

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 imposed on individuals and corporations, although in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such 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)

\$21,245,000* General Obligation Bonds, Series B of 2015

Dated: Date of Delivery**Interest Due:** May 15 and November 15**Principal Due:** May 15, as shown on inside front cover**First Interest Payment:** November 15, 2015

The State College Area School District (Centre County, Pennsylvania) (the "School District") will issue its General Obligation Bonds, Series B of 2015 in the aggregate principal amount of \$21,245,000* (the "Bonds") in registered form in denominations of \$5,000 or any integral 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 November 15, 2015, and thereafter semiannually on November 15 and May 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 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 13, 2015 (the "Resolution").

The proceeds to be derived by the School District from the issuance and sale of the Bonds will be applied toward the costs of (a) the current refunding of the School District's outstanding General Obligation Bonds, Series A of 2010 (the "2010A Bonds") and the School District's outstanding General Obligation Bonds, Series B of 2010 (the "2010B Bonds"), (b) the advance refunding all of the School District's outstanding General Obligation Bonds, Series B of 2011 other than the May 15, 2016 maturity (the "Refunded 2011B Bonds") and, together with the 2010A Bonds and the 2010B Bonds, the "Refunded Bonds") and (c) payment of the costs of issuing the Bonds.

MATURITIES, AMOUNTS, RATES AND INITIAL REOFFERING PRICES/YIELDS {As shown on inside cover}

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 Campbell & Levine, LLC, of Pittsburgh, Pennsylvania, Underwriter's Counsel. Certain matters will be passed upon for the School District by Scott C. Etter, Esquire, of Campbell Miller Williams Benson Etter & Consiglio, Inc., School District Solicitor, of State College and Bellefonte, Pennsylvania. NW Financial Group, LLC, Pottstown, 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 August __, 2015.

BofA Merrill Lynch

Dated: July __, 2015

*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.

\$21,245,000*
State College Area School District
(Centre County, Pennsylvania)
General Obligation Bonds, Series B of 2015

Dated: Date of Delivery
Interest Due: May 15 and November 15

Principal Due: May 15, as shown below
First Interest Payment: November 15, 2015

<u>Maturity Date</u> <u>(May 15)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
2016	\$155,000			
2017	830,000			
2018	1,255,000			
2019	1,300,000			
2020	1,375,000			
2021	2,175,000			
2022	2,290,000			
2023	2,705,000			
2024	2,960,000			
2025	3,090,000			
2026	1,755,000			
2027	670,000			
2028	685,000			

* Preliminary, subject to change.

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

BOARD OF SCHOOL DIRECTORS

Amber Concepcion	President
Jim Leous.....	Vice President
Mary Jenn Dorman	Secretary*
Scott Fozard	Member
David Hutchinson	Member
Penni Fishbaine.....	Member
Ann McGlaughlin	Member
Jim Pawelczyk	Member
Dorothea Stahl	Member
Laurel Zydney.....	Member

*Non-Voting Member

SUPERINTENDENT
DR. ROBERT O'DONNELL

BUSINESS ADMINISTRATOR
RANDY BROWN

SCHOOL DISTRICT SOLICITOR
SCOTT C. ETTER, ESQUIRE
CAMPBELL MILLER WILLIAMS BENSON ETTER & CONSIGLIO, INC.
State College and Bellefonte, Pennsylvania

BOND COUNSEL
CLARK HILL PLC
Pittsburgh, Pennsylvania

UNDERWRITER'S COUNSEL
Campbell & Levine, LLC
Pittsburgh, Pennsylvania

FINANCIAL ADVISOR
NW Financial Group, LLC
Pottstown, Pennsylvania

PAYING AGENT
MANUFACTURERS AND TRADERS TRUST COMPANY
Harrisburg, Pennsylvania

SCHOOL DISTRICT ADDRESS
131 West Nittany Avenue
State College, Pennsylvania 16801

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 PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAYBE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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OFFICIAL STATEMENT

\$21,245,000*

**State College Area School District
(Centre County, Pennsylvania)
General Obligation Bonds, Series B of 2015**

INTRODUCTION

This Official Statement, including the cover, inside cover, and Appendices hereto, is furnished by State College Area School District, Centre County, Pennsylvania (the "School District"), in connection with the offering of its \$21,245,000* aggregate principal amount, General Obligation Bonds, Series B of 2015 (collectively, 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 13, 2015 (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 Bonds will be applied toward (a) the current refunding of the School District's outstanding General Obligation Bonds, Series A of 2010 (the "2010A Bonds") and the School District's outstanding General Obligation Bonds, Series B of 2010 (the "2010B Bonds"), (b) the advance refunding of all of the School District's outstanding General Obligation Bonds, Series B of 2011 (the "2011B Bonds") other than the May 15, 2016 maturity (the 2011B Bonds being refunded are referred to herein as the "Refunded 2011B Bonds" and, together with the 2010A Bonds and the 2010B Bonds, the "Refunded Bonds") and (c) the payment of the costs of issuing the Bonds.

SOURCES AND USES OF FUNDS

	Series B of 2015
Sources of Funds:	
Par Amount of Bonds	
Net Original Issue Premium/Discount	
Total Sources	
Uses of Funds:	
2010A Bonds Redemption Price	
2010B Bonds Redemption Price	
Refunded 2011B Bonds Escrow Fund	
Issuance Costs ⁽¹⁾	
Total Uses	

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

* Preliminary, subject to change.

THE REFUNDING PROGRAM

The School District has determined that it is in its best interest to currently refund its 2010A Bonds, currently outstanding in the principal amount of \$10,085,000, currently refund its 2010B Bonds, currently outstanding in the principal amount of \$7,070,000, and advance refund the Refunded 2011B Bonds, currently outstanding in the principal amount of \$6,820,000.

A portion of the proceeds of the Bonds will be deposited with Manufacturers and Traders Trust Company (the “2010A Paying Agent”) as the paying agent and sinking fund depository for the 2010A Bonds. The monies deposited with the 2010A Paying Agent will provide sufficient funds to pay the principal of and the interest on the 2010A Bonds to and including November 15, 2015, at which time such 2010A Bonds will be called for optional redemption.

A portion of the proceeds of the Bonds will be deposited with Manufacturers and Traders Trust Company (the “2010B Paying Agent”) as the paying agent and sinking fund depository for the 2010B Bonds. The monies deposited with the 2010B Paying Agent will provide sufficient funds to pay the principal of and the interest on the 2010B Bonds to and including November 15, 2015, at which time such 2010B Bonds will be called for optional redemption.

A portion of the proceeds of the Bonds will be deposited into a special and irrevocable Escrow Fund (the “Escrow Fund”), pursuant to the terms of an Escrow Trust Agreement, to be dated the date of issuance and delivery of the Bonds, and entered into between the School District and Manufactures and Traders Trust Company (the “Escrow Agent”) as the paying agent and sinking fund depository for the Refunded 2011B Bonds. The monies deposited into the Escrow Fund for the Refunded 2011B Bonds will be used by the Escrow Agent to purchase certain United States Treasury Securities (the “Treasury Securities”), the maturing principal of which, and the interest earned thereon will provide sufficient moneys to pay the principal of and the interest on the Refunded 2011B Bonds to and including May 15, 2016, at which time such Refunded 2011B Bonds will be called for optional redemption.

Verification by Independent Accountants

The arithmetical accuracy of the mathematical computations supporting the: (i) adequacy of the maturing principal amounts of, and the interest earned on, the Treasury Securities deposited into the Escrow Fund to pay the principal of and interest when due on the Refunded 2011B Bonds to and including May 15, 2016, and to redeem, on that date, at par all Refunded 2011B Bonds stated to mature on and after May 15, 2016; and (ii) accuracy of the mathematical computations supporting the conclusion that the Bonds will not be “arbitrage bonds” under Section 148 of the Code, will be verified by Grant Thornton, LLP, as a condition to the issuance and delivery of the Bonds.

THE BONDS

Description

The Bonds shall bear interest from and including the Dated Date at the rates set forth on the inside cover page hereof, payable semi-annually on May 15 and November 15 (each an “Interest Payment Date”) of each year, commencing November 15, 2015 (until maturity or prior redemption), and will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The Bonds when issued 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.

REDEMPTION OF THE BONDS

Optional Redemption

The Bonds stated to mature on or after May 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 May 15, 20__, or on any date thereafter in either case upon payment of a redemption price of 100% of the principal amount of such Bonds, together with accrued interest to the redemption date.

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 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 Business Administrator is responsible for budget and financial operations. The School Board selects both officials.

School Facilities

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

TABLE 1
STATE COLLEGE AREA SCHOOL DISTRICT
SCHOOL FACILITIES

Building	Original Construction Date	Addition/ Renovation Date(s)	Grades	Rated Pupil Capacity	2014-15 Enrollment
<i>Elementary:</i>					
Corl Street	1952	1961/96	K-5	325	252
Easterly Parkway.....	1955	2002	K-5	450	341
Ferguson Township.....	1931	1956/2010	K-5	450	367
Gray's Woods	2002	2011	K-5	550	391
Houserville	1959	1968	3-5	300	172
Lemont	1939	1966	K-2	300	168
Park Forest	2005	---	K-5	525	466
Radio Park.....	1963	---	K-5	450	381
Mount Nittany	2011	---	K-5	450	331
<i>Secondary:</i>					
Education Alternatives (housed at Fairmont Avenue School)	---	---	5-12	---	239
Mount Nittany Middle.....	1995	1995	6-8	1,076	718
Park Forest Middle.....	1971	1995/07	6-8	1,094	821
High School South	1965	1971	9-10	1,333	1,078
High School North	1957	1965/71/78/88	11-12	1,498	1,051

Source: School District Officials.

Enrollment Trends

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

TABLE 2**State College Area School District
Enrollment Trends**

Actual Enrollment				Projected Enrollment			
School				School			
<u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>	<u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2007-08	3,389	3,732	7,121	2015-16 (1)	3,475	3,438	6,913
2008-09	3,404	3,624	7,028	2016-17 (1)	3,463	3,490	6,953
2009-10	3,448	3,660	7,108				
2010-11	3,470	3,499	6,969				
2011-12	3,455	3,401	6,856				
2012-13	3,407	3,410	6,817				
2013-14	3,382	3,393	6,775				
2014-15	3,423	3,353	6,776				

(1) Projected enrollment taken from Stewman Demographics.

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 Business Administrator 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, 2014.

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 not 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 four years. The Budget for 14-15, as adopted in June 2014, had revenues of \$125,926,243 and expenditures of \$126,791,664 and included planned use of assigned fund balance of \$598,000 for pension and \$550,000 for legal liability payments. The Budget for 15-16, as adopted in June 2015, has revenues of \$136,368,756 and expenditures of \$137,552,316 and includes planned use of assigned fund balance of \$1,241,053 for pension and \$550,000 for legal liability payments.

