

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Solanco School District (the School District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 for students residing in Bart, Colerain, Drumore, East Drumore, Eden, Fulton, Little Britain and Providence Townships, and the Borough of Quarryville. These services include regular, advanced academic, vocational education programs and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of four elementary schools, two middle schools, and one high school, serving approximately 3,900 students.

The accounting policies of Solanco School District conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

In evaluating the School District as a reporting entity, management has addressed all potential component units, which may or may not fall within the School District's financial accountability. The criteria used by the School District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying basic financial statements.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member districts. LCCTC is controlled and governed by the Lancaster County Career and Technology Center Board, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of student enrollment in the LCCTC (three-year average) of each member school district. The amount paid for these services in the year ended June 30, 2009, was approximately \$796,532. The School District paid tuition expenses for 20 students enrolled in LCCTC half-day programs and 55 students enrolled in full-day programs during the 2008-2009 school year. The School District contracts with the LCCTC for alternative education services for School District students. The amount paid to reserve services for 8 students in the year ended June 30, 2009, was approximately \$26,975. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. In 1998, the Authority entered into an additional agreement with the member school districts and the Authority Board to advance refund the Authority's 1995 bonds. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements. The balance of the School District's share of this obligation at June 30, 2009 was \$123,773. The School District's lease payment to the Authority for the year ended June 30, 2009, was \$124,925, which has been reported in the School District's general fund. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2009. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601-5606.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members, who are elected by the public, and are appointed to the LLIU Board by the member school districts' Boards of Directors. The Board of Directors for Solanco School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. The School District contracts with the LLIU for special education services for School District students. The amount paid for these services in the year ended June 30, 2009, was \$1,092,921. Average daily membership of Solanco School District students in LLIU special education programs during the fiscal year approximated 59 students. The School District received 1,786 hours of specialized visual, auditory, speech, physical and occupational therapy for students during the fiscal year. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601-5606.

Lancaster County Academy (Academy)

The Academy is an alternative public school organized by 10 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member school district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy in the year ended June 30, 2009, for 10 student reservations was \$28,267. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 17 other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions, which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2009, was \$82,321. Financial information for the Bureau can be obtained from the Administrative Office located at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster-Lebanon Public Schools Employees' Healthcare Consortium (EHCC)

The School District participates with 15 other school districts in the Lancaster-Lebanon Public Schools Employees' Healthcare Consortium (EHCC), which is a self-insured stop-loss pool, as more fully described in Note 16.

Basis of Presentation - Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. School District resources are allocated to and accounted for through individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is consolidated with general fund activity to avoid “doubling up” revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation.

The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The government-wide statements, proprietary and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets. Governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

Fund Financial Statements (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary fund types - Private Purpose Trust funds are accounted for on a flow of economic resources measurement focus. Agency funds are reported without a measurement focus.

The School District reports the following major governmental funds:

General Fund - This fund is the principal operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Reserve Fund - This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. State statutes require debt service payments to be expended from the debt service fund. This fund includes the 1997 Bond Sinking Fund, the 2002 Bond Sinking Fund, the 2003 Bond Sinking Fund, the 2005 Bond Sinking Fund, the 2006 Bond Sinking Fund.

The School District reports the following nonmajor governmental fund:

Athletic Fund - This fund accounts for gate receipts and other revenues from athletic events and costs of the athletic program.

The School District reports the following proprietary funds:

Enterprise Fund - This fund is the food service fund which accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year.

Internal Service Fund - This fund is used to account for the financial activities of services provided by one department to other departments of the School District on a cost reimbursement basis. Hospitalization and unemployment compensation benefits are services provided to School District employees and accounted for in the internal service fund. The self-insurance hospitalization fund and self-insurance unemployment compensation fund are reported in this fund.

The School District reports the following fiduciary funds:

Private Purpose Trust Fund - This fund accounts for assets held by the School District in a trustee capacity. This fund accounts for the receipts and disbursements of monies contributed to the School District for scholarships and memorials.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

Fund Financial Statements (Continued)

Agency Fund - This fund is used to account for assets held by the School District as an agent for the School District's various student groups. Agency funds are custodial in nature and do not involve the measurement of results of operations. This fund is comprised of a high school student activity and two middle school student activity funds.

Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary and private purpose trust fund financial statements measure and report all assets, liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. Agency fund financial statements report all assets and liabilities using the accrual basis of accounting and have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service, compensated absence payments and supplemental pension obligations, which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, earned income taxes, real estate transfer taxes, tuition, grants and entitlements, student fees, and interest on investments.

Current property taxes measurable at June 30, 2009, and which are not available to finance fiscal 2009 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

The School District follows GASB guidance as applicable to enterprise funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the School District's food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues include government subsidies and investment earnings.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, food service prepayments and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, food service prepayments and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits, in PA Local Government Investment Trust Daily accounts, in PA School District Liquid Asset Fund money market accounts and are carried at cost plus accrued interest, which approximates fair value. The School District classifies the Citizen Bank Savings account as an investment.

Investments

Investments are recorded at fair value.

Taxes Receivable and Deferred Tax Revenues

The portion of delinquent real estate, earned income and realty transfer taxes that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other tax receivables is recorded as deferred tax revenues.

