



SOLANCO SCHOOL DISTRICT

November 30, 2009

"Our mission is to provide educational opportunities which enable all students to become contributing members of society."

Martin J. Hudacs, Ed.D.
Superintendent

Brian A. Bliss, Ed.D.
Assistant Superintendent

Timothy J. Shrom
Business Manager

Board of School Directors and Citizens
Solanco School District
121 South Hess Street
Quarryville, PA 17566

Dear Members of the Board of School Directors and Citizens:

We are pleased to submit the comprehensive annual financial report of the Solanco School District (District) for the fiscal year ended June 30, 2009. State law requires school districts to publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2009.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the District. To the best of our knowledge and belief the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operation of the district as a whole and of its various funds. This report is a complete disclosure of all financial activities of the District. We believe that all disclosures necessary to enable the reader to gain the maximum understanding of the District's financial affairs have been included.

Trout, Ebersole and Groff, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the Solanco School District's financial statements for the fiscal year ended June 30, 2009. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The comprehensive annual financial report is presented in four sections:

1. The INTRODUCTORY SECTION contains this Letter of Transmittal and the Certificate of Excellence in Financial Reporting presented by the Association of School Business Officials for last year's CAFR, the Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association for last year's CAFR, Board of School Directors and Principal Officials listing and Organizational Chart.

2. The FINANCIAL SECTION begins with the independent auditor's report. This section includes the management's discussion and analysis, basic financial statements, combining individual fund schedules and required budgetary supplemental information.
3. The STATISTICAL SECTION – which is not audited, includes selected financial, demographic and economic data, generally presented on a multi-year basis. This section also includes all disclosures, not contained elsewhere in the CAFR, to comply with the Securities and Exchange Commission continuing disclosure requirements for general obligation debt issues.
4. SINGLE AUDIT – the School District is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget (OMB), Circular A-133, Audits of State, Local Governments and Non-profit Organizations. Information related to this single audit, including the schedules of state and federal assistance, the independent auditor's reports on internal controls and compliance with applicable laws and regulations is included in this section of the report. This section reflects the District's participation in federal award programs of both a competitive and entitlement nature.

PROFILE OF THE GOVERNMENT

The Solanco School District is a non-profit school district of the third class organized under state law comprising 180.7 square miles. The School District is located in southern Lancaster County, from which the name "SoLanCo" originated. The area extends from a point just north of Christiana and west to Colemanville on the Susquehanna River. It is bordered on the east by Chester County, on the south by Maryland, and on the west by the Susquehanna River. It serves Quarryville Borough and Bart, Colerain, Drumore, East Drumore, Eden, Fulton, Little Britain, and Providence Townships in Lancaster County, Pennsylvania. The District encompasses nearly 20 percent of Lancaster County's total landmass; however, the District's rural setting is inhabited by less than six percent of the county's population.

The District provides a comprehensive educational program for approximately 3,900 age-qualified students from kindergarten through grade 12. The District's mission is "to develop responsible citizens and life-long learners by providing opportunities to maximize student academic performance in a safe and secure environment".

Instructional services are provided for regular education, special education, vocational education (which includes industrial arts, agriculture science and technical programs), programs for the fine arts, advanced academic programs and gifted programs. Students are also encouraged to participate in the many school-sponsored co-curricular and extracurricular activities encompassing both intramural and interscholastic athletics as well as a variety of clubs, musical groups and organizations available to both elementary and secondary students.

District administrators, teachers, and support staff are provided a wide variety of opportunities for participation in professional development workshops, seminars, and conferences with the ultimate goal of improving the educational program. This effort is largely tied to curriculum revisions and No Child Left Behind (NCLB) federal legislative mandates.

The Board of School Directors (Board) is the basic level of government that has financial accountability and control over all activities related to public elementary and secondary school education in the Pennsylvania jurisdiction of the Local Education Agency (LEA). The Board consists of nine directors who are each elected to an alternating four- or five-year term. The Board receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities.