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TABLE 3

STATE COLLEGE AREA SCHOOL DISTRICT

SUMMARY OF COMPARATIVE GENERAL FUND BALANCE SHEET

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ASSETS				
Cash and Cash Equivalents	\$ 24,034,534	\$ 31,490,050	\$ 35,557,460	\$ 46,245,958
Taxes Receivable	3,174,672	3,913,846	1,960,677	1,840,205
Inter-fund Receivable	2,532,703	2,952,378	63,913	90,397
Intergovernmental Receivable	3,068,161	3,213,362	2,890,058	3,128,432
Inventories	1,781,842	1,647,744	1,597,983	1,701,632
Other Assets	147,689	48,010	149,698	1,178,569
TOTAL ASSETS	<u>\$ 34,739,601</u>	<u>\$ 43,265,390</u>	<u>\$ 42,219,789</u>	<u>\$ 54,185,193</u>
LIABILITIES				
Accounts Payable	\$ 787,880	\$ 773,127	\$ 1,092,871	\$ 1,163,676
Accrued Salaries and Benefits	8,902,475	8,719,928	9,063,177	9,274,067
Interfund Payables	1,650,516	5,792,846	4,369,631	15,596,318
Payroll Deductions & Withholding	3,589,865	3,460,299	4,223,909	4,751,544
Deferred Revenue	989,057	1,223,055	957,000	922,164
Other	224,461	253,264	299,852	258,968
TOTAL LIABILITIES	<u>\$ 16,144,254</u>	<u>\$ 20,222,519</u>	<u>\$ 20,006,440</u>	<u>\$ 31,966,737</u>
FUND BALANCE				
Non-Spendable	\$ 1,781,842	\$ 1,647,744	\$ 1,597,983	\$ 1,701,632
Committed	10,000,000	11,000,000	11,515,818	10,772,000
Unassigned	6,813,505	10,395,127	9,099,548	9,744,824
TOTAL FUND BALANCE	<u>\$ 18,595,347</u>	<u>\$ 23,042,871</u>	<u>\$ 22,213,349</u>	<u>\$ 22,218,456</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 34,739,601</u>	<u>\$ 43,265,390</u>	<u>\$ 42,219,789</u>	<u>\$ 54,185,193</u>

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)**

	2011	2012	2013	2014
Beginning Fund Balance	\$16,176,192	\$18,595,347	\$ 23,042,871	\$22,213,349
Revenues over (under) Expenditure		4,447,524	(829,522)	5,107
Other	<u>176,240</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$18,595,347</u>	<u>\$23,042,871</u>	<u>\$ 22,213,349</u>	<u>\$22,218,456</u>

*Totals may not add due to rounding.

Revenue and Expenses

The School District received \$112,458,309 in revenue in its fiscal year ended June 30, 2011, \$113,159,666 in revenue in its fiscal year ended June 30, 2012, \$119,045,766 in revenue in its fiscal year ended June 30, 2013, and revenue of \$124,679,073 in its fiscal year ended June 30, 2014.

The School District expenditures were \$110,215,394 in its fiscal year ended June 30, 2011, \$108,712,142 in its fiscal year ended June 30, 2012, \$119,875,288 in its fiscal year ended June 30, 2013 and \$124,673,966 in its fiscal year ended June 30, 2014. The increase in expenditures in the fiscal years which ended June 30, 2013 and 2014 resulted primarily because the School District entered into a settlement agreement 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 to date are \$6,000,000 in fiscal year 2013, \$800,000 in fiscal year 2014 and \$550,000 in fiscal year 2015. Payments are included under Debt Service in Table 5 herein. \$1,650,000 remains due, payable in three annual installments of \$550,000 through fiscal 2018. The School District has assigned a portion of its fund balance as a reserve for the remaining payments.

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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)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Budget 2015</u>	<u>Budget 2016</u>
REVENUE					
Local Sources	\$94,419,369	\$99,800,371	\$103,438,471	\$104,376,200	\$112,155,974
State Sources	17,194,378	18,033,935	19,850,154	20,505,043	22,867,782
Federal Sources	1,545,919	1,211,460	1,390,448	1,045,000	1,345,000
TOTAL REVENUE	\$113,159,666	119,045,766	\$124,679,073	\$125,926,243	\$136,368,756
EXPENDITURES					
Instruction	\$64,847,287	\$66,597,506	\$67,910,608	\$73,097,214	\$77,531,284
Pupil Personnel	3,823,417	3,829,692	3,943,616	4,174,013	4,464,799
Instructional Staff	3,554,591	4,019,298	4,175,778	4,413,395	4,717,974
Administration	5,770,834	6,146,045	6,023,703	6,749,018	7,167,281
Pupil Health	1,276,874	1,249,453	1,167,953	1,271,633	1,289,024
Business	915,991	858,573	1,094,959	1,095,190	1,223,858
Operation and Maintenance	7,515,368	7,771,157	8,152,562	8,607,124	8,925,960
Student Transportation	5,555,176	5,577,498	5,713,055	5,907,928	5,955,060
Support Services – General	4,479,250	4,563,232	4,276,250	5,059,329	5,802,596
Other Support	6,927				
Operation of Non-instructional Services	2,292,502	2,458,900	2,467,166	668,494	692,965
Debt Service	51,913	6,069,359	875,680	642,000	622,000
Facilities Acquisition, Construction	37,274	52,188	29,775		
Budgetary Reserve				480,000	686,151
Fund Transfers	8,584,738	10,682,387	18,842,861	14,626,326	18,473,364
TOTAL EXPENDITURES	\$108,712,142	\$119,875,288	\$124,673,966	\$126,791,664	\$137,552,316
SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>\$4,447,524</u>	<u>\$(829,522)</u>	<u>\$5,107</u>	<u>\$(865,421)</u>	<u>\$(1,183,560)</u>

*Totals may not add due to rounding.

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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

The Taxpayer Tax Relief Act (the "Act") became effective June 27, 2006. Under its provisions, 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 the Act eliminating several exceptions previously permitted under the Act 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 Act together with Act 25 of 2011 will hereinafter be referred to as the "Taxpayer Relief Act"). 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 voter 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 the Taxpayer Relief Act

The 2010A Bonds financed the current refunding of the School District's General Obligation Bonds, Series of 2003, Series of 2004, Series A of 2004 and Series of 2005. The 2010B Bonds financed the advance refunding of the School District's General Obligation Bonds, Series AA of 2004. The 2011B Bonds financed the current refunding of the School District's General Obligation Bonds, Series of 2006. Accordingly, the Bonds qualify under the exception described in clause 1 above for purposes of the Taxpayer Relief Act. Therefore, any tax increases necessary to pay principal and interest on the Bonds will not be subject to the restrictions set forth in the Taxpayer Relief Act.

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:

<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.

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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 (\$)
2005-06	31.373	0.50	0.95	5.00
2006-07	32.566	0.50	0.95	5.00
2007-08	32.513	0.50	0.95	5.00
2008-09	33.722	0.50	0.95	5.00
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

Source: School District Officials.

TABLE 7

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

	2011	2012	2013	2014	2015
School District	35.900	36.850	37.730	38.750	39.506
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	4.400	4.400	4.900	4.900	4.900
Ferguson Township	2.422	2.422	2.422	2.422	2.422
Halfmoon Township	4.020	4.020	4.980	4.980	4.980
Harris Township	4.800	4.800	4.800	4.800	5.300
Patton Township.....	8.700	8.900	8.900	8.900	8.900
State College Borough.....	11.040	11.040	11.040	11.040	14.400

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

Real Property

The real property tax (excluding delinquent collections) produced \$81,322,799 in revenues in 2013-14, approximately 78.6% percent 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>
2004-05.....	\$3,853,617,900	\$1,843,716,770	47.84%
2005-06.....	3,981,659,200	1,896,850,150	47.64%
2006-07.....	4,510,995,900	1,956,861,790	43.38%
2007-08.....	4,655,401,000	2,009,963,400	43.17%
2008-09.....	5,223,497,300	2,057,646,530	39.39%
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%
Percentage Change 2004-14	64.31%	17.24%	

Source: Pennsylvania State Tax Equalization Board.

TABLE 9

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

	<u>2013 Market Value</u>	<u>2013 Assessed Value</u>	<u>2012 Market Value</u>	<u>2012 Assessed Value</u>
<i>School District</i>	\$ 6,331,911,746	\$ 2,161,495,415	\$6,282,030,871	\$2,148,202,125
Benner Township (Portion)	17,141,816	6,317,730	16,789,375	6,288,930
College Township	1,180,336,791	424,924,780	1,197,307,643	431,460,005
Ferguson Township	1,583,408,931	549,753,340	1,566,275,210	543,904,070
Half Moon Township	196,527,642	70,817,700	195,687,098	70,506,355
Harris Township	513,895,429	176,279,670	504,118,302	173,156,525
Patton Township	1,278,062,548	435,927,760	1,260,866,915	430,753,780
State College Borough	1,562,538,588	497,474,435	1,540,986,329	492,132,460
Centre County	9,639,841,494	3,308,799,159	9,546,881,023	3,280,771,329

Source: Pennsylvania State Tax Equalization Board.

TABLE 10**STATE COLLEGE AREA SCHOOL DISTRICT
ASSESSMENT BY LAND USE**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Residential	\$1,285,514,340	\$1,303,574,025	\$1,321,212,170	\$1,342,344,615	\$1,356,946,155
Trailers	2,546,710	2,485,720	2,446,540	2,199,795	1,620,155
Seasonal	1,264,790	1,264,790	1,162,535	869,580	827,510
Lots	27,058,177	25,892,267	24,724,827	20,887,030	20,299,510
Industrial	25,300,065	24,424,230	24,424,230	21,624,785	21,992,080
Commercial	691,780,909	678,711,569	692,187,358	701,399,045	700,285,440
Agriculture	53,028,364	54,026,264	54,759,495	54,550,340	54,863,290
Land.....	5,872,020	5,861,255	5,743,035	3,793,735	4,128,075
Mineral	533,200	533,200	533,200	533,200	533,200
<i>Total</i>	<u>\$2,092,898,575</u>	<u>\$2,096,773,320</u>	<u>\$2,127,193,390</u>	<u>\$2,148,202,125</u>	<u>\$2,161,495,415</u>

Source: Pennsylvania State Tax Equalization Board.

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TABLE 11

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

Year	Assessed Valuation	Mills	Adjusted Levy	Current Collections	Current Year Collections as Percentage of Total Levy		Delinquent Collections (1)	Total Collections	Total Collections as Percentage of Total Levy
2004-05	\$1,875,035,300	29.723	\$55,731,674	\$54,029,095	96.9%		\$854,714	\$54,883,809	98.5%
2005-06	1,931,529,620	31.373	60,598,000	58,656,027	96.8%		912,093	59,568,120	98.3%
2006-07	1,973,235,125	32.566	64,260,400	62,228,920	96.8%		1,229,235	63,458,155	98.8%
2007-08	2,035,998,655	32.513	66,196,423	63,888,389	96.5%		1,003,003	64,891,392	98.0%
2008-09	2,065,209,700	33.722	68,218,749	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	97.0%		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%

(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.

* 2008-09 was the first year the School District received Homestead Exclusion money from the Commonwealth from gambling revenue. The amount of \$1,424,253 of gambling funds was subtracted from the product of the assessed valuation multiplied by the millage to get the adjusted levy.

Source: 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 2014 assessed values, are shown in Table 12. The aggregate assessed value of these ten taxpayers totals approximately 5.1 percent of total assessed value.

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TABLE 12

**STATE COLLEGE AREA SCHOOL DISTRICT
TEN LARGEST REAL PROPERTY TAXPAYERS, 2014-15**

Owner	Property	Assessed Value
Geisinger Clinic	Medical Buildings	\$ 18,025,540
HFL Corporation	Apartments	14,594,885
Nittany Centre Realty LLC	Retail	12,785,500
Foxdale Village Corp.	Apartments	10,855,460
Jefferson at State College	Apartments	10,246,530
Toftrees Apartments Ltd.	Apartments	9,712,565
Minitab Inc.	Software and Services	9,190,030
Village at Penn State (The)	Retirement Housing	8,534,280
Retreat at State College, LLC	Apartments	8,339,180
AW and Sons Enterprise LP	Apartments	8,148,475
Assessed Value of Top 10		<u>\$110,432,445</u>

Source: School District Officials.

Note: 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 The Pennsylvania State University 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 \$18,013,124 in other taxes in 2013-14. Its limit under Act 511, equal to 12 mills on the market value of real property, was approximately \$75,982,940. 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 2013-14 the collected portion of this tax yielded \$15,694,478 or 12.6 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 2013-14 the collected portion of this tax yielded \$362,221 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 2013-14 the collected portion of this tax yielded \$1,956,425 or just over 1.5 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.

