4,109,476</u>	2.7	%

State College Area School District

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June 30, 2018

Salaries and benefits increased \$5,541,547. Salary expense increased approximately \$2,700,000, and benefits increased approximately \$2,840,000, primarily due to a \$2,388,000 increase in retirement expense related to an increase in the employer contribution rate for PSERS from 30.03% to 32.57% (8.5%).

The decrease in professional services and increase in supplies is primarily related to a change in coding of expense based on the state reporting requirements that caused movement of expenses between expense line items. The increase in other purchased services is primarily related to an increase in payments to charter schools which totaled \$824,200. The number of students attending charter schools increased 2% and the required tuition per student increased 6.9%.

Other uses of funds decreased \$2,353,372. Debt service increased \$2,587,800 related primarily to debt service on the Series 2017 bonds, which will primarily fund a portion of the high school project. Capital fund transfers decreased \$2,308,600 primarily due to a \$2,000,000 DCED grant received in the prior year. The transfer to the capital reserve fund decreased \$2,366,600 and the transfer to the Food Service fund to cover cash needs decreased \$266,000 with no transfer being required.

Capital Reserve Fund

The Capital Reserve Fund is used to account for transfers from the General Fund that are to be used to fund future capital projects or debt service. The Capital Reserve fund balance as of June 30, 2018 is \$62,683,101.

Capital Projects Fund

The Capital Projects Fund is used to account for capital projects of the District. The District spent \$60,086,113 for such projects in 2017-18. The majority of expenditures in 2017-18 related to the high school and three elementary school building projects. Other projects included renovation and improvements throughout the District. The Capital Projects fund balance is \$60,124,059 at June 30, 2018. Restricted cash of \$71,822,348 at June 30, 2018 represents bond funds available to fund the remaining portion of both the high school and the three elementary building projects.

General Fund Budgetary Highlights

The District prepares a budget each year for its General Fund according to Pennsylvania law. The budget complied with all applicable state laws and financial policies approved by the School Board of Education.

The General Fund's originally-approved budget for 2018 included \$150,229,781 of revenues and \$152,122,249 of expenditures. The budget was amended by \$404,447 for additional grants and related expenditures.

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The actual revenues for 2018 were \$2,525,544 greater than the final budget. Local revenues were \$2,542,782 greater than budget primarily due to favorable variances in real estate tax revenue of \$912,000, earned income tax revenue of \$520,600, real estate transfer tax revenue of \$383,800, interest on investments of \$498,200 and tuition of \$146,200. State revenues were \$86,444 less than budget and Federal revenues were in excess of budget by \$69,206.

Actual expenditures, excluding transfers to the Capital Reserve fund, were \$1,584,235 less than the amended budget. Positive budget variances include salary expense and related benefits, which were lower than budget primarily due to the impact of turnover and vacant positions. Healthcare expense was also lower than budget related to variances in membership and coverage levels. Budgetary reserves of approximately \$600,000 were not utilized and the budgeted transfer to Food Service fund was not required based on better than budgeted financial results. Charter school and other tuition expenses were in excess of budget related to higher than budgeted enrollments. Transfers to the Capital Reserve fund exceeded budget by \$4,169,969 as the result of higher than anticipated revenues, and lower than anticipated expenses.

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2018 is summarized below (see details in Note 7 to the financial statements).

	Governmental Activities	Business-Type Activity	Total
Land, buildings and improvements	\$ 189,266,223	\$ -	\$ 189,266,223
Equipment and other capital assets	47,112,639	1,071,135	48,183,774
Construction in progress	57,158,002	-	57,158,002
Total	293,536,864	1,071,135	294,607,999
Accumulated depreciation	(84,202,717)	(943,834)	(85,146,551)
Net	\$ 209,334,147	\$ 127,301	\$ 209,461,448

Long-Term Debt

At June 30, 2018, the District had long-term debt of \$206,555,000 (see details in Note 9 to the financial statements) issued, authorized and outstanding, including referendum debt of \$71,495,000 related to the District's High School Project. Debt issued based on a voter referendum is excluded when comparing to the legal limit of debt. Debt that is not related to the referendum of \$135,060,000 is significantly below the legal limit of \$331,774,660.

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Factors Expected to Have an Effect on Future Operations

The assessed value used for the 2019 budget preparation is approximately \$2.32 billion, which is up approximately \$23 million, or 1% from 2018. Amounts available for appropriation in the General Fund budget for 2018-19 are \$158,873,470, an increase of approximately 4.4% over the 2017-18 budget of \$152,122,250. Property tax rate will increase 2.4% to 45.206 mills. The District will use this increase in revenues to finance programs currently offered and to fund staffing, curriculum and transportation related to a change in the student day, a new math curriculum, an elementary counselor to allow for comprehensive elementary curriculum, additional resources to support increased kindergarten registrations, elementary students needing support for writing and math and increased gifted identified students. The budget also includes funds to provide increased security services and a reallocation of funds to provide a Director of Diversity and Inclusivity.

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

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

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

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

School districts are now governed by back-end referendum requirements for increases in property tax rates. School districts are prohibited from increasing their tax rates above the annual inflationary percentage and must place referendum questions before the voters to approve further increases. Exceptions for rate increases above the index without going to referendum exist for special education costs, retirement rate changes, debt issuances, and certain other limited areas. The Act 1 Index for 2017-18 is 2.5%.

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

Strategic Plan

The Pennsylvania Department of Education ("PDE") requires all school districts to develop a plan to prioritize goals, focusing on improving student learning in accordance with its community's experiences and desires. The 2018-2023 strategic plan was created based on input from a broad cross-section of the State College Area School District community and included formation of a steering committee of 72 students, parents, teachers, administrators, district staff, board members, community/higher education partners and community representatives.

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

District Growth

DecisionInsite, enrollment impact specialists, were engaged to provide enrollment projections for the District. DecisionInsite used historical enrollment data, recent trends and projected new residential development to forecast student enrollment from 2016 to 2025. Both moderate and conservative projections forecast an increase in enrollment of approximately 1% to 2%, respectively, across the forecasted period. Enrollment projections were updated in 2017 and annually thereafter.

District Wide Facilities Master Plan

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

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

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June 30, 2018

Design for the high school continued through the summer of 2015. Design changes, primarily the inclusion of the Delta middle level program and increases in program space for both performing arts and physical education/athletics, increased the estimated project cost approximately \$11.9 million. Site work began in the summer of 2015 and the construction project went to bid in the fall of 2015. Base bids were accepted on November 30, 2015, including \$3.5 million for bid alternates, bringing total project cost, when combined with initial site work from the summer of 2015, to \$138 million. To date, the total cost, net of DCED grants, is estimated at \$137.2 million. The District's capital financing plan includes funding for the cost in excess of the \$85 million referendum debt with bonds issued in July 2017, plus the use of \$10 million from the capital reserve fund. Work on the project continued with significant progress through the fiscal year. The District took occupancy of the majority of the new classroom areas in early January 2018, with full occupancy planned for September 2019.