The Board is required to adopt a final budget by June 30th of the preceding fiscal year. This annual budget serves as the foundation for the school district's financial planning and control. The budget is prepared by fund, function (activity or department) and object (service or expense). The transfer of resources between funds or functions must be approved by the Board. However, transfers between objects within a function may be performed as needed by the School District's business office.

This report includes all of the funds of the Solanco School District. Management has evaluated the possible inclusion of related entities or component units in this financial report. The criteria used in the evaluation are financial accountability and the nature and significance of the relationship. No additional entities are required to be included in this report and the School District, itself, is not reported as a component unit of any other financial entity.

DISTRICT FACILITIES

The District is comprised of four elementary schools. Bart-Colerain Elementary School, Clermont Elementary School, Providence Elementary School and Quarryville Elementary School, provide instruction to 1640 kindergarten through fifth grade students. Two middle schools, George A. Smith Middle School and Swift Middle School, house 891 students in grades six through eight. Solanco High School provides instruction to 1274 students in grades nine through twelve.

The central administration building holds the offices of the superintendent, assistant superintendent, the director of instructional services, the instructional technology coordinator, the business office, and the directors for communications, food service, plant operations/maintenance and transportation. Near the central administration building, the District owns a warehouse, which is used as a central receiving, storage, and distribution facility. Refer to the "Full-time Equivalent Employees by Function" and "District Building Information" charts located in the statistical section for additional information related to district employees and buildings.

ENROLLMENT

District enrollment has gradually declined from a 1999 total of 4,278 students to the October 1, 2008 total of 3,805. No enrollment growth spikes are anticipated in the charted future. The District annually tracks live birth and census data along with historical information to plan for upcoming years. District enrollment projections are analyzed and updated each year. Refer to the chart, "Enrollment History and Projections by Instructional Level" located in the statistical section of this report for additional information.

ECONOMIC CONDITION AND OUTLOOK OF LOCAL ECONOMY

Lancaster County is located approximately 240 miles east of Pittsburgh and 60 miles west of Philadelphia in the south central portion of the state. In addition to being only one and one half hours from Philadelphia, Lancaster County is within easy driving distance of the metropolitan areas of Harrisburg, Baltimore, Washington, D.C., and New York.

The County's population has grown 7.4 percent over the past ten years, from 467,879 reported for 1999 to 502,370 during 2008. The County unemployment rate on June 30th fluctuated during the past ten years from the low rate of 2.8 percent, reported for the calendar year 2000, to the highest rate of 4.3 percent reported for 2008. The rate reflected a minimal variance of 1.5 percent during the ten-year period. Lancaster County's unemployment rate is well below the state rate of 5.4 percent as reported by the PA Department of Labor and Industry for calendar year 2008. County taxable assessed property values increased more than 47.4 percent during the past ten years, from the \$20.7 billion 1999 assessed value to the 2008 assessed value of \$30.5 billion. Per capita personal income grew steadily from the 1999 total of \$26,759 to the 2007 total of \$34,619; an increase of 29.4 percent during the nine-year period. Additional information can be obtained from the "Lancaster County Demographic and Economic Statistics" chart located in the statistical section of this report.

As one of the best agricultural areas in the nation, Lancaster County has ranked first among Pennsylvania counties in production. The County's agricultural strength can be attributed to its rich soil, relatively little land slope, moderate climate, evenly distributed rainfalls and a successful farming heritage passed from generation to generation.

Lancaster County supports a diversified mix of industries including manufacturing, service, retail, education, finance, insurance, construction, transportation and tourism. The manufacturing industry represents the largest number of employment opportunities with significant employment in the following industries: retail and wholesale trade, health care and social assistance, educational services, accommodation and food services, construction, administrative and waste services. The low cost of living, proximity to major East Coast markets, limited traffic congestion and the balanced diversity of the business community provide economic stability to the area and promote growth. The area's economic stability and prosperity have endured for over two and one-half centuries. Refer to the table entitled, "Principal Employers", located in the statistical section to obtain additional information regarding employer statistics of the School District.