The largest subsidy, basic instructional subsidy, is allocated to all school districts based on factors such as: (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth; and (4) student count. School districts also receive subsidies for special education, pupil transportation, health service and debt service.

Commonwealth law presently provides that the School District will receive reimbursement from the Commonwealth for a portion of debt service on the Bonds upon final approval of the Department of Education. Commonwealth reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Capital Account Reimbursement Fraction ("CARF"). The School District CARF number for the 2014-15 school year was 28.91 percent. In future years, this percentage may change as the School District's CARF changes, or as a result of future legislation. CARF is a function of the market value per weighted average daily membership of the School District relative to that of the Commonwealth.

In 2013, a moratorium on new filings for Commonwealth reimbursement for newly issued debt was announced by PDE. The moratorium has recently been lifted. None of the School District's previously approved projects should be affected by any future moratorium and the refinancing of any existing debt (including the Bonds) should also not be affected.

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DEBT AND DEBT LIMITS

Debt Statement

Table 13, which follows, shows the debt of the School District as of July 15, 2015.

TABLE 13

STATE COLLEGE AREA SCHOOL DISTRICT
DEBT STATEMENT
(AS OF JULY 15, 2015)

<u>ELECTORAL DEBT</u>	<u>GROSS OUTSTANDING</u>
General Obligation Bonds, Series of 2015 (last maturity 2040)	\$75,120,000
<u>NONELECTORAL DEBT</u>	
General Obligation Bonds, Series A of 2014 (last maturity 2022)	\$2,935,000
General Obligation Bonds, Series B of 2014 (last maturity 2028)	5,730,000
General Obligation Bonds, Series of 2013 (last maturity 2022)	4,300,000
General Obligation Bonds, Series of 2012 (last maturity 2029)	14,135,000
General Obligation Bonds, Series B of 2011 (last maturity 2028)	7,280,000
General Obligation Bonds, Series A of 2010 (last maturity 2025)	10,085,000
General Obligation Bonds, Series B of 2010 (last maturity 2026)	7,070,000
General Obligation Note, Series of 2008 (Bank Note) (last maturity 2016)	<u>1,325,000</u>
TOTAL NONELECTORAL DEBT	\$52,860,000
TOTAL LEASE RENTAL DEBT	\$0
TOTAL PRINCIPAL OF DIRECT DEBT	\$127,980,000

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 \$_____. After adjustment for available funds and estimated Commonwealth aid, the local effort of direct debt will total \$_____.

TABLE 14

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

	<u>Gross</u>	<u>Local Effort of Net of Available Funds and Estimated State Aid⁽¹⁾</u>
DIRECT DEBT:		
Electoral Debt	\$75,120,000	\$70,657,117 ⁽²⁾
Nonelectoral Debt	52,860,000	49,728,431
Lease Rental Debt	--	--
TOTAL DIRECT DEBT	\$127,980,000	\$120,385,548
OVERLAPPING DEBT:		
Centre County, General Obligation ⁽³⁾	\$24,498,268	\$24,498,268
Municipal Debt	52,709,804	52,709,804
TOTAL OVERLAPPING DEBT	\$77,208,072	\$77,208,072
TOTAL DIRECT AND OVERLAPPING DEBT	\$205,188,072	\$197,593,620
DEBT RATIOS:		
Per Capita (2010)	\$2,268.63	\$2,184.66
Percent 2014 Assessed Value	9.49%	9.14%
Percent 2013 Market Value	3.24%	3.12%

* 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 Percentage.

⁽³⁾ Pro rata 65.32% share of \$37,505,000 principal amount outstanding.

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 2011-12	\$113,159,666
Total Revenues for 2012-13	119,045,766
Total Revenues for 2013-14	124,679,073
Total Revenues, Past Three Years.....	<u>\$356,884,505</u>
Annual Arithmetic Average (Borrowing Base)	\$118,961,501

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	\$267,663,378	\$52,860,000*	\$214,803,378

⁽¹⁾ 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. Excludes the School District's General Obligation Bonds, Series of 2015, which represent 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.

* Preliminary, subject to change.

TABLE 15
STATE COLLEGE AREA SCHOOL DISTRICT
DEBT SERVICE REQUIREMENTS⁽¹⁾

Fiscal Year Ending 6/30	Other General Obligation Debt^{(1)*}	Series B of 2015			Total Requirements*
		<u>Principal</u>	<u>Interest</u>	<u>Subtotal</u>	
2015	\$8,549,601	--	--	--	\$8,549,601
2016	10,507,089	--	--	--	10,507,089
2017	10,278,941	--	--	--	10,278,941
2018	10,265,201	--	--	--	10,265,201
2019	10,183,489	--	--	--	10,183,489
2020	10,225,211	--	--	--	10,225,211
2021	10,200,660	--	--	--	10,200,660
2022	10,119,750	--	--	--	10,119,750
2023	10,131,380	--	--	--	10,131,380
2024	10,133,800	--	--	--	10,133,800
2025	10,118,281	--	--	--	10,118,281
2026	9,092,881	--	--	--	9,092,881
2027	9,093,169	--	--	--	9,093,169
2028	6,531,475	--	--	--	6,531,475
2029	6,534,888	--	--	--	6,534,888
2030	5,257,425	--	--	--	5,257,425
2031	5,258,925	--	--	--	5,258,925
2032	5,258,875	--	--	--	5,258,875
2033	5,257,675	--	--	--	5,257,675
2034	5,257,675	--	--	--	5,257,675
2035	5,258,000	--	--	--	5,258,000
2036	5,257,000	--	--	--	5,257,000
2037	5,255,750	--	--	--	5,255,750
2038	5,258,750	--	--	--	5,258,750
2039	5,255,250	--	--	--	5,255,250
2040		--	--	--	
Total	\$194,541,141				\$194,541,141

⁽¹⁾ As of July 9, 2015.

* Preliminary, subject to change.

TABLE 16

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

2015-16 Commonwealth Aid Received (budgeted)	\$22,867,781
2015-16 Debt Service Requirements	\$8,549,601
Maximum Future Debt Service Requirements after Issuance of Bonds	\$ _____
Coverage of 2014-15 Debt Service Requirements	2.67 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 intends to issue approximately \$20,000,000 in additional non-electoral debt during the next two years to complete the financing for the State College High School Project. The School District currently estimates the total cost of the State College High School Project at approximately \$115,000,000.

LABOR RELATIONS

School District Employees

There are presently 1,234 employees of the School District, including 672 teachers and administrators and 577 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 were established through June 30, 2015 under a collective bargaining agreement which expired June 30, 2015. The SCAEA has agreed to work under the expired pay schedule until a new agreement is finalized.

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 is scheduled to expire on June 30, 2016.

All administrators of the School District, except the Superintendent, the Assistant Superintendent, the Business Administrator, and the Director of Personnel 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, 2017.

The secretary/clerical and para-professional employees are represented by PSEA. A new collective bargaining agreement was recently finalized and expires June 30, 2018.

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.

Contribution rates for employers (like the School District), using the June 30, 2014 valuation, are expected to increase to approximately 32% by 2019-20, and then remain at approximately 32% through 2023-24. This valuation assumes a 7.5% rate of return. The primary contributor to the employer rate increase is the decrease in school payroll. During fiscal year 2014, PSERS' active membership decreased from approximately 267,000 to 263,000 members and projected school payroll for fiscal year 2015 decreased from approximately \$13.5 billion to \$12.6 billion. As a result, the existing pension debt on accrued benefits will be spread over a smaller projected school payroll in future years as the pension debt is satisfied. The actual contribution rate for the 2013-14 and 2014-15 fiscal years was set at 16.93% and 21.40%, respectively. The rate for 2015-16 is projected by PSERS to be 25.84%. 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 is a list of the annual School District contributions. The School District is current in all payments.

<u>Year</u>	<u>School District Contribution</u>
2005-06	\$2,522,126
2006-07	3,418,167
2007-08	3,945,782
2008-09	2,542,529
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 (budgeted).....	12,229,790
2015-16 (budgeted).....	15,525,047

Source: School District Financial Statements.

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 two 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 Class T-E or Class T-F members are jointly responsible for any investment losses in the future and will share the benefit of investment gains. 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 as described above, 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.

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

About the Pennsylvania Public School Employees’ Retirement System

PSERS is the 18th largest state-sponsored defined benefit pension in the nation and has a membership of more than 267,000 active members and over 209,000 annuitants and beneficiaries receiving benefits. For more information visit the PSERS’ website at www.psers.state.pa.us

Under GASB 25, PSERS’ funded ratio for the pension plan decreased from 63.8% at June 30, 2013 to 62.0% as of the latest actuarial valuation dated June 30, 2014. This decrease was primarily due to returns below expected levels on assets measured at actuarial value and a fiscal year 2014 employer contribution below its recommended level due to the limits imposed by Act 120.

Under GASB 67, PSERS’ pension plan ratio of fiduciary net position to total pension liability, increased from 54.5% as of June 30, 2013 to 57.2% as of June 30, 2014. 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

Other Post-Employment Benefits

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 School District became subject to the requirements of GASB Statements No. 43 and 45 commencing with the School District’s annual financial statements for the fiscal year ending June 30, 2011. The funded status of these other post-employment benefits as of January 1, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$3,136,662
Actuarial value of plan assets	\$0
Unfunded actuarial accrued liability (UAAL)	\$3,136,662
Funded Ratio (actuarial value of plan assets/UAAL)	0%
Covered payroll	\$54,004,356
UAAL as a percentage of covered payroll	5.8%

The School District’s Other Post-Employment Benefits plan is funded on a pay-as-you-go basis. Total retiree contributions of \$624,673 covered all costs for FY 2013-14.

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 individual or corporate alternative minimum taxes.

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 excludable 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.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. 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, 2016 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, 2015, 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; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (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 (14) 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 filed annual financial data due on December 27, 2010, December 27, 2011 and December 27, 2012 on February 4, 2011, February 13, 2012 and May 20, 2013, respectively. The School District did not file operating data due December 27, 2010, December 27, 2011 and December 27, 2012. The School District has subsequently filed annual financial and operating data and notices of late filing or failure to file, as necessary, on November 10 and November 11, 2014.

With regards to the reportable events listed in sub-section (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.

RATINGS

Moody's Investor Service, Inc. has assigned the School District an underlying rating of "Aa1" with respect to the Bonds. Such ratings reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service: 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 Merrill Lynch, Pierce, Fenner & Smith, Incorporated. 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 page hereof. The Underwriter reserves 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 is a full service institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and certain of 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 receive 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.

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 Campbell & Levine, LLC, of Pittsburgh, Pennsylvania, as Underwriter's Counsel. Certain legal matters will be passed upon for the School District by Scott C. Etter, Esquire, Campbell Miller Williams Benson Etter & Consiglio, Inc., of State College and Bellefonte, Pennsylvania, School District Solicitor.

FINANCIAL ADVISOR

The School District has retained NW Financial Group, LLC, Pottstown, 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 90,446 between 2000 and 2010 gaining 5,823 residents or an increase of 6.88 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>2013 Estimate</u>	<u>Percentage Change 2010-2013</u>
School District	84,623	90,446	6.88%	N/A	N/A
Centre County	135,758	151,411	11.53	157,847	2.50%
Pennsylvania	12,281,054	12,612,705	2.70	12,781,296	0.60

Source: U.S. Bureau of the Census, and the Pennsylvania State Data Center-1990 & U.S. Census Bureau, 2006-2010 American Community Survey.

**TABLE A-2
AGE COMPOSITION**

	<u>0-17 Years</u>	<u>18-64 Years</u>	<u>65+ Years</u>
School District	12.8%	78.6%	8.6%
Centre County	16.3	72.6	11.0
Pennsylvania	22.4	62.2	15.3

Source: U.S. Census Bureau, 2006-2010 American Community.