Inventories

Inventories in the general fund represent the estimated cost of fuel, oil, gasoline and maintenance, custodial and instructional supplies on hand at June 30. Athletic fund inventories represent the estimated cost of athletic apparel.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Inventories (Continued)

The estimated cost of inventories is determined using the first-in, first-out (FIFO) valuation method. The purchase method is used to account for inventories. Under the purchase method, inventories are reported as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the general fund and the athletic fund. Reported inventories are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets.

A physical inventory of the food service fund's food and supplies was taken as of June 30. The inventory consists of government donated commodities, which were valued at estimated fair market value and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2009, are reported as unearned revenue since title does not pass to the School District until the commodities are used.

Capital Assets and Depreciation

The School District's property, plant and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. Land and construction in process are not depreciated. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

School Buildings	40 years
Building Improvements	20-40 years
Land Improvements	15-20 years
Furniture, Fixtures, and Equipment	3-20 years
Vehicles	8 years
Library Books	7 years

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond issue premiums and discounts are amortized over the life of the bond issue. Bond issuance costs are recognized or expensed in the year of the bond issue.

In the fund financial statements, governmental fund types, bond premiums and discounts are amortized over the life of the bond issue. Bond issuance costs are expensed during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences and Retirement Bonuses

The School District accrues unused vacation, sick leave and retirement bonuses as a liability. Upon termination or retirement, the employee will be paid for these accumulated absences in accordance with School District policy.

For governmental funds, the amount of reimbursable leave payable to employees who had terminated their employment as of the end of the fiscal year is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability reflected. Historically, the liability for compensated absences and retirement bonuses have been liquidated with monies from the general fund and food service fund.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences and retirement bonuses using the rates in effect at the balance sheet date. The School District has accrued the employer's share of social security and medicare taxes, net the estimated state social security reimbursement.

Other Postemployment Benefits

Postemployment healthcare benefits are earned by employees during their years of service but the benefit will not be received by the employee until after retirement and are reported as Other Postemployment Benefits (OPEB) on the government-wide statements. An estimate of the annual OPEB cost and outstanding obligations are provided by an actuarial valuation, as more fully described in Note 14.

An expenditure is reported in the governmental fund statements as claims are incurred and paid on behalf of retiree health plan participants. Retiree health plan costs are paid from the general fund.

Pension Plan

Substantially all full-time and qualifying part-time employees of the School District participate in a cost sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2009 and has recognized them as expenditures and expenses in the governmental funds.

Interfund Activity

Exchange transactions between governmental funds are eliminated on the government-wide statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Equity

Unreserved fund balance for governmental fund types represents the amount available for budgeting future operations.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity (Continued)

Reserved fund balances for governmental fund types represent the amounts that have been identified for a specified expenditure. Unreserved net assets for proprietary fund types represent the net assets available for future operations or distribution.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - Cash and Cash Equivalents and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository. The deposit and investment policy of the School District adheres to state statutes.

There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk on deposits. As of June 30, 2009, the carrying amount of the School District's deposits was \$8,351,115 and the bank balance was \$8,658,327. Of the bank balance, \$3,015,900 was covered by federal depository insurance and \$5,642,427 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the School District's name. School District deposits not insured by federal depository insurance are held at financial institutions that secure the deposits with a pool of pledged asset collateral in accordance with Pennsylvania Pledge Act 72 or are held by investment pools governed by the Intergovernmental Cooperation Act.

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	\$ 5,642,427
Plus: Insured Amount	<u>3,015,900</u>
Bank Balance	8,658,327
Add: Deposit in Transit	114
Less: Outstanding Checks	\$ <u>(307,326)</u>

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 2 - Cash and Cash Equivalents and Investments (Continued)

<u>Reconciliation of Cash and Cash Equivalents to the Financial Statements (Continued)</u>	
Carrying Amount - Bank Balances	\$ 8,351,115
Plus: Petty Cash	200
Plus: Pooled Cash Equivalents	181,774
Less: Citizen Bank Money Market	(927,746)
Less: Certificates of Deposits	(4,195,062)
<u>Total Cash and Cash Equivalents Per Financial Statements</u>	<u>\$ 3,410,281</u>
<u>Cash and Cash Equivalents on Balance Sheets:</u>	
Governmental Funds	\$ 3,150,672
Proprietary Funds	98,609
Fiduciary Funds	<u>161,000</u>
	<u>\$ 3,410,281</u>

Investments

As of June 30, 2009, the School District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit	0-6 months	\$ 1,738,375
Certificates of Deposit	7-12 months	2,455,788
Certificates of Deposit	More than 12 months	900
PA School District Liquid Asset Fund - Collateralized CD Pool	0-6 months	185,000
PA School District Liquid Asset Fund - Collateralized CD Pool	7-12 months	2,900,000
PA Local Government Investment Trust - PLGIT Daily		181,774
PA Local Government Investment Trust - PLGIT Plus		344,479
PA School District Liquid Asset Fund		4,916,341
Citizens Bank Checking		34,894
Citizens Bank Money Market		927,746
Tamarack U.S. Government Money Market		<u>3,385</u>
<u>Total Investments</u>		<u>\$ 13,688,682</u>