MANAGEMENT SYSTEMS and CONTROLS

INTERNAL CONTROL STRUCTURE

Internal controls within the District are under constant scrutiny and refinement to provide assurance that assets are safeguarded against loss through unauthorized use or disposition. These controls also assure the reliability of financial records.

Changes in internal controls evolve from a variety of sources and needs, including administration, local auditors, state auditors, federal program auditors and the board of school directors. Management believes that the District's internal controls, within the accounting system, adequately safeguard assets and provide reasonable assurance as to proper recording and tracking of financial activity and compliance with the requirements of laws, regulations, contracts and grants. Refer to the auditor's "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" found in the single audit section.

BUDGETING CONTROLS

District budgeting is a year-round process. Planning for the next fiscal year's budget begins in the summer of the previous fiscal year with a review of the procedures used during the development of the last budget. This review results in the formulation of changes necessary to make the process run more efficiently and to address identified issues early in the budget process. A calendar for the upcoming budget process is formulated in September and the actual budget process begins in earnest during October with the distribution of budgeting and bidding materials to the building principals and department heads. Inventories are taken, and equipment/supply needs are assessed for the upcoming school year. Each building determines needs based on enrollment projections, the current curriculum cycles, technology needs, and prior year student assessment.

Review of budget requests occurs first at the building level with department heads and building principals. Concurrently, program administrators are preparing requests for their specific areas. All requests are reviewed with central office administration in an attempt to prioritize needs consistent with budgetary allocations. When reductions in requests are necessary, building level personnel are solicited for input. Central administration prepares all budgetary items related to salary and fringe benefit costs. All staffing requests made by the building principals or department heads are analyzed on an individual basis to determine need.

Local source revenue projections are based on current information regarding the Lancaster County economy, with close attention paid to historical trends. Funding from state and federal sources is estimated based upon Commonwealth of Pennsylvania budget information regarding subsidy allocation trends and District knowledge of competitive and entitlement grant funding. The proposed preliminary budget is presented to the public during the month of December. Revisions are made in response to community input through public discussions and from updates of preliminary budget estimates. The school board must formally approve the final budget on or before June 30th. The Board approved the 2008-2009 general fund budget on June 9, 2008; at a duly advertised public meeting. The budget proposed total expenditures and other financing uses of \$44,481,838. Actual total expenditures for the 2008-2009 fiscal year were \$1,914,991 below budget estimates. Refer to the MD&A for "General Fund Budgeting Highlights", the "Notes to Required Supplementary Information" and the budget to actual comparative financial schedules located in the financial section for detailed budgetary information.

INDEPENDENT AUDIT

The District submits its financial data to independent certified public accountants at year-end for a comprehensive annual audit. The financial section of this document contains their report for the fiscal year ended June 30, 2009. The District also submits its federal program files to independent certified public accountants in compliance with the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. The "Single Audit" statements and schedules required by the Circular can be found in the Single Audit section of this report. The independent certified public accounting firm of Trout, Ebersole, and Groff, LLP of Lancaster, Pennsylvania audits the District's financial statements. Their audit opinion precedes the accompanying basic financial statements located in the financial section.

RISK MANAGEMENT

The District is an active participant in a consortium that purchases various insurance services through the Lancaster-Lebanon Intermediate Unit 13. Worker's compensation, group life insurance, and a self-insured health insurance plan have successfully been purchased at lower rates with enhanced account services through the consortium. The administrator of these plans work closely with each of the member districts to review internal procedures to reduce claims exposure and minimize losses.