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:

<u>Name</u>	<u>Product or Service</u>	<u>Approximate Full Time Employment</u>
The Pennsylvania State University	Education	12,829
Mount Nittany Medical Center	Healthcare	2,289
Pennsylvania State Government	Government	1,697
State College Area School District	Education	1,043
Wal-Mart Associates	Retail	725
Glenn O. Hawbaker Inc.	Construction	700
Weis Markets Inc.	Grocery	656
Centre County Government	Government	597
Geisinger Medical Group	Healthcare	545
HRI Inc.	Construction	490

Source: Centre Daily Times; February 15, 2015.

Table A-3 shows nonfarm jobs for the State College, PA MSA and net change from August 2013 to August 2014.

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

	<u>May 2015 Employment</u>	<u>April 2015 Employment</u>	<u>May 2014 Employment</u>	<u>Over the Month Change</u>	<u>Over the Year Change</u>
Total Nonfarm	78,600	79,000	77,400	-400	1,200
Total Private	46,400	46,600	45,700	-200	+700
Goods Producing	7,600	7,200	7,500	+400	+100
Service-Providing	71,000	71,500	70,200	-500	+800
Private Service Providing	38,800	39,100	38,500	-300	+300
Manufacturing	3,900	3,900	3,900	0	0
Trade	10,400	10,600	10,000	-200	400
Retail Trade	7,800	7,800	7,600	0	+200
Professional and Business Services	6,200	6,200	6,200	0	0
Education and Health Services	9,600	9,600	9,300	0	300
Leisure and Hospitality	6,900	7,000	6,900	-100	0
Government	32,200	32,400	31,700	-200	500

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

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015⁽¹⁾</u>
<i>Centre County</i>						
Civilian Labor Force (000)	75.848	75.895	75.989	76.407	77.752	79.320
Employment (000)	71.196	71.591	71.535	72.166	74.533	76.186
Unemployment (000)	4.652	4.304	4.454	4.241	3.219	3.134
Unemployment Rate	6.1%	5.7%	5.9%	5.6%	4.1%	4.0%
<i>Pennsylvania</i>						
Civilian Labor Force (000)	6,406.613	6,392.902	6,486.578	6,550.521	6,343.6	6,417.2
Employment (000)	5,854.537	5,892.519	5,973.407	6,036.475	5,976.2	6,069.6
Unemployment (000)	538.365	507.004	513.171	514.046	367.5	347.6
Unemployment Rate	8.4%	7.9%	7.9%	7.8%	5.8%	5.4%

⁽¹⁾ Preliminary as of May 2015.

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</u> <u>2000-2010</u>	<u>2013</u>
School District	\$18,306	\$24,143	31.9%	N/A
Centre County	18,020	23,744	31.8%	\$25,545
Pennsylvania	20,880	27,049	29.5%	28,502

* 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, 2006-2010 American Community

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 40,000 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 Allegheny Electric Company and Verizon. 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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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.

OPINION OF BOND COUNSEL

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

_____, 2015

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 B of 2015 (the "Bonds") issued in fully registered form, dated and bearing interest from _____, 2015 and maturing on various annual dates ending on _____. 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 a portion 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"), which became effective June 27, 2006. Such ad valorem taxes may be levied, without limitation as to rate or amount, but subject to administrative review by the Pennsylvania Department of Education, upon all taxable real property situate within the corporate limits of the Local Government Unit.

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 for individuals and corporations. 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

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APPENDIX C
AUDITED FINANCIAL REPORT
(FOR FISCAL YEAR ENDED JUNE 30, 2014)

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State College Area School District

Financial Statements and Supplementary Information

June 30, 2014



BAKER TILLY

Candor. Insight. Results.

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State College Area School District

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State College Area School District

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formerly
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Independent Auditors' Report

Board of Education
State College Area School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of State College Area School District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of State College Area School District, as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 4 through 15 and Schedule of Funding Progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 47-48) is presented for purposes of additional analysis and is not a required part of the basic financial statements. In addition, the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 47-48) 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information contained in the Schedule of Revenues, Expenditures, and Change in Fund Balance - General Fund (pages 47-48) and the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

State College, Pennsylvania
October 15, 2014

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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, 2014. 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 position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Funds

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

Notes to Financial Statements

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Government-Wide Financial Analysis

Condensed Statement of Net Position

June 30, 2014

	Governmental Activities	Business-Type Activity	Total
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 59,829,806	\$ 395,478	\$ 60,225,284
Noncurrent assets	85,715,044	132,672	85,847,716
Deferred outflows of resources	1,244,724	-	1,244,724
Total	<u>\$ 146,789,574</u>	<u>\$ 528,150</u>	<u>\$ 147,317,724</u>
Liabilities and Net Position			
Current liabilities	\$ 17,192,277	\$ 162,120	\$ 17,354,397
Long-term liabilities:			
Due within one year	3,575,000	-	3,575,000
Due after one year	58,588,918	72,063	58,660,981
Total liabilities	<u>79,356,195</u>	<u>234,183</u>	<u>79,590,378</u>
Net position:			
Net investment in capital assets	28,461,032	132,672	28,593,704
Restricted	58,870	-	58,870
Unrestricted	38,913,477	161,295	39,074,772
Total net position	<u>67,433,379</u>	<u>293,967</u>	<u>67,727,346</u>
Total	<u>\$ 146,789,574</u>	<u>\$ 528,150</u>	<u>\$ 147,317,724</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Condensed Statement of Activities
For the year ended
June 30, 2014

	Governmental Activities	Business-Type Activity	Total
Revenues:			
Program revenues:			
Charges for services	\$ 954,799	\$ 2,472,812	\$ 3,427,611
Operating grants and contributions	14,164,824	1,164,615	15,329,439
General revenues:			
Taxes levied, net	101,186,536	-	101,186,536
Grants, subsidies and contributions not restricted	7,873,148	-	7,873,148
Other	525,546	-	525,546
Total revenues	124,704,853	3,637,427	128,342,280
Program expenses:			
Instruction	68,387,163	-	68,387,163
Instructional student support	8,966,678	-	8,966,678
Administration and financial support services	12,130,952	-	12,130,952
Operation and maintenance of plant services	10,740,162	-	10,740,162
Pupil transportation	5,648,812	-	5,648,812
Student activities	2,272,958	-	2,272,958
Community services	171,767	-	171,767
Interest on long-term debt	2,454,218	-	2,454,218
Unallocated depreciation	420,568	-	420,568
Food service	-	3,689,740	3,689,740
Total program expenses	111,193,278	3,689,740	114,883,018
Change in net position	13,511,575	(52,313)	13,459,262
Net position, beginning	53,921,804	346,280	54,268,084
Net position, ending	\$ 67,433,379	\$ 293,967	\$ 67,727,346

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Condensed Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activity	Total
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 49,959,567	\$ 392,428	\$ 50,351,995
Noncurrent assets	86,501,418	144,898	86,646,316
Deferred outflows of resources	<u>1,109,995</u>		<u>1,109,995</u>
Total	<u>\$ 137,570,980</u>	<u>\$ 537,326</u>	<u>\$ 138,108,306</u>
Liabilities and Net Position			
Current liabilities	\$ 16,015,409	\$ 120,166	\$ 16,135,575
Long-term liabilities:			
Due within one year	5,180,780	-	5,180,780
Due after one year	<u>62,452,987</u>	<u>70,880</u>	<u>62,523,867</u>
Total liabilities	<u>83,649,176</u>	<u>191,046</u>	<u>83,840,222</u>
Net position:			
Net investment in capital assets	27,507,607	144,898	27,652,505
Restricted	1,976,833	-	1,976,833
Unrestricted	<u>24,437,364</u>	<u>201,382</u>	<u>24,638,746</u>
Total net position	<u>53,921,804</u>	<u>346,280</u>	<u>54,268,084</u>
Total	<u>\$ 137,570,980</u>	<u>\$ 537,326</u>	<u>\$ 138,108,306</u>

State College Area School District

Management's Discussion and Analysis (Unaudited)
June 30, 2014

Condensed Statement of Activities
For the year ended
June 30, 2013

	Governmental Activities	Business-Type Activity	Total
Revenues			
Program revenues:			
Charges for services	\$ 810,113	\$ 2,395,551	\$ 3,205,664
Operating grants and contributions	12,544,595	1,184,994	13,729,589
General revenues:			
Taxes levied, net	97,317,452	-	97,317,452
Grants, subsidies and contributions not restricted	7,727,279	-	7,727,279
Other	289,122	-	289,122
Total revenues	118,688,561	3,580,545	122,269,106
Program expenses			
Instruction	67,570,192	-	67,570,192
Instructional student support	8,925,862	-	8,925,862
Administration and financial support services	12,603,643	-	12,603,643
Operation and maintenance of plant services	9,996,903	-	9,996,903
Pupil transportation	5,557,264	-	5,557,264
Student activities	2,186,686	-	2,186,686
Community services	231,703	-	231,703
Interest on long-term debt	2,248,855	-	2,248,855
Unallocated depreciation	421,594	-	421,594
Food service	-	3,619,601	3,619,601
Total program expenses	109,742,702	3,619,601	113,362,303
Change in net position	8,945,859	(39,056)	8,906,803
Net position, beginning	44,975,945	385,336	45,361,281
Net position, ending	\$ 53,921,804	\$ 346,280	\$ 54,268,084

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Total net position of the District increased \$13,459,262 in 2014. Net position of governmental activities increased by \$13,511,575, while net position of the business-type activity decreased \$52,313.

The District had \$111,193,278 in expenses related to governmental activities in 2014; only \$15,119,623 of these expenses were offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$109,585,230 also provided for these programs. The \$13,511,575 increase in governmental activity net position represents the excess of revenues over expenses.

In the District's business-type activity, net position decreased by \$52,313 as a result of the net loss of the food service operation.

As of June 30, 2014, \$38,913,477 of unrestricted net position of the \$67,433,379 of total net position was available to meet the District's ongoing obligations to employees and creditors. The remaining net position, being \$28,519,902, is invested into capital assets and restricted for capital projects and debt service.

Financial Analysis of the Governmental Funds

General Fund

Revenues

Revenues for the 2013-2014 fiscal year were \$124,679,073 compared to \$119,045,766 for the previous fiscal year. The revenues are derived from three main sources, as follows:

	<u>2013 - 2014</u>	<u>2012 - 2013</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>
Local sources	\$ 103,438,471	\$ 99,800,371	\$ 3,638,100	3.6 %
State sources	19,850,154	18,033,935	1,816,219	10.1 %
Federal sources	<u>1,390,448</u>	<u>1,211,460</u>	<u>178,988</u>	14.8 %
Total	<u>\$ 124,679,073</u>	<u>\$ 119,045,766</u>	<u>\$ 5,633,307</u>	4.7 %

Local revenues are derived primarily from levying taxes such as real estate tax, earned income tax and real estate transfer tax. Local revenues increased \$3,638,100 primarily related to increases in real estate taxes. Real estate taxes increased \$3,570,000 with approximately \$2,100,000 related to an increase in the millage rate from 37.73 mills to 38.75 mills per \$1,000 of assessed value. Earned income tax revenue and real estate transfer tax revenue increased \$274,000 and \$319,000, respectively. Delinquent taxes decreased approximately \$493,000.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

State revenues are derived primarily from state subsidies for basic education, special education and transportation. State revenues also include a 50% reimbursement from the state for social security and retirement costs as well as a percentage reimbursement for principal and interest payments for outstanding bond issues. State revenues increased \$1,816,219 primarily related to a \$1,235,000 increase in retirement cost reimbursement. Basic education, social security and rental/sinking fund reimbursements also contributed to the increase in state revenues.