Reconciliation of Investments to the Financial Statements

Total Investments Above	\$ 13,688,682
Less: Pooled Cash Equivalents	<u>(181,774)</u>
<u>Total Investments Per Financial Statements</u>	<u>\$ 13,506,908</u>

Investments on Balance Sheets:

Governmental Funds	\$ 11,299,086
Proprietary Funds	1,975,446
Fiduciary Funds	<u>232,376</u>
<u>Total Investments Per Financial Statements</u>	<u>\$ 13,506,908</u>

Interest Rate Risk

Interest rate risk for investments is the risk that investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair value as a result of future changes in interest rates.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 2 - Cash and Cash Equivalents and Investments (Continued)

Interest Rate Risk (Continued)

The School District manages its exposure to interest rate risk by investing in fixed-rate obligations with a maturity of twelve months or less. The School District has no formal investment policy relative to interest rate risk.

Credit Risk

The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2009, the School District investments were rated as:

<u>Investment</u>	<u>Standard & Poor's Rating</u>
PA Local Government Investment Trust - PLGIT Daily	AAAm
PA Local Government Investment Trust - PLGIT Plus	AAAm
PA School District Liquid Asset Fund	AAAm
PA School District Liquid Asset Fund - Collateralized CD Pool	AAAm
Tamarack U.S. Government Money Market	AAAm

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. More than 5% of the School District's investments are held in the following investments:

<u>Investment</u>	<u>Percent of Total School District Investments</u>
Citizens Bank - Certificate of Deposits, Money Market and Checking	19.56%

Investments reported in the governmental activities exceeding 5% of total governmental activities investments follow:

<u>Investment</u>	<u>Percent of Total Governmental Activities Investments</u>
Citizens Bank - Certificate of Deposit, Money Market and Checking	19.32%

The Citizens Bank certificate of deposit, RBC Wealth Management - Peninsula Bank certificate of deposit and RBC Wealth Management - Bank of N. GA Alpharetta certificate of deposit represent 33.04%, 21.52% and 19.37% of the total investments held in the fiduciary funds, respectively.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District does not have a formal policy for custodial credit risk on investments. None of the School District's investments were subject to custodial credit risk.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 3 - Real Estate Taxes

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2009, was 9.6378 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2009, follows.

July 1	-	Levy Date
July 1 - August 31	-	2% Discount Period
September 1 - October 31	-	Face Payment Period
November 1 - December 31	-	10% Penalty Period
January 1	-	Lien Date (Lancaster County Tax Claim Bureau)

NOTE 4 - Taxes Receivable and Deferred Taxes

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the receivable amount, which was measurable and available within 60 days, was recognized as revenue and the balance deferred. The balances at June 30, 2009, are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Deferred Taxes</u>
Real Estate	\$ 436,513	\$ 4,352	\$ 432,161	\$ 80,124	\$ 352,037
Earned Income	898,923	-0-	898,923	898,923	-0-
Per Capita and Occupation	50	-0-	50	50	-0-
Interim	29,122	-0-	29,122	-0-	29,122
Realty Transfer	<u>30,703</u>	<u>-0-</u>	<u>30,703</u>	<u>30,703</u>	<u>-0-</u>
	<u>\$ 1,395,311</u>	<u>\$ 4,352</u>	<u>\$ 1,390,959</u>	<u>\$ 1,009,800</u>	<u>\$ 381,159</u>

NOTE 5 - Interfund Receivables, Payables, and Transfers

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 89,846	\$ 1,630,811
Capital Reserve Fund	1,127,802	-0-
Debt Service	2,500	-0-
Internal Service Fund - Hospitalization	500,000	-0-
Enterprise Fund - Food Service	<u>509</u>	<u>89,846</u>
	<u>\$ 1,720,657</u>	<u>\$ 1,720,657</u>

A balance of \$89,846 was due to the general fund from the food service fund at June 30, 2009, for outstanding payroll and operating expenses. The general fund owed \$2,500 to the debt service fund for bank fees and \$500,000 to the hospitalization fund to pay future employee healthcare benefits.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 5 - Interfund Receivables, Payables, and Transfers (Continued)

A balance of \$509 was due to the food service fund for social security and retirement subsidies and \$1,127,802 to the capital reserve fund to subsidize future construction, technology projects and capital improvements. Transfers between funds for the year ending June 30, 2009, were as follows:

<u>Fund</u>	<u>Transfer from Other Funds</u>	<u>Transfer to Other Funds</u>
General	\$ -0-	\$ 5,345,008
Capital Reserve	1,127,802	-0-
Athletic	83,231	-0-
Debt Service	3,538,711	-0-
Internal Service - Hospitalization	500,000	-0-
Enterprise - Food Service	<u>95,264</u>	<u>-0-</u>
	<u>\$ 5,345,008</u>	<u>\$ 5,345,008</u>

Money was transferred from the general fund to other funds during the fiscal year to subsidize current and future construction and technology projects, capital improvements, future employee healthcare benefits, food service operations, district athletic programs and debt service payments. The School District accumulates monies in its capital reserve and internal service hospitalization funds to be expended for the purpose of construction, major capital improvements and employee healthcare benefits, which is allowable under state statutes.