Looking beyond the high school project, the District began a Facilities Master Plan Elementary Update in April of 2016 to ensure access to sizable external funding resources, with application submission deadlines scheduled to expire in spring of 2016. These funding resources included Alternative and Clean Energy Grants secured through DCED and reimbursement of debt service expenses through the PDE PlanCon process. These funds reduce the tax effort for the elementary projects from the local community. The process included facility assessment and design by the architect, Crabtree Rohrbaugh and Associates, and community input through public forums and meetings with the Board of Directors. Project selection occurred during the fall of 2016. Project scope and design continued throughout 2017, with the projects entering the bid document phase in fall of 2017. Bids for the projects were in November 2017, with construction beginning at the Radio Park, Corl Street and Spring Creek elementary schools in January 2018. Phased occupancy at the Radio Park and Corl Street schools is expected to occur in the 2018-2019 year with full occupancy for all schools planned for September 2019.

Contact the District's Financial Management

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

State College Area School District

Statement of Net Deficit

June 30, 2018

	Governmental Activities	Business -Type Activity	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 91,927,614	\$ 9,758	\$ 91,937,372
Restricted cash and cash equivalents	71,822,348	-	71,822,348
Taxes receivable, net	2,314,023	-	2,314,023
Due from fiduciary fund	44,837	-	44,837
Internal balances	(42,184)	42,184	-
Due from other governments	6,527,879	126,263	6,654,142
Other receivables	106,673	25,787	132,460
Inventories	17,475	51,566	69,041
Other current assets	26,608	-	26,608
Total current assets	172,745,273	255,558	173,000,831
Noncurrent Assets			
Land	1,140,457	-	1,140,457
Buildings and improvements	188,125,766	-	188,125,766
Equipment and other capital assets	47,112,639	1,071,135	48,183,774
Construction in progress	57,158,002	-	57,158,002
Accumulated depreciation	(84,202,717)	(943,834)	(85,146,551)
Total noncurrent assets	209,334,147	127,301	209,461,448
Total assets	382,079,420	382,859	382,462,279
Deferred Outflows of Resources			
Pension	40,672,714	835,731	41,508,445
Other postemployment benefits (OPEB)	1,018,519	23,449	1,041,968
Deferred amounts on refunding	1,133,364	-	1,133,364
Total deferred outflows of resources	42,824,597	859,180	43,683,777
Total	\$ 424,904,017	\$ 1,242,039	\$ 426,146,056
Liabilities, Deferred Inflows of Resources and Net Deficit			
Current Liabilities			
Accounts payable	\$ 12,264,211	\$ 5,649	\$ 12,269,860
Current portion of bonds payable	7,335,000	-	7,335,000
Accrued salaries and benefits	11,749,727	5,200	11,754,927
Payroll deductions and withholdings	8,163,785	-	8,163,785
Unearned revenue	524,580	25,619	550,199
Other current liabilities	3,444,128	111,787	3,555,915
Total current liabilities	43,481,431	148,255	43,629,686
Noncurrent Liabilities			
Bonds payable	218,045,221	-	218,045,221
Other postemployment benefits liability (OPEB)	14,328,011	325,984	14,653,995
Net pension liability	231,323,829	4,753,171	236,077,000
Compensated absences	1,703,808	43,689	1,747,497
Total noncurrent liabilities	465,400,869	5,122,844	470,523,713
Total liabilities	508,882,300	5,271,099	514,153,399
Deferred Inflows of Resources			
Other postemployment benefits (OPEB)	443,879	9,121	453,000
Pension	1,648,135	33,865	1,682,000
Total deferred inflows of resources	2,092,014	42,986	2,135,000
Net Deficit			
Net investment in capital assets	55,776,274	127,301	55,903,575
Restricted	82,908	-	82,908
Unrestricted (deficit)	(141,929,479)	(4,199,347)	(146,128,826)
Total net deficit	(86,070,297)	(4,072,046)	(90,142,343)
Total	\$ 424,904,017	\$ 1,242,039	\$ 426,146,056

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Deficit	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity
Governmental activities:					
Instruction	\$ (89,814,795)	\$ 1,394,015	\$ 15,591,823	\$ (72,828,957)	\$ (72,828,957)
Instructional student support	(12,082,049)	-	1,448,651	(10,633,398)	(10,633,398)
Administration and financial support services	(15,645,891)	-	1,229,151	(14,416,740)	(14,416,740)
Operation and maintenance of plant services	(15,447,993)	164,195	683,007	(14,600,791)	(14,600,791)
Pupil transportation	(6,466,839)	-	1,201,202	(5,265,637)	(5,265,637)
Student activities	(2,815,891)	56,526	75,600	(2,683,765)	(2,683,765)
Community services	(86,998)	-	9,124	(77,874)	(77,874)
Interest on long-term debt	(6,982,183)	-	321,430	(6,660,753)	(6,660,753)
Loss on disposal of capital assets	(3,560,839)	-	-	(3,560,839)	(3,560,839)
Depreciation - unallocated	(374,410)	-	-	(374,410)	(374,410)
Total governmental activities	(153,277,888)	1,614,736	20,559,988	(131,103,164)	(131,103,164)
Business-Type Activity					
Food service	(4,168,942)	2,566,886	1,409,506	-	(192,550)
Total	\$ (157,446,830)	\$ 4,181,622	\$ 21,969,494	(131,103,164)	(192,550)
General Revenues					
Property taxes, levied for general purposes, net				102,496,579	-
Other taxes				18,256,358	-
Grants, subsidies and contributions not restricted				9,148,206	-
Investment earnings,					
Interest				2,175,889	-
Miscellaneous income				433,399	-
Total general revenues				132,510,431	-
Changes in Net Position				1,407,267	(192,550)
Net Deficit, Beginning					
As previously reported				(75,479,221)	(3,564,277)
Effect of adoption of GASB No. 75				(11,998,343)	(315,219)
As restated				(87,477,564)	(3,879,496)
Net Deficit, Ending				\$ (86,070,297)	\$ (4,072,046)

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds

June 30, 2018

	Major Funds			Total
	General	Capital Reserve	Capital Projects	
Assets				
Assets				
Cash and cash equivalents	\$ 37,212,395	\$ 54,715,219	\$ -	\$ 91,927,614
Restricted cash and cash equivalents	-	-	71,822,348	71,822,348
Taxes receivable, net	2,314,023	-	-	2,314,023
Due from other funds	574,449	7,967,882	-	8,542,331
Due from other governments	6,527,879	-	-	6,527,879
Other receivables	106,673	-	-	106,673
Inventories	1,801,683	-	-	1,801,683
Other current assets	26,608	-	-	26,608
Total	<u>\$ 48,563,710</u>	<u>\$ 62,683,101</u>	<u>\$ 71,822,348</u>	<u>\$ 183,069,159</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Due to other funds	\$ 8,109,400	\$ -	\$ 548,943	\$ 8,658,343
Accounts payable	1,113,997	-	11,149,346	12,263,343
Accrued salaries and benefits	11,749,727	-	-	11,749,727
Payroll deductions and withholdings	8,163,785	-	-	8,163,785
Unearned revenue	524,580	-	-	524,580
Other liabilities	295,380	-	-	295,380
Total liabilities	<u>29,956,869</u>	<u>-</u>	<u>11,698,289</u>	<u>41,655,158</u>
Deferred Inflows of Resources				
Unavailable revenues - taxes	<u>704,471</u>	<u>-</u>	<u>-</u>	<u>704,471</u>
Fund Balances				
Nonspendable	1,801,683	-	-	1,801,683
Restricted	-	82,908	60,124,059	60,206,967
Committed	3,847,987	62,600,193	-	66,448,180
Unassigned	12,252,700	-	-	12,252,700
Total fund balances	<u>17,902,370</u>	<u>62,683,101</u>	<u>60,124,059</u>	<u>140,709,530</u>
Total	<u>\$ 48,563,710</u>	<u>\$ 62,683,101</u>	<u>\$ 71,822,348</u>	<u>\$ 183,069,159</u>