Federal revenues include primarily Title I, II and III grants and the School Based ACCESS program. The increase in federal revenues of \$178,988 is primarily related to an increase in receipts of medical assistance revenue from the School Based ACCESS program.

Expenditures

Expenditures for the 2013-2014 fiscal year were \$124,673,966 compared to the 2012-2013 fiscal year of \$119,875,288 or a 4% increase. The following table shows the expenditures by object category:

	<u>2013 - 2014</u>	<u>2012 - 2013</u>	<u>Change Increase (Decrease)</u>	<u>% Change</u>	
Salaries and benefits	\$ 83,582,596	\$ 82,533,969	\$ 1,048,627	1.3	%
Professional services	3,445,663	3,139,591	306,072	9.7	%
Purchased property					
services	1,892,466	2,053,306	(160,840)	(7.8)	%
Other purchased					
services	10,162,554	9,575,501	587,053	6.1	%
Supplies	3,560,328	3,455,000	105,328	3.0	%
Property	2,053,950	2,105,715	(51,765)	(2.5)	%
Other objects	311,903	299,358	12,545	4.2	%
Other uses of funds	19,664,506	16,712,848	2,951,658	17.7	%
Total	<u>\$ 124,673,966</u>	<u>\$ 119,875,288</u>	<u>\$ 4,798,678</u>	4.0	%

Salaries and benefits increased \$1,048,627. Salary expense decreased \$1,194,000, due to savings of \$2,007,000 from unfilled positions following an early retirement program at the end of the 2012-2013 year, and \$641,000 related to contracting for substitute staffing beginning in February 2014. These savings are offset by a net increase in salary expense of \$1,454,000 primarily related to increases in pay rates. Benefits increased approximately \$2,242,000 primarily due to a \$2,623,000 increase in retirement expense related to an increase in the employer contribution rate for the Public School Employees' Retirement System ("PSERS") from 12.36% to 16.93% (37%), and due to an estimated \$1,351,000 increase in health insurance rates. These increases are offset by decreases of approximately \$1,732,000 related to lower levels of participation in the health plan, and decreases to benefit costs related to unfilled positions.

Professional services increased compared to the prior year by \$306,072 primarily due to increased expenses for contracted substitute staffing.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Other purchased services increased compared to the prior year by \$587,053 primarily related to increases in amounts due to charter schools.

Other uses of funds increased \$2,951,658 primarily related to an increase in capital project fund transfers of approximately \$7,965,000 and debt service payments of \$195,000, offset by a \$5,200,000 decrease in the amount due under an interest rate swap settlement agreement.

Capital Projects Funds

The Capital Project Fund is used to account for capital projects of the District. The District spent \$3,260,092 for such projects in 2013-14. The Capital Projects Fund balance was \$22,431,505 at June 30, 2014. The capital projects included renovations and improvements throughout the District, primarily consisting of the bleachers and synthetic turf at Memorial Field, asbestos removal at various sites and planning costs related to the District's High School building project.

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 2014 included \$119,678,404 of revenues and expenditures. The budget was amended by \$864,297 for additional federal, state, and local grant revenues and the related additional expenditures for those grants.

The actual revenues for 2014 were \$4,136,372 more than the final budget. Local revenues were \$3,160,536 more than budget primarily due to favorable variances in earned income tax revenue of \$1,595,000, real estate transfer tax of \$456,000 and tuition of \$256,000. Real estate taxes, rental income, revenue from the intermediate unit, and donations also exceeded budgeted amounts. State revenues were \$896,527 in excess of budget due to higher than budgeted revenue from rental/sinking fund, tuition, transportation and the PA Accountability Grant. Reimbursement for retirement and social security also exceeded the budgeted amount. Federal revenues exceeded budget by \$79,309.

Actual expenses were \$2,081,731 less than the budget. Transfers to the capital project fund exceeded budget by approximately \$6.2 million. Salaries were \$740,000 less than budget and benefits were less than budget by \$1,115,000 primarily related to health insurance.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Capital Assets

The District's investment in capital assets for its governmental and business-type activity as of June 30, 2014 is summarized below (see details in Note 7 to the financial statements).

	Governmental Activities	Business-type Activity	Total
Land, buildings and improvements	\$ 117,515,160	\$ -	\$ 117,515,160
Equipment and other capital assets	40,196,370	992,993	41,189,363
Construction in progress	1,082,650	-	1,082,650
Total	158,794,180	992,993	159,787,173
Accumulated depreciation	(73,079,136)	(860,321)	(73,939,457)
Net	\$ 85,715,044	\$ 132,672	\$ 85,847,716

Long Term Debt

At June 30, 2014, the District had long-term debt of \$56,050,000 (see details in Note 9 to the financial statements) issued and outstanding. The District also authorized General Obligation Bond Series of 2004 ("2004 Bonds") in the amount of \$58,050,000 which have not yet been issued, with the net proceeds designated for the High School renovation and construction project. In addition, the District also authorized, but has not yet issued, General Obligation Bond Series A of 2006 ("2006 Bonds") in the amount of \$24,000,000, again with the net proceeds to be used for the High School renovation and construction project. The balances available as of June 30, 2014 related to the 2004 and 2006 Bonds are \$45,300,000 and \$20,530,000, respectively. Total authorized debt of \$121,880,000 is significantly below the legal limit of \$258,497,800.

Factors Expected to Have an Effect on Future Operations

The assessed value used for the 2015 budget preparation is approximately \$2.2 billion, which is up approximately \$28 million or 1.3% from 2014. Amounts available for appropriation in the General Fund budget for 2014-15 are \$126,791,664, an increase of approximately 5.9% over the 2013-14 budget of \$119,678,404. Property taxes will increase 1.95% to 39.5056 mills. The District will use these increases in revenues to finance programs currently offered and for the expansion of the alternative education program (Delta) to include grades 5 - 8.

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

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

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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

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

School districts are now governed by back-end referendum requirements for increases in property tax rates. School districts are prohibited from increasing their tax rates above the annual inflationary percentage and must place referendum questions before the voters to approve further increases. Exceptions for rate increases above the index without going to referendum exist for special education costs, retirement rate changes, debt issuance, and certain other limited areas. The Act 1 Index for 2013-14 is 1.7%.

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

Strategic Plan

The Pennsylvania Department of Education ("PDE") requires all school districts to develop, implement and monitor a strategic/comprehensive plan. The 2014-2017 strategic plan was developed based on input from a broad cross-section of the State College Area School District community including nearly 150 students, parents, teachers, administrators, district staff, board members, community/higher education partners and community representatives.

The strategic plan and its annual updates are required to be submitted to PDE by September 30 of each year.

District Growth

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

A number of different scenarios were considered by Dr. Stewman. In nearly all of them, the District will experience flat enrollment for the next 10 years.

State College Area School District

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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 is \$115 million. The referendum asked voters of the District to pay for \$85 million of the cost of the project through a referendum tax increase. The voters of the State College Area School District approved the referendum by an unprecedented margin of 74% to 26%. This is the second referendum in the Commonwealth of Pennsylvania to be passed by voters. Design for the high school will continue through the spring of 2015. The project is expected to go to bid in late spring with construction expected to begin in the summer of 2015 with completion in approximately 30 months.

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 DistrictStatement of Net Position
June 30, 2014

	Governmental Activities	Business -Type Activities	Total
Assets and Deferred Outflows of Resources			
Current assets			
Cash and cash equivalents	\$ 53,615,520	\$ 225,423	\$ 53,840,943
Restricted cash and cash equivalents	5,040	-	5,040
Taxes receivable, net	1,840,205	-	1,840,205
Due from fiduciary fund	43,514	56,618	100,132
Due from other governments	3,128,432	33,993	3,162,425
Other receivables	139,685	19,275	158,960
Inventories	18,526	60,169	78,695
Other current assets	1,038,884	-	1,038,884
Total current assets	59,829,806	395,478	60,225,284
Noncurrent assets			
Land	899,887	-	899,887
Buildings and improvements	116,615,273	-	116,615,273
Equipment and other capital assets	40,196,370	992,993	41,189,363
Construction in progress	1,082,650	-	1,082,650
Accumulated depreciation	(73,079,136)	(860,321)	(73,939,457)
Total noncurrent assets	85,715,044	132,672	85,847,716
Total assets	145,544,850	528,150	146,073,000
Deferred Outflows of Resources			
Deferred amounts on refunding	1,244,724	-	1,244,724
Total assets and deferred outflows of resources	\$ 146,789,574	\$ 528,150	\$ 147,317,724
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 1,646,725	\$ 3,317	\$ 1,650,042
Current portion of bonds and notes payable	3,575,000	-	3,575,000
Accrued salaries and benefits	9,274,067	35,639	9,309,706
Payroll deductions and withholdings	4,751,544	-	4,751,544
Unearned revenue	272,943	37,227	310,170
Other current liabilities	696,998	85,937	782,935
Interest rate swap payable	550,000	-	550,000
Total current liabilities	20,767,277	162,120	20,929,397
Noncurrent liabilities			
Bonds and notes payable	53,684,052	-	53,684,052
Other postemployment benefits liability	1,353,078	-	1,353,078
Interest rate swap payable	1,650,000	-	1,650,000
Compensated absences	1,901,788	72,063	1,973,851
Total noncurrent liabilities	58,588,918	72,063	58,660,981
Total liabilities	79,356,195	234,183	79,590,378
Net Position			
Net investment in capital assets	28,461,032	132,672	28,593,704
Restricted	58,870	-	58,870
Unrestricted	38,913,477	161,295	39,074,772
Total net position	67,433,379	293,967	67,727,346
Total	\$ 146,789,574	\$ 528,150	\$ 147,317,724

See notes to financial statements

State College Area School District

Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:						
Instruction	\$ (68,387,163)	\$ 726,854	\$ 10,894,311	\$ (56,765,998)		\$ (56,765,998)
Instructional student support	(8,966,678)	-	912,859	(8,053,819)		(8,053,819)
Administration and financial support services	(12,130,952)	-	667,128	(11,463,824)		(11,463,824)
Operation and maintenance of plant services	(10,740,162)	138,625	370,705	(10,230,832)		(10,230,832)
Pupil transportation	(5,648,812)	-	970,086	(4,678,726)		(4,678,726)
Student activities	(2,272,958)	89,320	41,032	(2,142,606)		(2,142,606)
Community services	(171,767)	-	4,952	(166,815)		(166,815)
Interest on long-term debt	(2,454,218)	-	303,751	(2,150,467)		(2,150,467)
Depreciation - unallocated	(420,568)	-	-	(420,568)		(420,568)
Total governmental activities	(111,193,278)	954,799	14,164,824	(96,073,655)		(96,073,655)
Business-type Activity						
Food service	(3,689,740)	2,472,812	1,164,615	-	\$ (52,313)	(52,313)
Total	<u>\$ (114,883,018)</u>	<u>\$ 3,427,611</u>	<u>\$ 15,329,439</u>	<u>(96,073,655)</u>	<u>(52,313)</u>	<u>(96,125,968)</u>
General revenues						
Property taxes, levied for general purposes, net				85,129,837	-	85,129,837
Other taxes levied for specific purposes				16,056,699	-	16,056,699
Grants, subsidies and contributions not restricted				7,873,148	-	7,873,148
Investment earnings:						
Interest and dividends				198,876	-	198,876
Miscellaneous income				326,670	-	326,670
Total general revenues				<u>109,585,230</u>	<u>-</u>	<u>109,585,230</u>
Change in net position				13,511,575	(52,313)	13,459,262
Net position, beginning				53,921,804	346,280	54,268,084
Net position, ending				<u>\$ 67,433,379</u>	<u>\$ 293,967</u>	<u>\$ 67,727,346</u>