NOTE 6 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. Amounts due from federal sources below include amounts due from other governmental entities in Lancaster County as a pass-through grantor. At June 30, 2009, the following amounts are due from other governmental units:

<u>Due from</u>	<u>General Fund</u>	<u>Enterprise Fund</u>
Federal Sources:		
Title I Grant	\$ 234,099	\$ -0-
Title 2A Grant	63,776	-0-
Academic Achievement Grant	5,400	-0-
ACCESS Medical Assistance Reimbursement	50,000	-0-
Lunch Subsidy	-0-	15,918
Breakfast Subsidy	-0-	2,585
State Sources:		
State Retirement Subsidy	184,872	-0-
State FICA Subsidy	74,964	-0-
State-Funded Grants and Subsidies	12,641	-0-
State-Funded Food Nutrition Subsidy	-0-	1,995
Local Sources:		
Pass Through Federal and State Grants	17,826	-0-
Other LEA's for Tuition	32,652	-0-
Other LEA's for Miscellaneous Services	<u>10,514</u>	<u>0-</u>
	<u>\$ 686,744</u>	<u>\$ 20,498</u>

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 7 - Other Receivables

Other receivables consist of payments not received by June 30, 2009, for revenues meeting the requirements for recognition at the end of the fiscal year that are not includable in taxes receivable or amounts due from other governments. Reimbursements for expenditures incurred during the fiscal year have also been included in the following figure. Other receivables at June 30, 2009, include:

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
Insurance Proceeds					
Receivable	\$ -0-	\$ -0-	\$ -0-	\$ 123,610	\$ 123,610
Interest Receivable	14,587	6,832	-0-	32,598	54,017
Miscellaneous					
Receivables	<u>24,416</u>	<u>-0-</u>	<u>1,601</u>	<u>1,157</u>	<u>27,174</u>
	<u>\$ 39,003</u>	<u>\$ 6,832</u>	<u>\$ 1,601</u>	<u>\$ 157,365</u>	<u>\$ 204,801</u>

NOTE 8 - Changes in Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2009, was as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Historical Cost:				
Capital Assets not being				
Depreciated:				
Land	\$ 965,352	\$ -0-	\$ -0-	\$ 965,352
Construction in Process	<u>424,744</u>	<u>1,340,018</u>	<u>1,114,776</u>	<u>649,986</u>
<u>Total Capital Assets, not being Depreciated</u>	<u>1,390,096</u>	<u>1,340,018</u>	<u>1,114,776</u>	<u>1,615,338</u>
Capital Assets being				
Depreciated:				
Buildings and Building				
Improvements	66,683,269	302,100	-0-	66,985,369
Site Improvements	4,244,716	1,114,777	-0-	5,359,493
Furniture and Equipment	8,063,723	348,325	-0-	8,412,048
Vehicles	992,806	131,159	98,121	1,025,844
Library Books	<u>3,146,252</u>	<u>44,585</u>	<u>80,568</u>	<u>3,110,269</u>
<u>Total Capital Assets being Depreciated</u>	<u>\$ 83,130,766</u>	<u>\$ 1,940,946</u>	<u>\$ 178,689</u>	<u>\$ 84,893,023</u>

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 8 - Changes in Capital Assets (Continued)

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Accumulated Depreciation:				
Buildings and Building				
Improvements	\$ 27,170,452	\$ 1,516,672	\$ -0-	\$ 28,687,124
Site Improvements	1,810,119	236,769	-0-	2,046,888
Furniture and Equipment	5,576,301	603,912	-0-	6,180,213
Vehicles	615,881	86,897	98,121	604,657
Library Books	<u>2,991,992</u>	<u>36,700</u>	<u>80,568</u>	<u>2,948,124</u>
<u>Total Accumulated</u>				
<u>Depreciation</u>	<u>38,164,745</u>	<u>2,480,950</u>	<u>178,689</u>	<u>40,467,006</u>
Net Capital Assets being				
Depreciated	<u>44,966,021</u>	<u>(540,004)</u>	<u>-0-</u>	<u>44,426,017</u>
<u>Net Capital Assets</u>	<u>\$ 46,356,117</u>	<u>\$ 800,014</u>	<u>\$ 1,114,776</u>	<u>\$ 46,041,355</u>

Capital asset activity for business-type activities for the year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Historical Cost:				
Capital Assets being				
Depreciated:				
Equipment	\$ 252,610	\$ -0-	\$ -0-	\$ 252,610
Less: Accumulated Depreciation:				
Equipment	<u>106,666</u>	<u>15,309</u>	<u>-0-</u>	<u>121,975</u>
Net Capital Assets being				
Depreciated	<u>145,944</u>	<u>(15,309)</u>	<u>-0-</u>	<u>130,635</u>
<u>Net Capital Assets</u>	<u>\$ 145,944</u>	<u>\$ (15,309)</u>	<u>\$ -0-</u>	<u>\$ 130,635</u>

Depreciation expenses were charged to governmental functions as follows:

Instruction	\$ 1,850,187
Instructional Student Support	154,056
Administration and Financial Services	92,796
Operation and Maintenance of Plant	311,120
Transportation	<u>72,791</u>
	<u>\$ 2,480,950</u>

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 9 - Accrued Salaries and Benefits