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Deficit
June 30, 2018

Total Fund Balance - Governmental Funds \$ 140,709,530

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$293,536,864 and the accumulated depreciation is \$84,202,717.	209,334,147
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.	704,471
Inventory of books and supplies was reclassified.	(1,801,683)
Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund, with the exception of capital assets and pension-related assets and liabilities which are included elsewhere in this reconciliation, are reported with governmental activities.	120,892
Deferred outflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit.	1,018,519
Deferred inflows related to net OPEB liability are not reported in the governmental funds, however are reported in the statement of net deficit.	(443,879)
Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit.	40,672,714
Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net deficit.	(1,648,135)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds payable	(225,380,221)
Deferred amounts on refunding	1,133,364
Accrued interest on long-term debt	(3,148,748)
Net OPEB liability	(14,328,011)
Net pension liability	(231,323,829)
Compensated absences	(1,689,428)

Total Net Deficit - Governmental Activities \$ (86,070,297)

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, 2018

	Major Funds				Total
	General	Capital Reserve	Capital Projects	Debt Service	
Revenues					
Local sources	\$ 124,215,479	\$ 763,137	\$ 764,546	\$ -	\$ 125,743,162
State sources	27,351,253	-	-	-	27,351,253
Federal sources	1,593,040	-	-	-	1,593,040
Total revenues	153,159,772	763,137	764,546	-	154,687,455
Expenditures					
Instruction	85,556,635	-	-	-	85,556,635
Support services	43,116,401	-	691,469	-	43,807,870
Noninstructional services	2,803,369	-	-	-	2,803,369
Facilities acquisition, construction and improvement services	5,029	20	59,394,644	-	59,399,693
Debt service	550,000	-	-	12,743,775	13,293,775
Total expenditures	132,031,434	20	60,086,113	12,743,775	204,861,342
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	21,128,338	763,117	(59,321,567)	(12,743,775)	(50,173,887)
Other Financing Sources (Uses)					
Transfer in	-	7,963,299	2,308,514	12,743,775	23,015,588
Bond proceeds	-	-	95,125,000	-	95,125,000
Bond premium	-	-	8,103,164	-	8,103,164
Refund of prior year receipts	(65,408)	-	-	-	(65,408)
Transfer out	(23,015,588)	-	-	-	(23,015,588)
Total other financing (uses) sources	(23,080,996)	7,963,299	105,536,678	12,743,775	103,162,756
Changes in Fund Balances	(1,952,658)	8,726,416	46,215,111	-	52,988,869
Fund Balance, Beginning	19,855,028	53,956,685	13,908,948	-	87,720,661
Fund Balance, Ending	\$ 17,902,370	\$ 62,683,101	\$ 60,124,059	\$ -	\$ 140,709,530

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, 2018

Total Changes in Fund Balances-Governmental Funds \$ 52,988,869

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

Some property taxes will not be collected for
several months after the District's fiscal year ends, they
are not considered as "available" revenues in the
governmental funds. Unavailable tax revenues decreased
by this amount this year. (39,941)

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

Depreciation expense	(5,553,357)	
Loss on disposal of capital assets	(3,560,839)	
Capital outlays	<u>59,754,363</u>	50,640,167

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. 131,165

The issuance of long term debt (bonds) provides current financial
resources to government funds, while the repayment of the
principal of long-term debt consumes the current financial
resources of government funds. This transaction, however,
does not have an effect on net position. Also, governmental
funds report the effect of premiums and discounts,
and other similar items when debt is issued, whereas these
amounts are deferred and amortized in the statement of activities.
Reconciling items related to long-term debt activity for the year
ended June 30, 2018 are as follows:

Issuance of bonds payable	(95,125,000)	
Bond premium	(8,103,164)	
Scheduled principal payments on long-term debt	<u>6,350,000</u>	(96,878,164)

Interest on long-term debt in the statement of activities differs from
the amount reported in the governmental funds because interest is
recognized as an expenditure in the funds when it is due, and thus
requires the use of current financial resources. In the statement of
activities, interest expense is recognized as the interest accrues,
regardless of when it is due. This would include amortization of
bond premiums and deferred interest from advanced refunding bonds.
The net additional interest accrued in the statement of activities
over the amount due is shown here. (588,408)

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. (16,562)

Net OPEB liability is considered long-term in nature, and is not reported as a
liability within the funds. Such a liability is, however, reported within the
statement of net deficit, and changes in the liability is reflected within the
statement of net deficit. This represents the change in OPEB liability
and the deferred outflows and inflows related to the OPEB. 279,644

Change in the interest rate swap payable:
Installment payment made on interest rate swap payable 550,000

Net pension liability is considered long-term in nature, and is not reported as a
liability within the funds. Such a liability is, however, reported within the
statement of net deficit, and changes in the liability are reflected within the
statement of net deficit. This represents the change in pension liability
and the deferred outflows and inflows related to the pension. (5,582,897)

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. (76,606)

Changes in Net Deficit of Governmental Activities \$ 1,407,267

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amount			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Local sources	\$ 121,656,837	\$ 121,672,697	\$ 124,215,479	\$ 2,542,782
State sources	27,427,944	27,437,697	27,351,253	(86,444)
Federal sources	1,145,000	1,523,834	1,593,040	69,206
Total revenues	150,229,781	150,634,228	153,159,772	2,525,544
Expenditures				
Instruction:				
Regular programs	61,850,495	62,093,004	61,576,242	516,762
Special programs	17,813,206	17,770,691	18,196,121	(425,430)
Vocational education programs	3,757,755	3,768,782	3,651,579	117,203
Other instructional programs	1,812,016	2,073,881	2,109,229	(35,348)
Adult education programs	9,157	9,117	8,653	464
Nonpublic school programs	28,749	12,884	14,811	(1,927)
Total instruction	85,271,378	85,728,359	85,556,635	171,724
Support services:				
Pupil personnel	4,963,192	4,965,906	5,080,463	(114,557)
Instructional staff	5,302,749	5,345,972	5,158,111	187,861
Administration	8,043,710	7,977,963	7,737,119	240,844
Pupil health	1,548,095	1,552,122	1,529,259	22,863
Business	1,373,462	1,409,092	1,417,944	(8,852)
Operation and maintenance of plant services	9,817,063	9,825,631	9,935,707	(110,076)
Student transportation services	6,226,139	6,271,248	6,399,828	(128,580)
Central	6,072,563	6,074,978	5,857,970	217,008
Total support services	43,346,973	43,422,912	43,116,401	306,511
Noninstructional services:				
Student activities	2,648,660	2,772,089	2,716,371	55,718
Community services	105,325	113,611	86,803	26,808
Scholarships and awards	50,000	50,000	195	49,805
Total noninstructional services	2,803,985	2,935,700	2,803,369	132,331
Facilities acquisition, construction and improvement services	40,000	35,000	5,029	29,971
Debt service	615,000	550,000	550,000	-
Total expenditures	132,077,336	132,671,971	132,031,434	640,537
Excess of Revenues Over Expenditures Before Other Financing Uses	18,152,445	17,962,257	21,128,338	3,166,081
Other Financing Uses				
Budgetary reserve	(1,036,930)	(601,996)	-	601,996
Refund of prior year receipts	-	(75,000)	(65,408)	9,592
Transfer out	(19,007,983)	(19,177,729)	(23,015,588)	(3,837,859)
Total other financing uses	(20,044,913)	(19,854,725)	(23,080,996)	(3,226,271)
Changes in Fund Balance	<u>\$ (1,892,468)</u>	<u>\$ (1,892,468)</u>	(1,952,658)	<u>\$ (60,190)</u>
Fund Balance, Beginning			19,855,028	
Fund Balance, Ending			<u>\$ 17,902,370</u>	