See notes to financial statements

State College Area School District

Balance Sheet - Governmental Funds

June 30, 2014

	Major Funds			
	General	Capital Projects	Debt Service	Total
Assets				
Assets				
Cash and cash equivalents	\$ 46,245,958	\$ 7,369,562	\$ -	\$ 53,615,520
Restricted cash and cash equivalents	-	5,040	-	5,040
Taxes receivable, net	1,840,205	-	-	1,840,205
Due from other funds	90,397	15,542,144	4,638	15,637,179
Due from other governments	3,128,432	-	-	3,128,432
Other receivables	139,685	-	-	139,685
Inventories	1,701,632	-	-	1,701,632
Other current assets	1,038,884	-	-	1,038,884
Total	\$ 54,185,193	\$ 22,916,746	\$ 4,638	\$ 77,106,577
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Due to other funds	\$ 15,596,318	\$ 4,638	\$ -	\$ 15,600,956
Accounts payable	1,163,676	480,603	-	1,644,279
Accrued salaries and benefits	9,274,067	-	-	9,274,067
Payroll deductions and withholdings	4,751,544	-	-	4,751,544
Unearned revenue	272,943	-	-	272,943
Other liabilities	258,968	-	-	258,968
Total liabilities	31,317,516	485,241	-	31,802,757
Deferred Inflows of Resources				
Unavailable revenues - taxes	649,221	-	-	649,221
Fund Balances				
Nonspendable	1,701,632	-	-	1,701,632
Restricted	-	58,870	-	58,870
Committed	10,772,000	22,372,635	4,638	33,149,273
Unassigned	9,744,824	-	-	9,744,824
Total fund balances	22,218,456	22,431,505	4,638	44,654,599
Total	\$ 54,185,193	\$ 22,916,746	\$ 4,638	\$ 77,106,577

See notes to financial statements

State College Area School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2014

Total Fund Balance - Governmental Funds \$ 44,654,599

Amounts reported for governmental activities in the statement of net position 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 \$158,794,180 and the accumulated depreciation is \$73,079,136. 85,715,044

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. 649,221

Inventory of books and supplies was reclassified. (1,701,632)

Internal service fund is used by the District to charge the costs of printing services to individual funds. The assets and liabilities of the internal service fund are reported with governmental activities. 28

Interest rate swap payable is not due and payable with current resources, and therefore is not reported as a liability in the funds. (2,200,000)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Bonds and notes payable	(57,259,052)
Deferred amounts on refunding	1,244,724
Accrued interest on long-term debt	(438,030)
Other postemployment benefits liability	(1,353,078)
Compensated absences	(1,878,445)

Total Net Position - Governmental Activities \$ 67,433,379

State College Area School District

Statement of Revenues, Expenditures and Changes In Fund Balances - Governmental Funds
Year Ended June 30, 2014

	Major Funds			Total
	General	Capital Projects	Debt Service	
Revenues				
Local sources	\$ 103,438,471	\$ 66,886	\$ -	\$ 103,505,357
State sources	19,850,154	-	-	19,850,154
Federal sources	1,390,448	-	-	1,390,448
Total revenues	124,679,073	66,886	-	124,745,959
Expenditures				
Instruction	67,910,608	-	-	67,910,608
Support services	34,547,876	-	-	34,547,876
Noninstructional services	2,467,166	-	-	2,467,166
Facilities acquisition, construction and improvement services	29,775	3,260,092	-	3,289,867
Debt service	875,680	-	6,327,453	7,203,133
Total expenditures	105,831,105	3,260,092	6,327,453	115,418,650
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources (Uses)	18,847,968	(3,193,206)	(6,327,453)	9,327,309
Other Financing Sources (Uses)				
Debt proceeds	-	4,400,000	-	4,400,000
Bond premium	-	48,374	-	48,374
Refinancing of bonds	-	(4,350,080)	-	(4,350,080)
Cost of issuance	-	(98,294)	-	(98,294)
Transfer in	-	12,515,408	6,327,453	18,842,861
Transfer out	(18,842,861)	-	-	(18,842,861)
Total other financing (uses) sources	(18,842,861)	12,515,408	6,327,453	-
Net Change in Fund Balances	5,107	9,322,202	-	9,327,309
Fund Balance, Beginning	22,213,349	13,109,303	4,638	35,327,290
Fund Balance, Ending	\$ 22,218,456	\$ 22,431,505	\$ 4,638	\$ 44,654,599

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, 2014

Total Change in Fund Balances-Governmental Funds

\$ 9,327,309

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

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

(67,558)

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

Depreciation expense

\$ (4,542,717)

Capital outlays

4,298,482

(244,235)

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.

(103,649)

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, 2014 are as follows:

Issuance of bonds payable

(4,400,000)

Bond premium

(48,374)

Refund of bonds payable

4,205,000

Deferred amount on refunding

145,080

Scheduled principal payments on capital lease obligation

15,780

Scheduled principal payments on long-term debt

4,405,000

4,322,486

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.

(373,571)

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.

11,579

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

(198,913)

Change in the interest rate swap payable:

Installment payment made on interest rate swap payable

800,000

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.

38,127**Change in Net Position of Governmental Activities**\$ 13,511,575

State College Area School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2014

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 100,063,311	\$ 100,277,935	\$ 103,438,471	\$ 3,160,536
State sources	18,920,093	18,953,627	19,850,154	896,527
Federal sources	695,000	1,311,139	1,390,448	79,309
Total revenues	119,678,404	120,542,701	124,679,073	4,136,372
Expenditures				
Instruction:				
Regular programs	49,870,269	50,152,298	49,184,989	967,309
Special programs	13,848,628	14,972,517	14,822,146	150,371
Vocational education programs	2,750,830	2,780,670	2,780,582	88
Other instructional programs	642,952	793,547	793,547	-
Adult education programs	349,309	362,014	316,107	45,907
Nonpublic school programs	7,566	17,959	13,237	4,722
Total instruction	67,469,554	69,079,005	67,910,608	1,168,397
Support services:				
Pupil personnel	4,105,460	4,066,414	3,943,616	122,798
Instructional staff	4,275,923	4,267,469	4,175,778	91,691
Administration	5,845,487	6,026,535	6,023,703	2,832
Pupil health	1,238,020	1,244,866	1,167,953	76,913
Business	952,559	1,101,798	1,094,959	6,839
Operation and maintenance of plant services	8,761,147	8,417,097	8,152,562	264,535
Student transportation services	5,708,655	5,999,901	5,713,055	286,846
Central	4,410,387	4,279,336	4,276,250	3,086
Total support services	35,297,638	35,403,416	34,547,876	855,540
Noninstructional services:				
Student activities	2,300,779	2,320,362	2,295,350	25,012
Community services	77,568	192,276	171,816	20,460
Total noninstructional services	2,378,347	2,512,638	2,467,166	45,472
Facilities acquisition, construction and improvement services	-	29,777	29,775	2
Debt service	40,000	888,000	875,680	12,320
Total expenditures	105,185,539	107,912,836	105,831,105	2,081,731
Excess of Revenues over Expenditures before Other Financing Uses	14,492,865	12,629,865	18,847,968	6,218,103
Other Financing Uses				
Budgetary reserve	(815,000)	-	-	-
Transfer out	(13,677,865)	(12,629,865)	(18,842,861)	(6,212,996)
Total other financing uses	(14,492,865)	(12,629,865)	(18,842,861)	(6,212,996)
Changes in Fund Balance	\$ -	\$ -	\$ 5,107	\$ 5,107
Fund Balance, Beginning			22,213,349	
Fund Balance, Ending			\$ 22,218,456	

See notes to financial statements

State College Area School District

Statement of Net Position - Proprietary Funds

June 30, 2014

	Food Service Fund	Internal Service Fund
Assets		
Current assets		
Cash and cash equivalents	\$ 225,423	\$ -
Due from other funds	56,618	7,291
Due from other governments	33,993	-
Other receivables	19,275	-
Inventories	60,169	18,526
Total current assets	395,478	25,817
Noncurrent assets		
Equipment	992,993	284,098
Accumulated depreciation	(860,321)	(284,098)
Total noncurrent assets	132,672	-
Total	\$ 528,150	\$ 25,817
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 3,317	\$ 2,446
Accrued salaries and benefits	35,639	-
Other liabilities	85,937	-
Unearned revenue	37,227	-
Total current liabilities	162,120	2,446
Noncurrent liabilities		
Compensated absences	72,063	23,343
Total liabilities	234,183	25,789
Net Position		
Net investment in capital assets	132,672	-
Unrestricted	161,295	28
Total net position	293,967	28
Total	\$ 528,150	\$ 25,817

See notes to financial statements

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

Year Ended June 30, 2014

	Food Service Fund	Internal Service Fund
Operating Revenues		
Food service revenue	\$ 2,472,812	\$ -
Charges for services	-	579,787
Total operating revenues	2,472,812	579,787
Operating Expenses		
Salaries and employee benefits	1,920,722	283,878
Food, milk and supplies	1,697,174	88,470
Other objects	25,135	1,218
Depreciation	20,267	4,253
Other purchased services	10,720	-
Professional and technical services	8,781	96
Purchased property services	6,941	194,546
Total operating expenses	3,689,740	572,461
Operating (Loss) Income	(1,216,928)	7,326
Nonoperating Revenues		
State sources	224,431	-
Federal sources	940,184	-
Total nonoperating revenues	1,164,615	-
Change in Net Position	(52,313)	7,326
Net Position (Deficit), Beginning	346,280	(7,298)
Net Position, Ending	\$ 293,967	\$ 28

See notes to financial statements

State College Area School District

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2014

	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,455,648	\$ 576,908
Cash paid to employees	(1,886,225)	(285,065)
Cash paid to vendors	(1,752,524)	(291,843)
Net cash used in operating activities	(1,183,101)	-
Cash Flows used in Investing Activities		
Purchase of equipment	(8,041)	-
Cash Flows from Noncapital Financing Activities		
State sources	224,094	-
Federal sources	947,347	-
Net cash provided by noncapital financing activities	1,171,441	-
Decrease in Cash and Cash Equivalents	(19,701)	-
Cash and Cash Equivalents, Beginning	245,124	-
Cash and Cash Equivalents, Ending	<u>\$ 225,423</u>	<u>\$ -</u>
Reconciliation of Operating (Loss) Income to Net Cash used in Operating Activities		
Operating (loss) income	\$ (1,216,928)	\$ 7,326
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Depreciation	20,267	4,253
Changes in assets and liabilities resulting in the provision (use) of cash:		
Inventories	(3,293)	2,033
Other receivables	15,550	-
Due to/from other funds	(32,945)	(12,161)
Accounts payable	(480)	(264)
Accrued salaries and benefits	33,314	(1,187)
Other liabilities	231	-
Compensated absences	1,183	-
Net Cash Used in Operating Activities	<u>\$ (1,183,101)</u>	<u>\$ -</u>

See notes to financial statements

State College Area School District**Statement of Net Position - Fiduciary Fund - Agency**

June 30, 2014

Assets**Current Assets**

Cash	\$ 526,664
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Liabilities**Current liabilities**

Due to other funds	\$ 100,132
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Accounts payable	38,920
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Other current liabilities	387,612
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Total	\$ 526,664
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See notes to financial statements

State College Area School District

Notes to Financial Statements

June 30, 2014

1. Nature of Operations and Summary of Significant Accounting Policies

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

Nature of Operations

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

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

Reporting Entity

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

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

Basic Financial Statements - Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District's General, Capital 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 Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts-net investment in capital assets; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities.

State College Area School District

Notes to Financial Statements

June 30, 2014

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

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

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net 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 non instructional services (including athletics) are accounted for in this fund. The General Fund is reported as a major fund.

Capital Projects Fund

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

Debt Service Fund

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

State College Area School District

Notes to Financial Statements

June 30, 2014

Proprietary Funds

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

Food Service Fund

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

Internal Service Fund

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

Fiduciary Funds

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

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

Activity Fund

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

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associates 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.