At June 30, 2009, the School District was liable for \$2,134,204 of payroll, which is payable during July and August 2009 to those employees who have a ten-month contract, but are paid over a twelve-month period; to non-salaried employees who performed services through June 30, 2009 and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses. The School District was also liable for the following benefits on payroll paid prior to or accrued as of June 30, 2009:

Social Security	\$ 160,833
Retirement	96,410
Workers' Compensation	1,732
Health Benefits	<u>27,185</u>
	<u>\$ 286,160</u>

NOTE 10 - Deferred Revenues and Unearned Revenues

Deferred revenues and unearned revenues consist of the following as of June 30, 2009:

	<u>General</u> <u>Fund</u>	<u>Enterprise</u> <u>Fund</u>	<u>Total</u>
Deferred Taxes	\$ 381,159	\$ -0-	\$ 381,159
Unearned Revenues - Value of Unused Donated Commodities	-0-	14,865	14,865
Unearned Revenues - Food Service Prepayments	<u>-0-</u>	<u>13,085</u>	<u>13,085</u>
	<u>\$ 381,159</u>	<u>\$ 27,950</u>	<u>\$ 409,109</u>

NOTE 11 - Long-Term Debt

General Obligation Bonds

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has four general obligation bond series with interest rates and outstanding principal amounts at June 30, 2009, as follows:

<u>Issue</u>	<u>Final</u> <u>Maturity Date</u>	<u>Interest</u> <u>Rates</u>	<u>Principal Amount</u> <u>Outstanding at June 30, 2009</u>
Series of 2002	February 1, 2011	4.00%	\$ 1,060,000
Series of 2003	February 1, 2011	2.60% - 2.80%	645,000
Series of 2005	February 15, 2015	3.00% - 3.70%	3,905,000
Series of 2006	February 15, 2014	3.50% - 5.00%	<u>12,000,000</u>
			<u>\$ 17,610,000</u>

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 11 - Long-Term Debt (Continued)

General Obligation Bonds (Continued)

The General Obligation Bonds, Series of 2002, dated July 15, 2002, were issued for the purpose of currently refunding the School District's outstanding General Obligation Bonds, Series A of 1992 and Series B of 1992 and to pay the costs of issuing and insuring the bonds. The principal amount of the Series of 2002 outstanding at June 30, 2009, was \$1,060,000 due in various amounts as described in the indenture from August 1, 2009 through February 1, 2011. The interest rate for the Series of 2002 remains constant at 4.00% from June 30, 2009 through the maturity date of February 1, 2011.

The General Obligation Bonds, Series of 2003, dated July 1, 2003, were issued for the purpose of currently refunding the School District's outstanding General Obligation Bonds, Series of 1998, and to provide funds to pay the cost and expenses related to the issuance of the bonds. The principal amount of the Series of 2003 outstanding at June 30, 2009, was \$645,000 due in various amounts as described in the indenture from August 1, 2009 through February 1, 2011. The interest rate varies from 2.60% at June 30, 2009, to 2.80% at February 1, 2011.

The General Obligation Bonds, Series of 2005, dated April 1, 2005, were issued to advance refund the General Obligation Bonds, Series of 2001 and pay the costs of issuing and insuring the Bonds. The principal amount of the Series of 2005 outstanding at June 30, 2009, was \$3,905,000 due in various amounts as described in the indenture from August 15, 2009 through February 15, 2015. The interest rate increases from 3.00% at June 30, 2009, to 3.70% at February 15, 2015.

The General Obligation Bonds, Series of 2006, dated December 15, 2006, were issued for the purpose of currently refunding the School District's General Obligation Bonds, Series of 1997, and for payment of the costs and expenses of issuing the bonds. The bonds were issued at a \$462,646 premium, amortized over the life of the bond issue. The unamortized bond premium at June 30, 2009, totaled \$240,394. The principal amount of the Series of 2006 outstanding at June 30, 2009, was \$12,000,000 payable in various amounts as described in the indenture from August 15, 2009, through February 15, 2014. Interest rates on upcoming payments range between 3.50% and 5.00% as described in the indenture.

Debt Defeasance

In the past, the School District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial purposes, the debt has been considered defeased and removed as a liability from the School District's long-term debt obligation. As of June 30, 2009, the School District had no outstanding defeased debt balances.

Debt Service Requirements

The following schedule reveals the annual debt service requirements to maturity for the general obligation debt.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 11 - Long-Term Debt (Continued)

Debt Service Requirements (Continued)

<u>Year Ending</u> <u>June 30,</u>	<u>Series of 2002</u>		<u>Year Ending</u> <u>June 30,</u>	<u>Series of 2003</u>	
	<u>Interest</u> <u>Payment</u>	<u>Principal</u> <u>Payment</u>		<u>Interest</u> <u>Payment</u>	<u>Principal</u> <u>Payment</u>
2010	\$ 42,400	\$ 520,000	2010	\$ 17,420	\$ 320,000
2011	<u>21,600</u>	<u>540,000</u>	2011	<u>9,100</u>	<u>325,000</u>
	\$ <u>64,000</u>	\$ <u>1,060,000</u>		\$ <u>26,520</u>	\$ <u>645,000</u>
<u>Year Ending</u> <u>June 30,</u>	<u>Series of 2005</u>		<u>Year Ending</u> <u>June 30,</u>	<u>Series of 2006</u>	
	<u>Interest</u> <u>Payment</u>	<u>Principal</u> <u>Payment</u>		<u>Interest</u> <u>Payment</u>	<u>Principal</u> <u>Payment</u>
2010	\$ 140,718	\$ 160,000	2010	\$ 512,425	\$ 1,830,000
2011	135,918	165,000	2011	439,225	1,900,000
2012	130,637	275,000	2012	364,475	2,645,000
2013	121,425	280,000	2013	258,675	2,755,000
2014	111,625	300,000	2014	<u>143,500</u>	<u>2,870,000</u>
2015	<u>100,825</u>	<u>2,725,000</u>			
	\$ <u>741,148</u>	\$ <u>3,905,000</u>		\$ <u>1,718,300</u>	\$ <u>12,000,000</u>