See notes to financial statements

State College Area School District

Statement of Net Deficit - Proprietary Funds

June 30, 2018

	Food Service Fund	Internal Service Fund
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 9,758	\$ -
Due from other funds	42,184	118,665
Due from other governments	126,263	-
Other receivables	25,787	-
Inventories	51,566	17,475
Total current assets	255,558	136,140
Noncurrent Assets		
Equipment	1,071,135	295,882
Accumulated depreciation	(943,834)	(288,307)
Total noncurrent assets	127,301	7,575
Deferred Outflows of Resources		
OPEB	23,449	2,731
Pension	835,731	108,291
Total deferred outflows of resources	859,180	111,022
Total	<u>\$ 1,242,039</u>	<u>\$ 254,737</u>
Liabilities, Deferred Inflows of Resources and Net Deficit		
Current Liabilities		
Accounts payable	\$ 5,649	\$ 868
Accrued salaries and benefits	5,200	-
Other liabilities	111,787	-
Unearned revenue	25,619	-
Total current liabilities	148,255	868
Noncurrent Liabilities		
Net pension liability	4,753,171	615,898
Net OPEB liability	325,984	38,399
Compensated absences	43,689	14,380
Total noncurrent liabilities	5,122,844	668,677
Total liabilities	5,271,099	669,545
Deferred Inflows of Resources		
OPEB	9,121	1,182
Pension	33,865	4,388
Total deferred inflows of resources	42,986	5,570
Net Deficit		
Net investment in capital assets	127,301	7,575
Unrestricted deficit	(4,199,347)	(427,953)
Total net deficit	(4,072,046)	(420,378)
Total	<u>\$ 1,242,039</u>	<u>\$ 254,737</u>

See notes to financial statements

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

Year Ended June 30, 2018

	Food Service Fund	Internal Service Fund
Operating Revenues		
Food service revenue	\$ 2,566,886	\$ -
Charges for services	-	560,379
Total operating revenues	2,566,886	560,379
Operating Expenses		
Salaries and employee benefits	2,391,199	319,636
Food, milk and supplies	1,683,608	93,045
Depreciation	25,572	1,683
Other purchased services	13,558	545
Purchased property services	17,041	175,342
Other objects	1,044	1,639
Professional and technical services	7,393	5,818
Total operating expenses	4,139,415	597,708
Operating loss	(1,572,529)	(37,329)
Nonoperating Revenues (Expenses)		
Loss on disposal of equipment	(29,527)	-
State sources	368,293	-
Federal sources	1,041,213	-
Total nonoperating revenues	1,379,979	-
Changes in net deficit	(192,550)	(37,329)
Net Deficit, Beginning		
As previously reported	(3,564,277)	(345,473)
Effect of adoption of GASB No. 75	(315,219)	(37,576)
As restated	(3,879,496)	(383,049)
Net Deficit, Ending	\$ (4,072,046)	\$ (420,378)

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2018

	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,515,180	\$ 577,091
Cash paid to employees	(2,281,918)	(299,529)
Cash paid to vendors	(1,710,275)	(277,562)
Net cash used in operating activities	(1,477,013)	-
Cash Flows from Investing Activities		
Proceeds from sale of equipment	211	-
Purchase of equipment	(25,370)	-
Net cash used in investing activities	(25,159)	-
Cash Flows from Noncapital Financing Activities		
State sources	369,097	-
Federal sources	1,129,054	-
Net cash provided by noncapital financing activities	1,498,151	-
Decrease in cash and cash equivalents	(4,021)	-
Cash and Cash Equivalents, Beginning	13,779	-
Cash and Cash Equivalents, Ending	<u>\$ 9,758</u>	<u>\$ -</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities		
Operating loss	\$ (1,572,529)	\$ (37,329)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	25,572	1,683
Pension changes	124,774	19,810
OPEB changes	(3,563)	(726)
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	11,280	1,550
Other receivables	15,280	-
Due to/from other funds	(64,334)	16,714
Accounts payable	1,089	(2,724)
Accrued salaries and benefits	(1,018)	1,022
Other liabilities	(2,652)	-
Compensated absences	(10,912)	-
Net Cash Used in Operating Activities	<u>\$ (1,477,013)</u>	<u>\$ -</u>
Noncash Investing and Noncapital Financing Activities		
Loss on disposal of equipment	<u>\$ (29,527)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District

Statement of Net Position - Fiduciary Fund - Agency

June 30, 2018

Assets

Current Assets

Cash	\$ 538,542
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Liabilities

Current Liabilities

Due to other funds	\$ 44,837
Accounts payable	15,889
Other current liabilities	477,816

Total	\$ 538,542
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See notes to financial statements

State College Area School District

Notes to Financial Statements

June 30, 2018

1. Nature of Operations and Summary of Significant Accounting Policies

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

Nature of Operations

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

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

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in GASB Statement No. 14 as amended by GASB Nos. 39, 61 and 80. The specific criteria used in determining whether other organizations should be included in the District's financial reporting entity are financial accountability, fiscal dependency and legal separation.

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

Basic Financial Statements - Government-Wide Statements

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

In the government-wide Statement of Net Deficit, both the governmental activities and business-type activity columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources, as well as long-term debt and obligations and deferred inflows of resources. The District's net position is reported in three parts-net investment in capital assets; restricted net position; and unrestricted net position (deficit). The District first utilizes restricted resources to finance qualifying activities.

State College Area School District

Notes to Financial Statements

June 30, 2018

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

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

The District does not allocate indirect costs.

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

Basic Financial Statements - Fund Financial Statements

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

The following fund types are used by the District:

Governmental Funds

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

General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property, 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 noninstructional services (including athletics) are accounted for in this fund. The General Fund is reported as a major fund.

Capital Reserve Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2018

Capital Projects Fund

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

Debt Service Fund

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

Proprietary Funds

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

Food Service Fund

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

Internal Service Fund

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

Fiduciary Funds

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

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

Activity Fund

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

Measurement Focus

Government-Wide Financial Statements

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

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.

Basis of Accounting

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

Accrual Basis

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

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

Modified Accrual Basis

The governmental funds' financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period 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.

State College Area School District

Notes to Financial Statements

June 30, 2018

Budgets and Budgetary Accounting

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

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

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

Capital Assets

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

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

The District does not have any infrastructure capital assets.

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.

State College Area School District

Notes to Financial Statements

June 30, 2018

Governmental Fund Balances

The District classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the School Board which do not lapse at year-end
 - The School Board of the District is its highest level of decision-making authority, and
 - The School Board commits funds through a formal board motion.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District, but not through a formal action of the School Board
 - The School Board of the District authorized the District Business Administrator to assign funds to specific purposes, and
 - The School Board passed a board motion authorizing assignments for activities as contemplated by the Board.
- *Unassigned* - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

Restricted Net Position/Fund Balances

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

Deferred Outflows/Inflows of Resources

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

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

State College Area School District

Notes to Financial Statements

June 30, 2018

Pension

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

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

Other Postemployment Benefits

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

Use of Estimates

The preparation of financial statements in conformity with 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.