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

Basis of Accounting

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

Accrual Basis

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

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

Modified Accrual Basis

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

Budgets and Budgetary Accounting

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

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

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

State College Area School District

Notes to Financial Statements

June 30, 2014

Capital Assets

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

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

The District does not have any infrastructure capital assets.

Inventories

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

Compensated Absences

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

Governmental Fund Balances

The District classifies its governmental fund balances as follows:

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

State College Area School District

Notes to Financial Statements

June 30, 2014

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

Restricted Net Position/Fund Balances

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

Deferred Outflows/Inflows of Resources

In addition to assets, the District will sometimes report 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. The District has only one item that qualifies for reporting in this category. It is deferred amounts on refunding reported in the government-wide statement of net position.

In addition to liabilities, the District will sometimes report 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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from taxes which are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

Recent Accounting Standards

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement changes the manner in which nonexchange transactions, sales of future revenues, accounting for leases and the term “deferred” are presented in the financial statements. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements, deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The adoption of this standard during fiscal 2014 did not have a material impact on the District’s financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012*. This statement amends Statement No. 10, *Use of Special Revenue Funds to Report Risk Financing Activities* and Statement No. 62, *Operating Lease, Purchase of a Loan or Group of Loans, and Servicing Fees*. These statements were amended to remove language that conflicts with other statements. The requirements of this statement will resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The adoption of this standard during fiscal 2014 did not have any impact on the District’s financial statements.

In June 2012, the GASB issued Statement No. 67, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The District’s adoption of this standard did not have an impact on the District’s fiscal year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more-likely-than-not that the government will be required to make a payment on the guarantee. The adoption of this standard did not have an impact on the District’s fiscal year 2014 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. The District does not have a deposit policy for custodial credit risk. At June 30, 2014, \$52,062,778 of the District’s bank deposits were exposed to custodial credit risk, as these deposits were not covered by depository insurance. Of this amount \$52,062,778 was collateralized with securities held by the pledging financial institution, but not in the District’s name.

State College Area School District

Notes to Financial Statements

June 30, 2014

Pennsylvania School District Liquid Asset Fund

The PSDLAF contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each participant owns shares of PSDLAF, which invests the pooled assets. Since PSDLAF has the characteristics of a mutual fund, it is not subject to the disclosure requirements promulgated by GASB Nos. 3 and 40. At June 30, 2014, the carrying amount and bank balances of the District's investment in PSDLAF were \$1,359,324.

3. Property Taxes

Property taxes are levied on July 1. Taxes were collected at a 2% discount until September 17, at their face amount from September 18 until November 16, 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, 2014, the following interfund balances were unpaid:

Amounts due from other funds:

General Fund	\$ 90,397
Capital Projects Fund	15,542,144
Debt Service Fund	4,638
Food Service Fund	56,618
Internal Service Fund	7,291
Total	<u>\$ 15,701,088</u>

Amounts due to other funds:

General Fund	\$ 15,596,318
Capital Projects Fund	4,638
Agency Fund	100,132
Total	<u>\$ 15,701,088</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 composition of interfund transfers, used to move cash between funds at June 30, 2014 is as follows:

Transfers in:

Capital Projects Fund	\$ 12,515,408
Debt Service Fund	6,327,453
Total	<u>\$ 18,842,861</u>

Transfers out,

General Fund	<u>\$ 18,842,861</u>
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State College Area School District

Notes to Financial Statements

June 30, 2014

5. Due from Other Governments

The amount reported in the governmental funds at June 30, 2014 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 16,999	\$ 2,376,674	\$ 734,759	\$ 3,128,432
Food Service Fund	<u>30,659</u>	<u>3,334</u>	<u>-</u>	<u>33,993</u>
Total	<u>\$ 47,658</u>	<u>\$ 2,380,008</u>	<u>\$ 734,759</u>	<u>\$ 3,162,425</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, 2014. 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, 2014.

6. Taxes Receivable, Net

A summary of the taxes receivable and related accounts at June 30, 2014 follows:

Delinquent real estate taxes receivable	\$ 1,220,169
Earned income taxes receivable	757,896
Real estate transfer tax receivable	213,573
Local service	<u>13,352</u>
Total	2,204,990
Estimated uncollectible taxes at June 30, 2014	<u>(364,785)</u>
Total	<u>\$ 1,840,205</u>

State College Area School District

Notes to Financial Statements

June 30, 2014

7. Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Increases	Transfers/ Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 899,887	\$ -	\$ -	\$ 899,887
Construction in progress	2,189,981	3,246,132	(4,353,463)	1,082,650
Total capital assets, not being depreciated	3,089,868	3,246,132	(4,353,463)	1,982,537
Capital assets being depreciated:				
Buildings and improvements	112,360,919	-	4,254,354	116,615,273
Equipment and other capital assets	38,760,813	1,052,350	99,109	39,912,272
Equipment-internal service	284,098	-	-	284,098
Total capital assets, being depreciated	151,405,830	1,052,350	4,353,463	156,811,643
Accumulated depreciation for:				
Buildings and improvements	(37,690,179)	(3,134,214)	-	(40,824,393)
Equipment and other capital assets	(30,566,396)	(1,404,249)	-	(31,970,645)
Equipment, internal service	(279,844)	(4,254)	-	(284,098)
Total accumulated depreciation	(68,536,419)	(4,542,717)	-	(73,079,136)
Total capital assets being depreciated, net	82,869,411	(3,490,367)	4,353,463	83,732,507
Governmental activities capital assets, net	\$ 85,959,279	\$ (244,235)	\$ -	\$ 85,715,044
Business-type activity:				
Capital assets being depreciated,				
Equipment and other capital assets	\$ 984,952	\$ 8,041	\$ -	\$ 992,993
Accumulated depreciation, Equipment and other capital assets	(840,054)	(20,267)	-	(860,321)
Business-type activity capital assets, net	\$ 144,898	\$ (12,226)	\$ -	\$ 132,672

State College Area School District

Notes to Financial Statements

June 30, 2014

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

Government activities:

Unallocated	\$ 420,568
Instruction	1,159,890
Instructional support services	3,848
Administrative and financial support services	4,391
Operation and maintenance of plant services	<u>2,954,020</u>

Total depreciation expenses for governmental activities

\$ 4,542,717

Business-type activities,
Food service

\$ 20,267

8. Accrued Salaries and Benefits

Accrued salaries and benefits in the General Fund totaling \$9,274,067 represent salaries of \$7,409,951, the District's share of Social Security taxes of \$566,861 for teachers' services during the 2013-2014 school term, which are paid during July and August 2014, and retirement plan expense of \$1,246,264 applicable to the accrued salaries at June 30, 2014, and accrued workers' compensation of \$50,991.

9. Long-Term Debt

The changes in long-term debt for the year ended June 30, 2014 are as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Amounts due within one year
Bond Series - 2009 General Obligation	\$ 8,645,000	\$ -	\$ (4,685,000)	\$ 3,960,000	\$ 1,080,000
Note - Series of 2008	3,265,000	-	(1,305,000)	1,960,000	635,000
Bond Series - 2010A	12,020,000	-	(1,525,000)	10,495,000	410,000
Bond Series - 2010B	7,990,000	-	(415,000)	7,575,000	505,000
Bond Series - 2010C	5,420,000	-	(10,000)	5,410,000	10,000
Bond Series - 2011B	8,160,000	-	(435,000)	7,725,000	445,000
Bond Series - 2012	14,760,000	-	(195,000)	14,565,000	430,000
Bond Series - 2013	-	4,400,000	(40,000)	4,360,000	60,000
Total bonds and notes payable	60,260,000	4,400,000	(8,610,000)	56,050,000	<u>\$ 3,575,000</u>
Bond premium	1,262,720	48,374	(102,042)	1,209,052	
Total long-term debt	<u>\$ 61,522,720</u>	<u>\$ 4,448,374</u>	<u>\$ (8,712,042)</u>	<u>\$ 57,259,052</u>	

State College Area School District

Notes to Financial Statements

June 30, 2014

Long-term debt at June 30, 2014 consists of the following:

\$9,995,000 General Obligation Bonds, Series of 2009, due in varying annual installments through March 2022, interest rates of 2% to 4%	\$ 3,960,000
\$9,515,000 General Obligation Note Series of 2008, due in varying annual installments through August 2016, fixed interest 3.15%	1,960,000
\$15,675,000 General Obligation Bonds, Series of 2010A, due in varying annual installments through May 2025, interest rates of 2.5% to 4.0%	10,495,000
\$8,875,000 General Obligation Bonds, Series of 2010B, due in varying annual installments through May 2026, interest rates of 2.5% to 4.0%	7,575,000
\$5,450,000 General Obligation Bonds, Series of 2010C, due in varying annual installments through May 2028, interest rates of 2.5% to 4.0%	5,410,000
\$8,740,000 General Obligation Bonds, Series B of 2011, due in varying annual installments through May 2028, interest rates of .65% to 4.0%	7,725,000
\$14,765,000 General Obligation Bonds, Series of 2012, due in varying annual installments through November 2029, interest rates of .5% to 3.5%	14,565,000
\$4,400,000 General Obligation Bonds, Series of 2013, due in varying annual installments through May 2022, interest rates of .3% to 2.75%	4,360,000
Unamortized bond premium	<u>1,209,052</u>
Total	57,259,052
Current portion	<u>(3,575,000)</u>
Long-term debt	<u>\$ 53,684,052</u>

State College Area School District

Notes to Financial Statements

June 30, 2014

Debt service requirements at June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	\$ 3,575,000	\$ 1,787,867	\$ 5,362,867
2016	3,682,042	1,675,696	5,357,738
2017	3,877,042	1,561,800	5,438,842
2018	3,742,042	1,466,674	5,208,716
2019	3,832,042	1,369,183	5,201,225
2020 - 2024	19,998,335	5,223,641	25,221,976
2025 - 2029	17,297,550	1,772,968	19,070,518
2030	1,255,000	21,963	1,276,963
Total	<u>\$ 57,259,053</u>	<u>\$ 14,879,792</u>	<u>\$ 72,138,845</u>

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

In 2013, the District issued \$4,400,000 in General Obligation Bonds with varying interest rates from .3% to 2.75%. The proceeds of the bonds were used to advance refund \$4,205,000 of the District's Series 2009 Bonds.

This advanced refunding decreased the District's total debt service payments over the next eight years by approximately \$127,000 and provided an economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately \$114,000.

10. Fund Balance Classifications

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total</u>
Non-spendable for, Inventories	\$ 1,701,632	\$ -	\$ -	\$ 1,701,632
Restricted for, Capital projects	\$ -	\$ 58,870	\$ -	\$ 58,870
Committed for:				
PSERS	\$ 8,572,000	\$ -	\$ -	\$ 8,572,000
Interest rate swap settlement	2,200,000	-	-	2,200,000
Capital projects	-	22,372,635	-	22,372,635
Debt service	-	-	4,638	4,638
Total	<u>\$ 10,772,000</u>	<u>\$ 22,372,635</u>	<u>\$ 4,638</u>	<u>\$ 33,149,273</u>

State College Area School District

Notes to Financial Statements

June 30, 2014

11. Construction Commitments

The District had several active minor construction projects as of June 30, 2014. Outstanding construction commitments on these projects amounted to approximately \$186,000 at June 30, 2014.

12. Defined Benefit Pension Plan

All full-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the "System"), a governmental cost sharing multiple-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2014 was \$57,938,077.

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

The contribution policy is set by Act 96, dated October 2, 1975, as amended, and requires contributions by active employees, districts and the Commonwealth. The contribution required of districts is based upon an actuarial valuation computed as a percentage of the total compensation. Most active members contribute 7.5 percent of the members qualifying compensation. Members joining the System before July 22, 1983 contribute 5.25% of compensation. The District's contribution rate was 16.93% in 2014, 12.36% in 2013, and 8.65% in 2012 of annual covered payroll. The District's contribution requirement for the years ended June 30, 2014 was \$9,607,872, June 30, 2013 was \$7,095,629, and June 30, 2012 was \$4,768,262.