The following schedule reveals the summary of the annual debt service requirements to maturity for the general obligation bond series:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Payment</u>	<u>Principal</u> <u>Payment</u>	<u>Total</u>
2010	\$ 712,963	\$ 2,830,000	\$ 3,542,963
2011	605,843	2,930,000	3,535,843
2012	495,112	2,920,000	3,415,112
2013	380,100	3,035,000	3,415,100
2014	255,125	3,170,000	3,425,125
2015	<u>100,825</u>	<u>2,725,000</u>	<u>2,825,825</u>
	\$ <u>2,549,968</u>	\$ <u>17,610,000</u>	\$ <u>20,159,968</u>

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 11 - Long-Term Debt (Continued)

Change in Long-Term Liabilities

Long-term liability activity can be summarized as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>
General Obligation Bonds	\$ 20,350,000	\$ -0-	\$ 2,740,000	\$ 17,610,000
Bond Issue Premium	329,912	-0-	89,518	240,394
Estimated Liability for Compensated Absences	1,000,160	49,507	66,554	983,113
Estimated Liability for Accrued Retirement Bonus	482,174	127,382	33,933	575,623
Estimated Net Other Postemployment Benefit (OPEB) Obligation	<u>-0-</u>	<u>299,934</u>	<u>-0-</u>	<u>299,934</u>
	<u>\$ 22,162,246</u>	<u>\$ 476,823</u>	<u>\$ 2,930,005</u>	<u>\$ 19,709,064</u>

Current Portion of Long-Term Liabilities

The portion of each long-term liability due within one year of June 30, 2009, is detailed below:

	<u>Current Portion of</u> <u>Long-Term Liabilities</u>	<u>Noncurrent Portion of</u> <u>Long-Term Liabilities</u>
General Obligation Bonds	\$ 2,830,000	\$ 14,780,000
Bond Issue Premium	61,316	179,078
Estimated Liability for Compensated Absences	234,494	748,619
Estimated Liability for Accrued Retirement Bonus	51,498	524,125
Estimated Net Other Postemployment Benefit (OPEB) Obligation	<u>-0-</u>	<u>299,934</u>
	<u>\$ 3,177,308</u>	<u>\$ 16,531,756</u>

The general fund and the food service fund have been used in prior years to liquidate long-term liabilities other than debt.

NOTE 12 - Compensated Absences

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2009:

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 12 - Compensated Absences (Continued)

Professional Staff and Administration:	
Accumulated Sick Leave	\$ 567,160
Accumulated Vacation Leave	206,003
Medicare on Leave Amounts Above (net of State Reimbursement)	<u>29,574</u>
	<u>\$ 802,737</u>
Support Staff:	
Accumulated Sick Leave	\$ 61,498
Accumulated Vacation Leave	112,233
Employer Social Security and Medicare on Leave Amounts Above (net of State Reimbursement)	<u>6,645</u>
	<u>180,376</u>
<u>Total Accumulated Compensated Absences</u>	<u>\$ 983,113</u>

NOTE 13 - Accrued Retirement Bonus

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or Act 93 agreement will receive a lump sum retirement bonus. A summary of the amount recorded as a liability in the governmental activities for this supplemental retirement benefit is as follows for June 30, 2009:

Estimated Accrued Retirement Benefit	\$ 554,417
Employer Social Security and Medicare on Retirement Bonus (net of State Reimbursement)	<u>21,206</u>
	<u>\$ 575,623</u>

NOTE 14 - Other Post Employment Benefits (OPEB) - Post Retirement Health Care Benefit Plan

Plan Description

The School District permits employees who satisfy post-employment health care plan eligibility requirements to continue group medical insurance coverage to age 65 or until eligible for Medicare, whichever occurs first, by remitting the premium to the School District. The retiree's cost of group insurance is calculated by the plan administrator and is based on projected expenditures for the year. School District employees eligible for post-employment health care plan participation include employees who retire at age 62 or later, with at least one year of PSERS service; employees who retire from the school district with at least twenty years of service in the School District; employees who retire at age 60 or older with at least thirty years of PSERS service or employees who retire at any age with at least thirty-five years of PSERS service.