Adoption of New Accounting Standards

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which replaces the requirements of GASB Statement No. 45, for the year ended June 30, 2018. Statement No. 75 establishes that governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. Additionally, Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures, including a sensitivity analysis of the discount rate and a healthcare cost trend rate assumptions used for the valuation, and required supplementary information about their OPEB liabilities. The effect of this adoption decreased the District's governmental activities net position at July 1, 2017 by \$11,998,343, decreased the District's business-type activities by \$315,219 and expanded note disclosures and required supplementary information.

State College Area School District

Notes to Financial Statements

June 30, 2018

The District adopted GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* for the year ended June 30, 2018. Statement No. 82 addresses certain issues that have been raised with respect to Statement No. 67, Statement No. 68, and Statement No. 73. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard did not have any impact on the District's financial statements.

The District adopted GASB Statement No. 85, *Omnibus 2017* for the year ended June 30, 2018. GASB 85 enhances consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of this standard did not have a significant impact on the District's financial statements.

The District adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. The adoption of this standard did not have any impact on the District's financial statements.

2. Cash and Cash Equivalents

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

Deposits with Local Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. Custodial credit risk is addressed in the District's policy number 608, Bank Accounts. At June 30, 2018, \$144,426,717 of the District's bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance, but rather were collateralized with securities held by the pledging financial institution, but not in the District's name.

Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Such assets are not considered deposits pursuant to GASB Nos. 3 and 40, and as such are not subject to custodial credit risk. At June 30, 2018, the carrying amount and bank balances of the District's investment in PSDLAF were \$19,546,491. Due to the short-term nature and liquidity of the investments held within the pool, the fair value of the underlying investments approximates amortized cost.

State College Area School District

Notes to Financial Statements

June 30, 2018

3. Property Taxes

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

4. Interfund Receivables, Payables and Transfers

At June 30, 2018, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 574,449
Capital Reserve Fund	7,967,882
Food Service Fund	42,184
Internal Service Fund	118,665
Total	<u>\$ 8,703,180</u>

Amounts due to other funds:

General Fund	\$ 8,109,400
Capital Projects Fund	548,943
Food Service Fund	-
Agency Fund	44,837
Total	<u>\$ 8,703,180</u>

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 District determines the amount available to transfer to the Capital Reserve Fund at the end of each fiscal year from the General Fund.

The composition of interfund transfers, used to move cash between funds at June 30, 2018 is as follows:

Transfers in:

Capital Reserve Fund	\$ 7,963,299
Capital Projects Fund	2,308,514
Debt Service Fund	12,743,775
Total	<u>\$ 23,015,588</u>

Transfers out,

General Fund	<u>\$ 23,015,588</u>
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The General Fund transferred \$7,963,299 to the Capital Reserve Fund to provide funding for planned major capital projects. The General Fund also transferred \$2,308,514 to the Capital Projects Fund to cover current year building projects and \$12,743,775 to the Debt Service Fund to cover required debt service payments.

State College Area School District

Notes to Financial Statements

June 30, 2018

5. Due from Other Governments

The amount reported in the funds at June 30, 2018 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 504,070	\$ 5,285,015	\$ 738,794	\$ 6,527,879
Food Service Fund	34,299	91,964	-	126,263
Total	<u>\$ 538,369</u>	<u>\$ 5,376,979</u>	<u>\$ 738,794</u>	<u>\$ 6,654,142</u>

Amounts due from the federal and state government are primarily federal grants and state subsidies receivable from the Commonwealth of Pennsylvania, Department of Education at June 30, 2018. The amount due from local governments represents receivables earned by the District for special education, but not yet remitted to the District as of June 30, 2018.

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2018 follows:

Delinquent real estate taxes receivable	\$ 1,181,539
Earned income taxes receivable	980,563
Real estate transfer tax receivable	417,016
Interim real estate tax	15,010
Local service	<u>9,849</u>
Total	2,603,977
Estimated uncollectible taxes at June 30, 2018	<u>289,954</u>
Total	<u>\$ 2,314,023</u>

State College Area School District

Notes to Financial Statements

June 30, 2018

7. Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Increases	Transfers/ Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,140,457	\$ -	\$ -	\$ 1,140,457
Construction in progress	75,514,601	58,097,469	(76,454,068)	57,158,002
Total capital assets, not being depreciated	76,655,058	58,097,469	(76,454,068)	58,298,459
Capital assets being depreciated:				
Buildings and improvements	125,156,603	144,868	62,824,295	188,125,766
Equipment and other capital assets	43,553,112	1,512,026	1,751,619	46,816,757
Equipment-internal service	295,882	-	-	295,882
Total capital assets, being depreciated	169,005,597	1,656,894	64,575,914	235,238,405
Accumulated depreciation for:				
Buildings and improvements	(50,518,991)	(4,005,991)	8,136,790	(46,388,192)
Equipment and other capital assets	(36,161,061)	(1,545,682)	180,525	(37,526,218)
Equipment, internal service	(286,623)	(1,684)	-	(288,307)
Total accumulated depreciation	(86,966,675)	(5,553,357)	8,317,315	(84,202,717)
Total capital assets being depreciated, net	82,038,922	(3,896,463)	72,893,229	151,035,688
Governmental activities capital assets, net	\$ 158,693,980	\$ 54,201,006	\$ (3,560,839)	\$ 209,334,147
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 1,105,751	\$ 25,370	\$ (59,986)	\$ 1,071,135
Accumulated depreciation, Equipment and other capital assets	(948,510)	(25,572)	30,248	(943,834)
Business-type activity capital assets, net	\$ 157,241	\$ (202)	\$ (29,738)	\$ 127,301

State College Area School District

Notes to Financial Statements

June 30, 2018

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

Government activities:

Unallocated	\$ 374,410
Instruction	1,114,227
Instructional support services	5,664
Administrative and financial support services	6,600
Operation and maintenance of plant services	<u>4,052,456</u>

Total depreciation expenses for governmental activities

\$ 5,553,357

Business-type activities,
Food service

\$ 25,572

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$11,749,727 represent salaries of \$8,337,870, the District's share of Social Security taxes of \$637,847 for employees' services during the 2017-2018 school term, which are paid during July and August 2018, and retirement plan expense of \$2,715,645 applicable to the accrued salaries at June 30, 2018, and accrued workers' compensation of \$58,365.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amounts due within one year
Bond Series - 2012	\$ 13,230,000	\$ -	\$ 905,000	\$ 12,325,000	\$ 930,000
Bond Series - 2013	2,970,000	-	740,000	2,230,000	760,000
Bond Series - 2014A	1,990,000	-	490,000	1,500,000	500,000
Bond Series - 2014B	5,730,000	-	-	5,730,000	-
Bond Series - 2015	73,335,000	-	1,840,000	71,495,000	1,910,000
Bond Series - 2015B	20,525,000	-	1,270,000	19,255,000	1,325,000
Bond Series - 2017	-	43,840,000	1,105,000	42,735,000	975,000
Bond Series - 2018	-	51,285,000	-	51,285,000	935,000
Total bonds payable	117,780,000	95,125,000	6,350,000	206,555,000	<u>\$ 7,335,000</u>
Bond premium	11,779,553	8,103,164	1,057,496	18,825,221	
Total long-term debt	<u>\$ 129,559,553</u>	<u>\$ 103,228,164</u>	<u>\$ 7,407,496</u>	<u>\$ 225,380,221</u>	