Through participation with other school districts in the Lancaster-Lebanon Public Schools Employees' Healthcare Consortium's self insured stop-loss pool, the District is self-insured for healthcare claims up to \$75,000 per individual healthcare participant. The pool reimburses monies to the District for individual claims above \$75,000 up to a maximum cost of \$150,000. The pool has commercial insurance for claims greater than \$150,000. The activity related to the District's participation in the health insurance consortium is reflected in the Self-Insurance Hospitalization Fund, which is an internal service fund. This fund not only reflects the claim payment activity, but also indicates the District's reservation of resources toward unplanned claims. The School District implemented Governmental Accounting Standards Board Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, during the fiscal year ended June 30, 2009. A school board designation for \$325,000 of the general fund's current fund balance has been committed to finance future retiree postemployment health care benefit obligations. Refer to Note 14 of the "Notes to the Basic Financial Statements" for details pertaining to GASB 45. The "Medical and Related Benefits" section of the MD&A provide additional statistics dealing with medical, vision and dental costs.

The District has also set aside resources for the payment of unemployment claims. This is reflected in the District's Self-Insurance Unemployment Compensation Fund. Refer to Note 16 of the "Notes to the Basic Financial Statements" for supplementary information addressing risk management by the school district. Property liability insurance is competitively bid annually with the assistance of a local broker. It is the broker's responsibility to review potential carriers with the Business Office and assure that coverage is adequate to meet the needs of the District. Refer to the "Schedule of Insurance In-Force" located in the statistical section of this report for additional information concerning the School District's insurance coverage.

The Pennsylvania Public School Employees' Retirement System (PSERS) anticipates future benefit rate increases to fund future plan benefits. The Solanco School District Board of Directors approved a \$1.5 million fund balance designation to set aside current funding, within the general fund, to subsidize future retirement benefit costs. The fund balance designation will be utilized to minimize potentially significant tax increases resulting from retirement rate spikes. Refer to the "PSERS Retirement Rate" discussion included in the MD&A and Note 18 of the "Notes to the Basic Financial Statements" located in the financial section of this report for additional information.

CASH MANAGEMENT

Cash in excess of current operating needs is invested in various types of financial instruments in conformance with requirements set forth by the Commonwealth of Pennsylvania. All District funds must be maintained in financial institutions with collateral pools as required by state law. State law further requires all District investments to be placed in instruments insured by the U.S. Government or collateralized by U.S. Government securities. As per Board policy, the goal of cash management is to have idle school funds generating additional revenues at the best rate of return until needed. Refer to Note 2 of the financial statement notes for a comprehensive explanation of the district's cash and investments.

RELEVANT FINANCIAL POLICIES

The Pennsylvania Legislature revised the valuation method of public utilities for the assessment of real estate tax, effective January 1, 2000. Under the revised law, regulated public utilities are assessed real estate tax on the tax base determined by local county assessments. Prior to the revision, the Pennsylvania Utility Real Estate Tax Authority (PURTA) assessed real estate taxes on these properties according to state assessment values. Regulated public utility property is located within the Solanco School District and is assessed real estate tax based on a value agreed upon by the local county tax assessment authorities. As a result of this change, the Board of School Directors approved the designation of real estate taxes, collected from the regulated public utility properties, to be utilized for future capital projects. The tax revenues generated by the public utility properties are transferred to the capital reserve fund annually and enable the School District to "pre-fund" a portion of future capital projects. Additional information concerning the PURTA Reevaluation can be found in Note 21 of the basic financial statements.

Similarly, for fiscal years in which revenues exceed expenditures, the School District has historically transferred a portion of unreserved fund balance to the capital reserve fund to "pre-fund" future capital projects or to the self insurance funds to "pre-fund" future insurance claims. A \$1.1 million general fund transfer to the capital reserve fund was reported for the fiscal year ended June 30, 2009. A portion of the monies will pay for scheduled building repairs and improvements, in addition to technology infrastructure upgrades and expansion.