The retiree's premium for the group insurance is payable in advance on a semi-annual basis. The School District is responsible for all claims in excess of the premiums received by the qualified retirees and has elected to finance post employment benefits on a pay-as-you-go basis. The School District provided health care benefits for 32 eligible retired employees during the fiscal year. Total claims paid on behalf of these participants and premiums paid by the retired employees to the School District, for the year ended June 30, 2009, were \$420,387 and \$231,006, respectively.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 14 - Other Post Employment Benefits (OPEB) - Post Retirement Health Care Benefit Plan (Continued)

Funding Policy

The plan is unfunded. The School District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The School District has elected to amortize its initial unfunded actuarial liability over eleven years. The following table shows the components of the School District's annual OPEB cost for the year and the net OPEB obligation at June 30, 2009.

Annual Required Contribution (ARC)	\$ 412,306
Interest on Net OPEB Obligation	-0-
Adjustments to Annual Required Contribution	<u>-0-</u>
Annual OPEB Cost	412,306
Contributions Made (Estimated)	<u>(112,372)</u>
Increase in Net OPEB Obligation	299,934
Net OPEB Obligation - Beginning of Year	<u>-0-</u>
Estimated NET OPEB Obligation - End of Year	\$ <u>299,934</u>

The School District implemented GASB Statement No. 45 during fiscal year ended June 30, 2009, and has elected to implement the standard prospectively. Therefore, prior year comparative and trend data is not available. In future years, comparative and trend information will be presented. As of December 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) equaled \$2,336,382. Total covered payroll (annual payroll of active employees covered by the Plan) equaled \$17,336,562 and the ratio of the UAAL to the covered payroll equaled 13.48%.

NOTE 15 - Operating Lease

Lease Rental Debt, Series of 1998 dated October 7, 1998, was issued by the Lancaster County Career and Technical Center Authority (the "Authority") to advance refund the Authority's Series of 1995 Lease Revenue Bonds. The 1995 bonds were issued to provide funds for the upgrading and modernization of the facilities of the Lancaster County Career and Technical Center. The Lancaster County Career and Technical Center and the 16 member school districts have entered into a lease agreement with the Authority and each school district will pay its proportionate share of the lease rentals in order to fund the Series of 1998 debt. The final rental payment under this operating lease is scheduled for payment during the fiscal year ended June 30, 2010, in the amount of \$122,539.

NOTE 16 - Risk Management

Hospitalization

The School District participates with 14 other school districts in the Lancaster-Lebanon Public Schools Employees' Healthcare Consortium (EHCC) to provide for the medical care for eligible employees and their dependents. The EHCC is a self-insured stop-loss pool. The School District remits funds to the third-party administrators. The third-party administrators, upon receiving funds from the School District, process and pay the claims.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 16 - Risk Management (Continued)

Hospitalization (Continued)

The School District is self-insured for claims up to \$75,000. The EHCC pool reimburses monies to the School District for individual claims above \$75,000 up to a maximum of \$150,000. The Pool has commercial insurance for claims greater than \$150,000. Complete financial information for the EHCC pool can be obtained from the Lancaster-Lebanon Intermediate Unit #13, Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601-5606. The School District was limited in liability to \$150,000 per individual and \$3,686,798 in total for hospitalization claims for the year ended June 30, 2009. Transactions related to this hospitalization plan are reflected in the self-insurance hospitalization fund, which is an internal service fund. A liability for claims incurred prior to June 30, 2009 and paid subsequently is recorded in the amount of \$317,333 in accounts payable in the internal service fund. The School District uses actual claims reported for the period June 30 through at least the subsequent 60 days, as a basis for estimating the liability for unpaid claims. Historically, most claims are reported within the 60-day period following the medical service. For the year ended June 30, 2008, the liability for claims incurred prior to June 30, 2008 and paid subsequently was \$204,609.

Unemployment

The School District has elected to self-insure for unemployment compensation rather than contribute to the state fund. Transactions relating to this plan are reflected in the self-insurance unemployment compensation fund, which is an internal service fund. Liabilities for claims incurred, which were unpaid at June 30, 2009, are estimated to be \$8,089 and are recorded as a liability in the internal service fund.

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 17 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and re-insurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2009, the School District is not aware of any additional assessments relating to the Fund.

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. There was no change in the level of the School District's insurance coverage and no settlements exceeding insurance coverage during the year ended June 30, 2009 and the three previous fiscal years.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 16 - Risk Management (Continued)

Change in Aggregate Claim Liabilities

Changes in the School District's claims liability amount in fiscal years 2009 and 2008 were:

	<u>Year Ended June 30, 2009</u>		
	<u>Hospitalization</u>	<u>Unemployment</u>	<u>Total</u>
Claim Liability at July 1, 2008	\$ 204,609	\$ 763	\$ 205,372
Current Year Claims and Changes in Estimates	3,922,888	18,670	3,941,558
Claim Payments	<u>(3,810,164)</u>	<u>(11,344)</u>	<u>(3,821,508)</u>
Claim Liability at June 30, 2009	\$ <u>317,333</u>	\$ <u>8,089</u>	\$ <u>325,422</u>

	<u>Year Ended June 30, 2008</u>		
	<u>Hospitalization</u>	<u>Unemployment</u>	<u>Total</u>
Claim Liability at July 1, 2007	\$ 254,695	\$ 447	\$ 255,142
Current Year Claims and Changes in Estimates	2,929,185	2,660	2,931,845
Claim Payments	<u>(2,979,271)</u>	<u>(2,344)</u>	<u>(2,981,615)</u>
Claim Liability at June 30, 2008	\$ <u>204,609</u>	\$ <u>763</u>	\$ <u>205,372</u>