State College Area School District

Notes to Financial Statements

June 30, 2018

Long-term debt at June 30, 2018 consists of the following:

\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	\$ 12,325,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	2,230,000
\$3,875,000 General Obligation Bonds, Series A of 2014, due in varying annual installments through March 2022, interest rates of 2% to 4%	1,500,000
\$5,730,000 General Obligation Bonds, Series B of 2014, due in varying annual installments beginning March 2021 through March 2028, interest rates of 2% to 2.5%	5,730,000
\$75,120,000 General Obligation Bonds, Series of 2015, due in varying annual installments beginning March 2017 through March 2040, interest rates of 3% to 5%	71,495,000
\$21,590,000 General Obligation Bonds, Series B of 2015, due in varying annual installments beginning May 2016 through May 2028, interest rates of 3% to 5%	19,255,000
\$43,840,000 General Obligation Bonds, Series of 2017, due in varying annual installments beginning May 2018 through May 2037, interest rates of 3% to 5%	42,735,000
\$51,285,000 General Obligation Bonds, Series of 2018, due in varying annual installments beginning May 2019 through May 2044, interest rates of 3% to 5%	51,285,000
Unamortized bond premium	<u>18,825,221</u>
Total	225,380,221
Current portion	<u>7,335,000</u>
Long-term debt	<u><u>\$ 218,045,221</u></u>

State College Area School District

Notes to Financial Statements

June 30, 2018

Debt service requirements at June 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2019	\$ 7,335,000	\$ 8,976,978	\$ 16,311,978
2020	8,783,596	8,510,607	17,294,203
2021	9,148,596	8,187,251	17,335,847
2022	9,483,596	7,823,949	17,307,545
2023	9,733,596	7,499,000	17,232,596
2024 - 2028	52,806,000	31,165,032	83,971,032
2029 - 2033	41,752,874	21,871,176	63,624,050
2034 - 2038	46,201,287	14,432,824	60,634,111
2039 - 2043	36,762,133	4,941,686	41,703,819
2044	3,373,543	164,000	3,537,543
Total	<u>\$ 225,380,221</u>	<u>\$ 113,572,503</u>	<u>\$ 338,952,724</u>

10. Fund Balance Classifications

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

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Non-spendable for, inventories	<u>\$ 1,801,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,801,683</u>
Restricted for, Capital projects	<u>\$ -</u>	<u>\$ 82,908</u>	<u>\$ 60,124,059</u>	<u>\$ 60,206,967</u>
Committed for:				
PSERS	<u>\$ 3,847,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,847,987</u>
Capital projects	<u>-</u>	<u>62,600,193</u>	<u>-</u>	<u>62,600,193</u>
Total	<u>\$ 3,847,987</u>	<u>\$ 62,600,193</u>	<u>\$ -</u>	<u>\$ 66,448,180</u>

11. Construction Commitments

The District had several active construction projects as of June 30, 2018. Outstanding construction commitments on these projects amounted to approximately \$70,359,000 at June 30, 2018.

12. Retirement Plan**Plan Description**

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

Benefits Provided

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

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

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

State College Area School District

Notes to Financial Statements

June 30, 2018

Member Contributions

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

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

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

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

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were \$20,220,445 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$236,077,000 for its proportionate share of the PSERS net pension liability. The PSERS net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was .4780%, which was an increase of .006% from its proportion measured as of June 30, 2017.

State College Area School District

Notes to Financial Statements

June 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$26,325,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,464,000	\$ 1,426,000
Changes in assumptions	6,413,000	-
Net difference between projected and actual earnings on pension plan investments	5,470,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	6,941,000	256,000
District contributions subsequent to the measurement date	20,220,445	-
Total	<u>\$ 41,508,445</u>	<u>\$ 1,682,000</u>

\$20,220,445 reported as deferred outflows of resources, related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Years ending June 30:	
2019	\$ 4,995,000
2020	8,566,000
2021	6,263,000
2022	<u>(218,000)</u>
Total	<u>\$ 19,606,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the District's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

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

State College Area School District

Notes to Financial Statements

June 30, 2018

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0 %	5.1 %
Fixed income	36.0	2.6
Commodities	8.0	3.0
Absolute return	10.0	3.4
Risk parity	10.0	3.8
Infrastructure/MLPs	8.0	4.8
Real estate	10.0	3.6
Alternative investments	15.0	6.2
Cash	3.0	.6
Financing (LIBOR)	(20.0)	1.1
	<u>100.00 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

State College Area School District

Notes to Financial Statements

June 30, 2018

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 290,590,000	\$ 236,077,000	\$ 190,052,000

Pension Plan Fiduciary Net Position

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

13. Defined Contribution Plan

The District provides a 403(b) defined contribution plan for its employees, administered by the District. The plan is defined within the teachers' contract (State College Area Education Association); however, all employees are eligible to participate. With the exception of retiring teachers and certain contracted employees, only employees contribute to the plan. Upon retirement, the District must also contribute the teacher's accrued sick and retirement bonus to the 403(b) plan. At June 30, 2018, total contributions (including retirement bonus and sick payouts) were \$1,224,690.

14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government and used by the District for fiscal year 2018 totaled \$251,846.

State College Area School District

Notes to Financial Statements

June 30, 2018

15. Operating Leases

The District leased copiers for its schools, administrative offices, and print shop under operating leases expiring at various dates through June 2022.

Rent expense for 2018 was approximately \$152,000. Future minimum rental payments required under these operating leases are as follows for the years ended June 30:

2019	\$	152,484
2020		58,644
2021		58,644
2022		58,644
		<hr/>
Total	\$	<u>328,416</u>

16. Transactions with Other LEAs

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

17. Postemployment Benefits Other Than Pensions (OPEB)

State College Area School District Postemployment Benefits Plan

General Information about the OPEB Plan

Plan Description and Benefits Provided

The District's defined benefit OPEB plan provides postemployment benefits and health insurance benefits upon retirement with 30 years of PSERS service or age 60 with 30 years of service, age 62 with 1 year of service or 35 years of service regardless of age. Retired employees are allowed to continue coverage for themselves and their dependents in the group health care plan until the retired employee reaches Medicare age, generally 65. The minimum requirements of the State College OPEB Plan are established by Pennsylvania Act 110 of 1988 and Act 43 of 1989. The School Board could choose to improve upon the minimum requirements in the future. The State College OPEB Plan is unfunded and no financial report is prepared. The State College OPEB Plan is a single employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meet the criteria in paragraph 4 of Statement 75.

State College Area School District

Notes to Financial Statements

June 30, 2018

Employees Covered by Benefit Terms

At July 1, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	45
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>1,184</u>
Total	<u><u>1,229</u></u>

Total OPEB Liability

The District's total OPEB liability as of June 30, 2018 was \$4,912,995, which was measured as of July 1, 2016, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Interest rate	3.13%
Salary increases	2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%
Discount rate	3.13%
Healthcare cost trend rates	6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Retirees' share of benefit-related costs	Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate. However, the first year trend assumption was adjusted to account for short-term rate caps

The discount rate was based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017.