Funds are transferred from the general fund to the enterprise – food service fund throughout the year to supplement food service revenues. The transfers are initiated by the food service fund as reimbursement requests for equipment purchases and equipment repairs. The food service fund received reimbursements totaling \$95,264 during the 2008-2009 fiscal year.

MAJOR INITIATIVES

STRATEGIC PLAN

The Solanco School District strategic plan, which was approved by the board on May 19, 2008, defines the School District's mission, goals, strategies and activities for the five-year period beginning 2008-2009 through 2012-2013. The plan evolved from the collective efforts of numerous Solanco School District residents including students, parents, community members, business leaders, teachers and administrators. Four overarching goals encompass the strategic plan:

Goal 1 - Academic Achievement: Students will improve academic achievement in all subject areas, including meeting and/or exceeding Adequate Yearly Progress (AYP) benchmarks in reading and mathematics.

Goal 2 - Learning Environment: Students will meet or exceed NCLB benchmarks for attendance and graduation rate by adopting increased expectations and embracing pro-academic and pro-social behaviors.

Goal 3 - Student Participation in Assessments: At least 95% of eligible students will participate in required state-wide assessments.

Goal 4 - Technology Integration: Expand the integration and application of technology to enhance instruction and operations.

Notable academic, technological and administrative initiatives undertaken during the fiscal year include:

- An 'Expectations' initiative was developed and implemented during the school year. The initiative identified key expectations for behavior that enable students to succeed. The expectations guide the actions of students, staff, parents and community members throughout the school district and create a strong support system to help students to maximize their learning potential.
- A feasibility study was initiated during the fiscal year. The study will identify and prioritize present and future needs that must be addressed by the school district. Enrollment trends, population growth, classroom and program requirements, debt capacity, financial estimates, as well as school renovation and construction options will be considered during the study.
- Coordinated district-wide professional development opportunities provided expertise and guidance for instructional staff to maximize the learning capabilities of all students. Instructional strategies such as "Exemplary Strategies", "RTI - Response to Intervention" and "Data-Based Decision-Making" enable instructors to identify, assist and motivate students not performing at their potential.
- Additional "Classrooms for the Future" state funding enabled the school district to expand technology in the Solanco High School classrooms. Teacher and student laptops plus multi-media equipment have transformed instruction throughout the high school. The "Classrooms for the Future" initiative provokes innovation and creativity while accelerating student achievements through the use of technology.

- The Solanco Virtual Academy is a district-operated cyber school program that offers an alternative to the standard instructional school program. Students of the Virtual Academy receive instruction at home through computers and are monitored and evaluated by Solanco School District teachers. The cyber program curriculum adheres to state standards. The Virtual Academy provided instruction to 37 students enrolled in kindergarten through 9th grade during 2008-2009. In addition, the cyber program infrastructure was utilized for summer school courses, providing instructional services to 60 resident and 110 nonresident high school students.

ACCOMPLISHMENTS

The Solanco School District is proud of the recognition it has received both at the county and state levels for work that is being performed by its students and staff. The District has proven that it is able to provide students with a quality education and comprehensive educational experience, while controlling spending and operating within a fiscally responsible framework. The District has been working hard to make sure that every student achieves to the best of their potential. The hard work of the staff and students is evidenced through the following achievements.