NOTE 17 - Income Protection and Sick Leave Bank

Income Protection

The School District provides income protection for its full-time professional employees in cases of total disability resulting from accidental bodily injury or sickness, exclusive of those injuries or illnesses covered by workers' compensation. Under the plan, the amount of monthly benefit shall be two thirds of the gross per diem salary for the school year 2008-2009. Benefits shall be payable for a maximum of 270 teaching days and shall begin on the first day after exhaustion of sick leave, but not before the thirty-first teaching day of continuous disability. The aggregate cost to the School District for potential long-term disability could not be reasonably estimated at June 30, 2009 and is, therefore, not recorded as a liability in the long-term debt obligation. During the school year 2008-2009, benefits totaling \$22,863 were paid to employees under the plan.

Sick Leave Bank

Membership in the School District's sick leave bank is available to professional employees on a voluntary basis with automatic annual renewal. Members may contribute one (1) sick leave day to the bank per contribution period with a maximum contribution of two (2) days per fiscal year. The use of days from the sick leave bank is intended for unforeseen, unplanned or catastrophic long-term illness or injury that is unavoidable during the school year and necessitates absence from professional duties. Sick leave bank days may be used in conjunction with income protection. The estimated liability for payment of sick leave bank days is included in the accrual for compensated absences.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
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NOTE 18 - Defined Benefit Pension Plan

Plan Description

The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the Plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The Plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. The Plan also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the Plan. That report may be obtained by writing to PSERS, P.O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy

The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Plan members may belong to two membership classes. Class TC and Class TD are available to plan members. Active members who joined the Plan before July 22, 1983, are required to contribute 5.25 percent of their compensation if they are in Class TC or 6.50 percent for Class TD. Members who joined on or after July 11, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25 percent for Class TC or 7.50 percent for Class TD. Members who joined the Plan after June 30, 2001, are automatically in Class TD and are required to contribute 7.50 percent.

The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2009, the rate of employer contributions was 4.76 percent of covered payroll with 4.00 percent of the rate utilized for pension benefits and .76 percent for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is approximately one-half of the total employer rate. The School District's and the members' contributions, expressed in dollars and as a percentage of total covered payroll, follows:

	<u>School District's</u> <u>Contribution</u>		<u>Members'</u> <u>Contribution</u>	
	<u>Dollars</u>	<u>Percentage</u>	<u>Dollars</u>	<u>Percentage</u>
For the Year Ended:				
June 30, 2009	\$ 975,259	4.76%	\$ 1,495,781	7.18%
2008	1,396,433	7.13%	1,434,248	7.30%
2007	1,230,298	6.46%	1,387,827	7.18%

The School District's and Members' contributions are equal to the required contribution for each year.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 19 - Specific Reserved Fund Balances

Specific reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. At June 30, 2009, the School District has included the following amounts as specific reserved fund balances:

<u>General Fund</u> - Reserve for Inventory	\$ <u>324,711</u>
<u>General Fund</u> - Reserve for Prepaid Items	\$ <u>26,768</u>
<u>General Fund</u> - Reserve for Debt Service Payments	\$ <u>356,469</u>
<u>Debt Service Fund</u> - Reserve for Debt Service Payments	\$ <u>3,445</u>
<u>Athletic Fund</u> - Reserve for Inventory	\$ <u>22,003</u>
<u>Fiduciary Funds</u> - Reserve for Scholarships	\$ <u>207,456</u>
<u>Fiduciary Funds</u> - Reserve for Display Maintenance Costs	\$ <u>3,828</u>

NOTE 20 - Designated Fund Balance

Designated fund balances represent fund balances that are segregated for tentative plans to use financial resources in a future period. At June 30, 2009, the School District has included the following as a designated fund balance:

<u>General Fund</u> - Designated for Retirement Benefit Payments	\$ <u>1,500,000</u>
<u>General Fund</u> - Designated for Other Post-Employment Benefit Costs	\$ <u>325,000</u>

NOTE 21 - Contingencies and Commitments

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Litigation

The School District is involved in various claims and legal actions arising in the ordinary course of business. Any potential losses related to these legal actions cannot be reasonably estimated at this time.

Construction Projects

An outstanding construction commitment of \$30,727 exists at June 30, 2009, for the Quarryville Elementary roof replacement project. The project commitment will be paid from the capital reserve fund during the 2009-2010 school year.

Solanco School District
NOTES to the BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 21 - Contingencies and Commitments

PURTA Reevaluation

The Pennsylvania Legislature revised the method used to value regulated public utilities for the assessment of real estate tax. Prior to the change, the Pennsylvania Utility Real Estate Tax Authority assessed real estate taxes of regulated public utility property according to the state assessment values. Under the law, regulated public utilities are assessed real estate tax on the tax base determined by the local county assessment.

During February 2004, a settlement was reached between Exelon Generation Company, LLC (“Company”), an affiliate of PECO Energy Company, and the School District, the County of Lancaster and the Lancaster County Board of Assessment Appeals in regards to the new assessed values of the Company’s real estate under the PURTA changes.

Under this agreement, the Company shall pay real estate taxes on the properties based on the following assessed values:

July 1, 2009	\$35,000,000
2010	\$30,000,000