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

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period May 2017.

State College Area School District

Notes to Financial Statements

June 30, 2018

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2017	\$ 4,401,748
Changes for the year:	
Service cost	333,833
Interest	115,773
Changes in assumptions or other inputs	220,514
Benefit payments	<u>(158,873)</u>
Net changes	<u>511,247</u>
Balance at June 30, 2018	<u><u>\$ 4,912,995</u></u>

Changes in assumptions or other inputs reflect a change in the discount rate from 2.49% in 2016 to 3.13% in 2017.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13%) or 1-percentage-point higher (4.13%) than the current discount rate:

	<u>1% Decrease (2.13%)</u>	<u>Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
Total OPEB Liability	\$ 5,289,535	\$ 4,912,995	\$ 4,558,416

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

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

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 4,306,875	\$ 4,912,995	\$ 5,638,160

State College Area School District

Notes to Financial Statements

June 30, 2018

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$467,982. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Benefit payments subsequent to the measurement date (July 1, 2017)	\$ 190,066	\$ -
Changes of assumptions or other inputs	202,138	-
Total	<u>\$ 392,204</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:	
2019	\$ 18,376
2020	18,376
2021	18,376
2022	18,376
2023	18,376
Thereafter	<u>110,258</u>
Total	<u>\$ 202,138</u>

PSERS Health Insurance Premium Assistance Program

General Information about the PSERS Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program ("HOP"). As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

State College Area School District

Notes to Financial Statements

June 30, 2018

Premium Assistance Eligibility Criteria

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

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

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to PSERS from the District were \$528,764 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$9,741,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was .4780%, which was an increase of .006% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expense of \$435,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 453,000
Net differences between projected and actual investment earnings	10,000	-
District contributions subsequent to the measurement date	528,764	-
Changes in proportion	111,000	-
	<u>\$ 649,764</u>	<u>\$ 453,000</u>

State College Area School District

Notes to Financial Statements

June 30, 2018

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30:

2019	\$ (54,000)
2020	(54,000)
2021	(54,000)
2022	(54,000)
2023	(57,000)
Thereafter	<u>(59,000)</u>
Total	<u>\$ (332,000)</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Participation rate:
 - Eligible retirees will elect to participate Pre age 65 at 50%
 - Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method: Market Value
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits).

State College Area School District

Notes to Financial Statements

June 30, 2018

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

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

OPEB - Asset Class	Target Allocation	Long- Term Expected Real Rate of Return
Cash	76.4 %	0.6 %
Fixed income	23.6 %	1.5 %
	<u>100.0 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents PSERS' net OPEB liability for June 30, 2017 calculated using current Healthcare cost trends as well as what PSERS' net OPEB liability would be if its health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Healthcare Trends Cost</u>	<u>1% Increase</u>
PSERS Net OPEB Liability	\$ 9,736,000	\$ 9,741,000	\$ 9,743,000

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	<u>1% Decrease 2.13%</u>	<u>Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
District's proportionate share of the net OPEB liability	\$ 11,070,000	\$ 9,741,000	\$ 8,633,000

OPEB Plan Fiduciary Net Position

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

State College Area School District

Notes to Financial Statements

June 30, 2018

18. Effect of Adoption of GASB Statement No. 75

The District adopted GASB Statement No. 75 for its fiscal year ended June 30, 2018 which requires that the effects be applied to the earliest period presented. The changes within the District's June 30, 2018 governmental and business-type activities net deficit are as follows:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Net deficit, as previously reported, at July 1, 2017	\$ (75,479,221)	\$ (3,564,277)	\$ (79,043,498)
Effect of adoption of GASB No. 75	<u>(11,998,343)</u>	<u>(315,219)</u>	<u>(12,313,562)</u>
Restated net deficit at July 1, 2017	<u>\$ (87,477,564)</u>	<u>\$ (3,879,496)</u>	<u>\$ (91,357,060)</u>

19. Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The District is required to adopt Statement No. 84 for its 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. Statement No. 87 improves recognition of certain lease assets and liabilities for leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. To the extent applicable, the District is required to adopt Statement No. 87 for its 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District required to adopt Statement No. 88 for its 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The District is required to adopt Statement No. 89 for its 2021 financial statements.

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

State College Area School District

Schedule of the District's Proportionate Share of the Net Pension Liability (Unaudited)
Year Ended June 30, 2018

	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.4780%	0.4720%	0.4547%	0.4533%	0.4561%
District's proportionate share of the net pension liability	\$ 236,077,000	\$ 233,948,000	\$ 197,020,000	\$ 179,419,000	\$ 186,710,000
District's covered-employee payroll	63,641,184	61,126,703	58,505,811	57,843,267	58,535,370
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371.0%	382.7%	336.8%	310.2%	319.0%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

State College Area School District

Schedule of District's Pension Contributions (Unaudited)

Year Ended June 30, 2018

	Last 10 Fiscal Years									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 20,220,445	\$ 17,424,223	\$ 14,234,693	\$ 12,097,807	\$ 9,336,223	\$ 6,738,537	\$ 4,386,801	\$ 2,936,351	\$ 2,414,074	\$ 2,135,725
Contributions in relation to the contractually required contribution	<u>(20,220,445)</u>	<u>(17,424,223)</u>	<u>(14,234,693)</u>	<u>(12,097,807)</u>	<u>(9,336,223)</u>	<u>(6,738,537)</u>	<u>(4,386,801)</u>	<u>(2,936,351)</u>	<u>(2,414,074)</u>	<u>(2,135,725)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 66,167,204	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626
Contributions as a percentage of covered- employee payroll	30.56%	27.35%	23.28%	20.68%	16.14%	11.53%	7.61%	4.89%	4.09%	3.79%

State College Area School District**Schedule of the District's Proportionate Share of the OPEB Liability (Unaudited)**

Year Ended June 30, 2018

	2018	2017
District's proportion of the net OPEB liability	0.4780%	0.4720%
District's proportionate share of the net OPEB liability	\$ 9,741,000	\$ 10,167,000
District's covered-employee payroll	63,641,184	61,126,703
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.3%	16.6%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%

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

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

State College Area School District

Schedule of District's OPEB Contributions (Unaudited)

Year Ended June 30, 2018

	Last 10 Fiscal Years									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 528,764	\$ 538,893	\$ 440,248	\$ 504,075	\$ 491,380	\$ 507,202	\$ 381,461	\$ 601,421	\$ 459,824	\$ 406,805
Contributions in relation to the contractually required contribution	(528,764)	(538,893)	(440,248)	(504,075)	(491,380)	(507,202)	(381,461)	(601,421)	(459,824)	(406,805)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 66,167,204	\$ 63,707,630	\$ 61,149,967	\$ 58,513,294	\$ 57,842,220	\$ 58,446,615	\$ 57,671,589	\$ 60,070,815	\$ 58,999,140	\$ 56,349,626
Contributions as a percentage of covered-employee payroll	0.80%	0.85%	0.72%	0.86%	0.85%	0.87%	0.66%	1.00%	0.78%	0.72%

State College Area School District

Required Supplementary Information

Schedule of Changes in Total OPEB Liability and Related Ratios

Year Ended June 30, 2018

(Unaudited)