- ❖ All schools and the District, as a whole, met or exceeded every Adequate Yearly Progress standard for the second year in a row on the PSSA exams in reading and mathematics for the 2008-2009 school year as mandated by NCLB federal legislation.
- ❖ Solanco's 2008-2009 PSSA scores for all third, fourth and fifth grade students reflect a "proficiency" or "advanced" level of 84 percent for math and 81 percent for reading scores. Bart Colerain Elementary School third, fourth and fifth grade students scored 95 percent "proficient" or "advanced" in math and 89 percent in reading. Of all middle school students, 81 percent exceeded proficiency requirements in math and 78 percent in reading. Solanco High School 11th grade math proficiency levels remained the same while reading proficiency levels jumped nearly 7 percent from the prior year.
- ❖ The average SAT score for the graduating class of 2008-2009 exceeded the Pennsylvania average in mathematics. More than 70 percent of the graduating class pursued higher education, the highest percentage on record for the District. The dropout rate for the school year was 1.3 percent, the twelfth year in a row the rate has been 2 percent or lower.
- ❖ NCLB legislation requires all public school teachers in core academic subjects to be "Highly Qualified". In Pennsylvania, a "Highly Qualified" teacher: (1) holds full certification, (2) earned a bachelor's degree, (3) has completed a content area major, (4) passed a content area test, (5) has completed teacher education coursework. In the Solanco School District, 100 percent of teachers are presently "Highly Qualified".

The School District continues to provide an above average education to students for a cost that is below the statewide averages. The District spent an average of \$11,187 per student during the 2008-2009 fiscal year. Refer to the "Schedule of General Fund Expenditures Per Student" found in the statistical section for detailed information regarding spending per student. Standard and Poor's *School Matters* Evaluation Services publish an independent comparative analysis of the Solanco School District with other peer schools and the state average. The analysis is published on the web and is located at www.schoolmatters.com.

FINANCIAL REPORTING AWARDS

The Association of School Business Officials (ASBO) awarded a Certificate of Excellence in Financial Reporting and the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Solanco School District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. [This was the twelfth consecutive year that the government has achieved this prestigious award.] Both of these award programs enhance the credibility of financial management and the adoption of generally accepted accounting principles in addition to the reinforcement of sound budgetary procedures.

In order to be awarded a "Certificate of Achievement" and/or "Certificate of Excellence," a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. The report's contents must conform to each of the program's standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. Both the "Certificate of Achievement" and the "Certificate of Excellence" are valid for a period of one year only. The District believes its current comprehensive annual financial report conforms to the requirements of both programs. The District is submitting this report to ASBO and GFOA to determine its eligibility for a financial reporting award for the year ended June 30, 2009.

FUTURE PROSPECTS

It is the mission of the Solanco School District to develop responsible citizens and life-long learners by providing opportunities to maximize student academic performance in a safe and secure environment. The use of various developed curriculums to teach and reinforce appropriate student social and behavioral skills will continue to be implemented. The District must continue to investigate opportunities to provide alternative sources and methods of instruction to students that are not reaching their current academic potential. Direction, support, training and communication will continue to be provided to all staff enabling them to meet the challenges of their evolving roles.

Several unsettling issues loom in the future that may impact the school district's operations include medical and related benefit costs, cyber education, NCLB mandates, capital asset investment and negotiations for the professional employees' collective bargaining agreement. Refer to the discussion, "Facts Bearing on the District's Future" located in the MD&A for additional information concerning these issues.

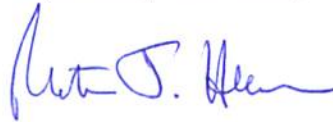
All district personnel must continue to practice prudent fiduciary care in their spending and utilization of resources as expenses maintain their upward growth and the flow of local revenue streams are restricted by legislative mandates.

ACKNOWLEDGMENTS

The preparation of this report would not have been possible without the efficient and dedicated service of many of the District's employees. The District would like to express appreciation to each administrator and employee of the Solanco School District for his or her assistance and contribution to the preparation of this report and for his or her interest and support in planning and conducting the financial affairs of the Solanco School District in a responsible, professional and progressive manner.

Special recognition is extended to Nicole Cradic, certified public accountant, associated with the independent public accounting firm of Trout, Ebersole and Groff, LLP, for her professional expertise and valuable assistance in preparing this report.

Respectfully submitted,



Martin Hudacs, Ed.D.
Superintendent



Timothy J. Shrom
Business Manager



Sandra S. Tucker, CPA
Assistant Business Manager