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

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

State College Area School District

Notes to Financial Statements

June 30, 2014

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, 2014, total contributions (including retirement bonus and sick payouts) were \$1,359,743.

14. Nonmonetary Transactions

The District receives USDA Donated Commodities in the Food Service Fund (Enterprise Fund), which is a proprietary fund type. These donated commodities are valued at an estimated market value and recognized as federal revenue with unused commodities recorded as inventory. The total food commodities donated by the federal government and was used by the District for fiscal year 2014 totaled \$170,674.

15. Operating Lease

The District leased copiers for its schools, administrative offices, and print shop under a three-year operating lease expiring July 2015. The following is a schedule of future minimum rental payments required under the above operating lease as of June 30, 2014:

Years ending June 30:
2015

\$ 107,750

Rent expense for 2014 was \$107,750.

16. Contingencies and Commitments

In August 2004, the District authorized and incurred variable rate General Obligation Bonds of \$58,050,000 (the "2004 bonds") with an available balance at June 30, 2014 of \$45,300,000 for alterations, additions and improvements to the High School North and High School South secondary buildings planned for 2007. In April 2006, the District authorized and incurred variable rate General Obligation Bonds of \$24,000,000, (the "2006 bonds") with an available balance at June 30, 2014 of \$20,530,000 to provide funds for the High School renovation project and for the paying of the costs and expenses of issuing the bonds. Because the High School renovation project was abandoned at the end of the fiscal year ended June 30, 2007, the District has not issued either set of bonds (although they both remain incurred). Currently, the District has no intention of issuing the 2004 or 2006 bonds; however, they are included in the calculation of the District's legal debt margin.

State College Area School District

Notes to Financial Statements

June 30, 2014

17. Interest Rate Swap Settlement Agreement

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

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

Years ending June 30:	
2015	\$ 550,000
2016	550,000
2017	550,000
2018	<u>550,000</u>
Total	<u>\$ 2,200,000</u>

This outstanding liability is recorded on the Statement of Net Position related to governmental activities at June 30, 2014.

18. Other Postemployment Benefits

Plan Description

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

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

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contributions are equal to the premiums determined for the purpose of COBRA. The District did not pay premiums for the year ended June 30, 2014. Total retiree contributions made by plan members were \$624,673 for the year ended June 30, 2014.

State College Area School District

Notes to Financial Statements

June 30, 2014

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	403,439
Interest on net OPEB obligation		51,937
Adjustment to annual required contribution		<u>(70,856)</u>
Annual OPEB cost (expense)		384,520
Contributions made		<u>(185,607)</u>
Increase in net OPEB obligation		198,913
Net OPEB obligation at July 1, 2013		<u>1,154,165</u>
Net OPEB obligation at June 30, 2014	\$	<u><u>1,353,078</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 384,520	48.3 %	\$ 1,353,078
June 30, 2013	388,621	35.6	1,154,165
June 30, 2012	386,817	51.7	903,985

State College Area School District

Notes to Financial Statements

June 30, 2014

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 3,136,662
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,136,662</u>
Funded ratio (actuarial value of plan assets/UAAL)	0%
Covered payroll	<u>\$ 54,004,356</u>
UAAL as a percentage of covered payroll	5.8%

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

Actuarial Methods and Assumptions

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

The District's ARC was determined through an actuarial valuation performed as of January 1, 2012 using the following assumptions:

Valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Interest rate	4.5%
Projected salary increase	3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 3% to .25%
Health care cost trend rate	11.5% in 2012, 12.5% in 2013, 6.5% in 2014, then decreasing by 0.5% per year to 5.5% in 2016
Amortization method	Level dollar 30 year open period

19. Transactions with Other LEAs

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

20. Pending Changes in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The District is required to adopt Statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. To the extent applicable, the District is required to adopt Statement No. 69 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities. To the extent applicable, GASB 71 is effective for the District's fiscal year 2015 financial statements.

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

State College Area School District

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

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

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

State College Area School District**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**

Year Ended June 30, 2014

Revenues

Local sources:

Current taxation:

Real estate	\$ 81,322,799
Earned income tax	15,694,478
Local service tax	362,221
Real estate transfers	1,956,425
Payments in lieu of taxes	489,649
Public utility realty tax	116,739

Total current taxation 99,942,311

Delinquent taxation 1,311,783

Total from taxation 101,254,094

Earnings from temporary investments and deposits	131,990
Receipts from other LEA's	87,671
Miscellaneous revenue	1,964,716

Total local sources 103,438,471

State sources:

Basic instructional subsidy	6,440,459
Private placement tuition	153,006
Vocational education	111,867
Special education	3,221,641
Transportation	809,494
Rental and sinking fund payments	303,751
Medical and dental services	141,089
Property tax reduction	1,432,689
Social Security subsidy	2,248,122
Retirement subsidy	4,826,410
Other state grants	161,626

Total state sources 19,850,154

Federal sources:

Title I	697,062
Title II A	193,935
Title II C	65,128
Title III	37,165
Medical Assistance	15,265
ACCESS	381,893

Total federal sources 1,390,448

Total revenues 124,679,073

State College Area School District**Schedule of Revenues, Expenditures and Change in Fund Balance - General Fund**

Year Ended June 30, 2014

Expenditures

Instruction:

Regular programs	\$ 49,184,989
Special programs	14,822,146
Vocational education programs	2,780,582
Other instructional programs	793,547
Adult education programs	316,107
Nonpublic school programs	13,237

Total instruction 67,910,608

Support services:

Pupil personnel	3,943,616
Instructional staff	4,175,778
Administration	6,023,703
Pupil health	1,167,953
Business	1,094,959
Operation and maintenance of plant services	8,152,562
Student transportation services	5,713,055
Central	4,276,250

Total support services 34,547,876

Noninstructional services:

Student activities	2,295,350
Community services	171,816

Total noninstructional services 2,467,166

Facilities acquisition, construction and improvement services 29,775

Debt service 875,680

Total expenditures 105,831,105

**Excess of Revenues over Expenditures before Other
before Other Financing Uses**

18,847,968

Other Financing Uses

Transfer out (18,842,861)

Change in Fund Balance 5,107

Fund Balance, Beginning 22,213,349

Fund Balance, Ending \$ 22,218,456

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2014
U.S. Department of Education										
Passed through the PA Department of Education:										
Title I, Part A Cluster:										
Title I	I	84.010	013-140418	C	\$ 712,783	\$ 562,463	\$ -	\$ 607,781	\$ 607,781	\$ 45,318
Title I	I	84.010	013-130418	B	786,794	253,602	103,721	89,281	89,281	(60,600)
Total Title I, Part A Cluster						816,065	103,721	697,062	697,062	(15,282)
Secondary Allocation	I	84.048	380-111058	B	77,921	7,084	7,084	-	-	-
Secondary Allocation	I	84.048	380-122016	C	69,757	69,757	-	65,128	65,128	(4,629)
Total Secondary Allocation						76,841	7,084	65,128	65,128	(4,629)
Title III - Language	I	84.365	010-140418	C	48,830	-	-	23,062	23,062	23,062
Title III - Language	I	84.365	010-130418	B	44,812	23,900	9,797	14,103	14,103	-
Total Title III						23,900	9,797	37,165	37,165	23,062
Title II	I	84.367	020-130418	B	199,656	66,213	29,722	36,491	36,491	-
Title II	I	84.367	020-140418	C	189,091	151,198	-	157,444	157,444	6,246
Total Title II						217,411	29,722	193,935	193,935	6,246
Total PA Department of Education						1,134,217	150,324	993,290	993,290	9,397
Passed through Central Intermediate Unit #10:										
Special Education Cluster (IDEA):										
Special Education - Grants to States	I	84.027	062-14-0-010	C	726,074	-	-	726,074	726,074	726,074
Special Education - Grants to States	I	84.027	062-13-0-010	B	827,852	827,852	827,852	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-12-0-010	B	8,808	8,808	8,808	-	-	-
Preschool/Early Intervention Funds (619)	I	84.173	131-13-0-010	C	5,761	5,761	-	5,761	5,761	-
Preschool/Early Intervention Funds (619)	I	84.173	131-12-0-010	B	6,849	6,849	6,849	-	-	-
Total Special Education Cluster (IDEA)						849,270	843,509	731,835	731,835	726,074
Grants for the Integration of Schools and Mental Health Systems	I	84.215		A	373,704	14,968	16,970	-	-	2,002
Total U.S. Department of Education						1,998,455	1,010,803	1,725,125	1,725,125	737,473
U.S. Department of Health and Human Services										
Passed through Pennsylvania Department of Public Welfare										
Administrative Claiming Quarterly Program	I	93.778	044-007418	C	15,265	12,365	-	15,265	15,265	2,900

See notes to schedule of expenditures of federal awards

State College Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue At June 30, 2014
U.S. Department of Agriculture										
Child Nutrition Cluster:										
Passed through PA Department of Education:										
National School Lunch Program	I (F)	10.555	362-0000	B	NOTE 6	\$ 24,396	\$ 24,396	\$ -	\$ -	\$ -
National School Lunch Program	I (F)	10.555	362-0000	C	NOTE 6	624,641	-	650,461	650,461	25,820
National School Lunch Program	I (F)	10.553	365-0000	B	NOTE 6	4,027	4,027	-	-	-
National School Lunch Program	I (F)	10.553	365-0000	C	NOTE 6	113,304	-	118,143	118,143	4,839
National School Lunch Program	I (F)	10.553	367-0000	B	NOTE 6	149	149	-	-	-
National School Lunch Program	I (F)	10.559	264-0000	B	NOTE 6	1,267	361	906	906	-
National School Lunch Program	I (S)	N/A	510-0000	C	NOTE 6	10,895	-	11,336	11,336	441
National School Lunch Program	I (S)	N/A	510-0000	B	NOTE 6	385	385	-	-	-
National School Lunch Program	I (S)	N/A	511-0000	C	NOTE 6	73,226	-	76,119	76,119	2,893
National School Lunch Program	I (S)	N/A	511-0000	B	NOTE 6	2,612	2,612	-	-	-
Passed through the PA Department of Agriculture, National School Lunch Program	I	10.555				179,563	(28,338)	170,674	170,674	(37,227)
Total U.S. Department of Agriculture						1,034,465	3,592	1,027,639	1,027,639	(3,234)
Total						<u>\$ 3,045,285</u>	<u>\$ 1,014,395</u>	<u>\$ 2,768,029</u>	<u>\$ 2,768,029</u>	<u>\$ 737,139</u>

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

1. General

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

2. Basis of Accounting

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

3. Access Reimbursements

Access reimbursements for direct medical services are classified as fee-for-service revenues and are not considered federal awards. The General Fund federal revenues include \$381,893 of Access reimbursements for direct medical services.

4. State Matching Funds

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

5. Relationship to Federal Financial Reports

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

6. National School Lunch Program

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

State College Area School District

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

7. Source Code and Grant Period Code

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

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

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

A = 07/01/11 - 06/30/12
B = 07/01/12 - 06/30/13
C = 07/01/13 - 06/30/14



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

Board of Education
State College Area School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State College Area School District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2014.

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 Viechow Krause, LLP

State College, Pennsylvania
October 15, 2014



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Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of Education
State College Area School District

Report on Compliance for Each Major Federal Program

We have audited State College Area School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
October 15, 2014

State College Area School District

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

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 programs:

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

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

Unmodified

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

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster (IDEA)
10.553, 10.555, 10.559	Child Nutrition Cluster

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

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

State College Area School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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, 2013 Single Audit.