	2018
Total OPEB Liability	
Service cost	\$ 333,833
Interest cost	115,773
Changes of assumptions	220,514
Benefit payments, including refunds of member contributions	<u>(158,873)</u>
Net change in total OPEB liability	511,247
Total OPEB Liability, Beginning	<u>4,401,748</u>
Total OPEB Liability, Ending	<u><u>\$ 4,912,995</u></u>
Covered-employee Payroll	<u><u>\$ 59,749,056</u></u>
Total OPEB liability as a percentage of covered-employee payroll	<u><u>8.22%</u></u>

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

Notes:**Changes of Assumptions**

The discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

Changes in Benefit Terms

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

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

State College Area School District

Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund Year Ended June 30, 2018

Revenues

Local sources:

Current taxation:

Real estate	\$ 98,229,940
Earned income tax	17,870,618
Local service tax	385,740
Real estate transfers	2,465,823
Payments in lieu of taxes	648,561
Public utility realty tax	114,543

Total current taxation 119,715,225

Delinquent taxation 1,077,653

Total from taxation 120,792,878

Earnings from temporary investments and deposits	648,206
Receipts from other LEA's	82,264
Tuition	1,296,494
IDEA	742,380
Miscellaneous revenue	653,257

Total local sources 124,215,479

State sources:

Basic instructional subsidy	7,724,156
Private placement tuition	89,912
Vocational education	87,619
Special education	3,302,372
Transportation	905,320
Rental and sinking fund payments	321,430
Medical and dental services	141,930
Property tax reduction	1,424,050
Social Security subsidy	2,429,926
Retirement subsidy	10,604,553
Other state grants	319,985

Total state sources 27,351,253

Federal sources:

Title I	768,721
Title II A	216,347
Title II C	68,524
Title III	59,323
Title IV	9,412
Medical Assistance	2,713
ACCESS	468,000

Total federal sources 1,593,040

Total revenues 153,159,772

State College Area School District**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**
Year Ended June 30, 2018**Expenditures**

Instruction:

Regular programs	\$ 61,576,242
Special programs	18,196,121
Vocational education programs	3,651,579
Other instructional programs	2,109,229
Adult education programs	8,653
Nonpublic school programs	14,811

Total instruction 85,556,635

Support services:

Pupil personnel	5,080,463
Instructional staff	5,158,111
Administration	7,737,119
Pupil health	1,529,259
Business	1,417,944
Operation and maintenance of plant services	9,935,707
Student transportation services	6,399,828
Central	5,857,970

Total support services 43,116,401

Noninstructional services:

Student activities	2,716,371
Community services	86,998

Total noninstructional services 2,803,369

Facilities acquisition, construction and improvement services 5,029

Debt service 550,000

Total expenditures 132,031,434

Excess of revenues over expenditures before other
before other financing uses 21,128,338

Other Financing Uses

Refund of prior year receipts	(65,408)
Transfer out	(23,015,588)

Total other financing uses (23,080,996)

Change in fund balance (1,952,658)

Fund Balance, Beginning 19,855,028

Fund Balance, Ending \$ 17,902,370

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

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, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2018	Expenditures to Subrecipients
U.S. Department of Education											
Passed through the PA Department of Education:											
Title I, Part A:											
Title I	I	84.010	013-180418	C	\$ 765,537	\$ 565,293	\$ -	\$ 686,796	\$ 686,796	\$ 121,503	\$ -
Title I	I	84.010	013-170418	B	760,967	200,370	121,936	66,449	66,449	(11,985)	-
Title I	I	84.010	013-160418	A	758,570	-	(15,476)	15,476	15,476	-	-
Total Title I, Part A						765,663	106,460	768,721	768,721	109,518	-
Secondary Allocation	I	84.048	380-180095	C	68,524	62,295	-	68,524	68,524	6,229	-
Title III - Language	I	84.365	010-180418	C	53,860	25,135	-	25,952	25,952	817	-
Title III - Language	I	84.365	010-170418	B	97,220	64,813	31,442	33,371	33,371	-	-
Total Title III						89,948	31,442	59,323	59,323	817	-
Title II	I	84.367	020-180418	C	181,899	146,186	-	165,684	165,684	19,498	-
Title II	I	84.367	020-170418	B	183,673	60,809	10,146	50,663	50,663	-	-
Title II	I	84.367	020-160418	A	187,556	12,428	12,428	-	-	-	-
Total Title II						219,423	22,574	216,347	216,347	19,498	-
Title IV	I	84.424	144-180418	C	17,632	9,404	-	9,412	9,412	8	-
Total PA Department of Education						1,146,733	160,476	1,122,327	1,122,327	136,070	-
Passed through Central Intermediate Unit #10:											
Special Education Cluster (IDEA):											
Special Education - Grants to States	I	84.027	062-17-0-010	B	743,576	743,576	743,576	-	-	-	-
Special Education - Grants to States	I	84.027	062-18-0-010	C	738,794	-	-	738,794	738,794	738,794	-
Preschool/Early Intervention Funds (619)	I	84.173	131-18-0-010	C	3,586	3,586	-	3,586	3,586	-	-
Total Special Education Cluster (IDEA)						747,162	743,576	742,380	742,380	738,794	-
Total U.S. Department of Education						1,893,895	904,052	1,864,707	1,864,707	874,864	-
U.S. Department of Health and Human Services, Medicaid Cluster											
Passed through Pennsylvania Department of Public Welfare											
Administrative Claiming Quarterly Program	I	93.778	044-007418	C	5,499	5,499	2,786	2,713	2,713	-	-
U.S. Department of Agriculture											
Child Nutrition Cluster:											
Passed through PA Department of Education:											
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 5	625,183	-	653,786	653,786	28,603	-
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 5	111,294	111,294	-	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 5	127,180	-	132,876	132,876	5,696	-
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 5	22,443	22,443	-	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	C	NOTE 5	2,706	-	2,706	2,706	-	-
National School Lunch Program	I (F)	10.559	264-0000	B	NOTE 5	1,084	1,084	-	-	-	-
Passed through the PA Department of Agriculture,											
National School Lunch Program	I	10.555	110-14-800-2	C	NOTE 5	239,164	(38,300)	251,846	251,846	(25,618)	-
Total Child Nutrition Cluster and Total U.S. Department of Agriculture						1,129,054	96,521	1,041,214	1,041,214	8,681	-
Total						\$ 3,028,448	\$ 1,003,359	\$ 2,908,634	\$ 2,908,634	\$ 883,545	\$ -

See notes to schedule of expenditures of federal awards

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the federal award activity of State College Area School District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a select portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 \$468,000 of Access reimbursements for direct medical services.

4. Relationship to Federal Financial Reports

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

5. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

6. Source Code and Grant Period Code

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

I = Indirect funding
F = Federal share

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

A = 07/01/15 - 06/30/16
B = 07/01/16 - 06/30/17
C = 07/01/17 - 06/30/18

7. Indirect Cost Rate

The District has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance, even though it does not have a federally negotiated indirect cost rate.

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

Board of Education
State College Area School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2018. In our report, an emphasis of a matter paragraph was included, as more fully disclosed in Notes 1 and 18 to the financial statements, to address the District's adoption of a new accounting principle. Our opinion was not modified with respect to this matter.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
November 12, 2018

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

Board of Education
State College Area School District

Report on Compliance for the Major Federal Program

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
November 12, 2018

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes ☒ no

Identification of major federal program:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I, Part A

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

\$750,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary Schedule of Prior Year Audit Findings

There were no findings related to the financial statement audit or major federal award programs noted in the June 30, 2017 Single Audit.