

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009

As management of Solanco School District, we offer readers of Solanco School District's financial statements this narrative overview and analysis of the financial activities of Solanco School District for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages I-1 through I-11 of this report.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended June 30, 2009, are as follows:

- The total assets of Solanco School District exceeded its liabilities at June 30, 2009, by \$40.8 million (*net assets*). Of this amount, \$12.1 million (*unrestricted net assets*) may be used to meet the School District's ongoing obligations to students and residents. Total net assets increased by \$1.8 million, almost 4.7 percent from the previous fiscal year.
- Total revenues generated from all governmental and business-type activities during the 2008-2009 fiscal year remained relatively stable, increasing by \$0.1 million, less than one percent from the prior fiscal year. Total expenses from all governmental and business-type activities increased at a significantly higher rate of \$2.4 million or 5.9 percent during the same period.
- Total net assets of governmental activities increased \$1.8 million or 4.7 percent from the previous fiscal year. Revenues generated from governmental activities reported a small increase of \$0.1 million, less than one percent, while expenses increased \$2.4 million or 6.2 percent during the fiscal year ended June 30, 2009.
- The School District's food service program, the only business-type activity, reported a slight decrease in net assets of \$4.3 thousand during 2008-2009. Total food service revenues increased \$38.8 thousand or 2.3 percent and expenses decreased \$22.0 thousand or 1.3 percent during the same period.
- The School District implemented Governmental Accounting Standards Board Statement No. 45 during the 2008-2009 fiscal year, reporting estimated Net Other Postemployment Benefit (OPEB) liabilities of \$0.3 million for June 30, 2009. As reported on the statement of net assets, total government-wide liabilities decreased by \$2.0 million or 7.6 percent from the prior year.
- Net capital asset investments totaling \$46.2 million, as reported on the statement of net assets for governmental and business-type activities for 2008-2009, decreased by \$0.3 million from the prior year. Capital asset additions of \$2.1 million were offset by annual depreciation expense of \$2.5 million during the fiscal year ended June 30, 2009. Major capital asset investments included the repair and replacement of the Bart Colerain Elementary School, Quarryville Elementary School and Solanco High School roofs, reconstruction and improvement of the high school stadium field and track, and the purchase of school district technology equipment. No additional debt was incurred to fund these projects.
- As of June 30, 2009, the School District's governmental funds reported combined ending fund balances of \$11.8 million, a decrease of \$0.9 million or 6.9 percent in comparison with the prior year. Approximately 78.5 percent of total governmental fund balance is available for spending at the School District's discretion (*unreserved, undesignated fund balance*).

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, notes to those statements and other required supplementary information. These statements are organized so the reader can understand Solanco School District as a financial whole.

The statement of net assets and statement of activities provide information on a district-wide basis. The statements present an aggregate view of the School District's finances. District-wide statements contain useful long-term information as well as information for the just-completed fiscal year.

The remaining statements are fund financial statements that focus on individual parts of the School District. Fund financial statements generally report operations in more detail than the district-wide statements. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Solanco School District, the general fund is the most significant fund.

The notes to the basic financial statements provide further explanation of some of the information presented in the statements and provide additional disclosures so statement users have a complete picture of the School District's financial activities and position.

Required supplementary information further explains and supports the financial statements by including comparison of the School District's budget data for the year.

Notes to the required supplementary information explain and support the required supplementary information.

The major features of the School District's financial statements, including the portion of the activities reported and the type of information contained, is shown in the following table. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each statement.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Figure 1
Major Features of Solanco School District's
Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as instructional, support services and community services	Activities the School District operates similar to private business; the School District's food service program is its only proprietary operation	Assets held by the School District on behalf of someone else; student activity funds and scholarship trust funds are reported here
Required financial statements	Statement of net assets and Statement of activities	Balance sheet and Statement of revenues, expenditures and changes in fund balance	Statement of net assets and Statement of revenues, expenses and changes in net assets and Statement of cash flows	Statement of fiduciary net assets and Statement of changes in fiduciary net assets
Basis of accounting and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital; short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital; short-term and long-term	All assets and liabilities, both financial and capital; short-term and long-term; these funds do not currently contain any capital assets
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions or deductions during the year, regardless of when cash is received and paid

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

OVERVIEW of FINANCIAL STATEMENTS

Government-wide Statements

Our analysis for the School District as a whole begins on page F-7. The statement of net assets and the statement of activities report information about the School District as a whole. These statements portray the School District's overall financial position for the fiscal year and explain if the overall financial position has improved or diminished. Additionally, these statements include all assets and liabilities using the accrual basis of accounting. Amounts shown as "Due to/Due from" various funds in the fund balance sheet are eliminated under this basis of accounting for the statement of net assets. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in net assets. The change in net assets is important because it tells the reader if the School District's financial position as a whole has improved or diminished. To assess the overall financial condition of the School District, additional non-financial factors, such as changes in the School District's property tax base and the condition of school buildings and other facilities, should be considered. Management's discussion and analysis of the many factors affecting the School District's financials will help to identify the causes of any changes in net assets.

In the statement of net assets and the statement of activities, the School District's financial information is divided into two distinct kinds of activities:

- *Governmental Activities* - Most of the School District's programs and services are reported here including regular and special education instruction, support services, administration, operation and maintenance of plant, pupil transportation, community services and extracurricular activities. Property and earned income taxes in addition to state formula aid finance most of these activities.
- *Business-type Activities* - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food service is reported as a business activity.

REPORTING the SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Funds are accounting devices the School District uses to keep track of funding sources and spending on particular programs and to demonstrate compliance with various regulatory requirements. The primary statements for the School District's major funds begin on page F-31. The proprietary fund financial statements begin on page F-37 and provide detailed information about the most significant funds, not the School District as a whole. The School District's two types of funds: governmental and proprietary, use different accounting approaches.

Some funds are required by state law and by bond covenants. The School District establishes other funds to control and manage money for particular purposes (i.e. repayment of debt) or to demonstrate the proper use of specific revenues, such as capital projects.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Fund Financial Statements (Continued)

The School District has three types of funds:

- **Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. Governmental fund information does not report on long-term debt as reported on government-wide statements. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - Services for which the School District charges a fee are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities. The School District's enterprise fund (one type of proprietary fund) is the same activity reported as business-type activities in the government-wide statements. The enterprise fund format provides more detail and additional information, such as cash flows. The food service program is the School District's only enterprise fund. The food service program is an activity for which the School District charges a fee and expects revenues to cover all expenses. The School District uses internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for its other programs and activities. The School District has two internal service funds, the hospitalization fund and unemployment fund.
- **Fiduciary Funds** - The School District serves as a trustee or agent for student organizations and scholarship trusts. The assets of these organizations belong to the organizations and trusts and not the School District. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used strictly by those to whom the assets belong. These activities are excluded from the district-wide financial statements because the School District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS of the SCHOOL DISTRICT as a WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. The statement of net assets provides the perspective of the School District as a whole. In the case of the Solanco School District, assets exceeded liabilities by \$40.8 million on June 30, 2009.

The largest portion of the Solanco School District's net assets, approximately 69.4 percent, reflects its investment in capital assets (land, buildings, furniture, equipment, vehicles and library books) less any related outstanding debt to acquire the assets. The School District uses these capital assets to provide services to School District students and residents, consequently, these assets are not available for future spending. Although the School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Net Assets (Continued)

Figure 2 provides a summary of the School District's total net assets for the years ended June 30, 2009 compared to June 2008.

Figure 2
Nets Assets
Fiscal Years Ended June 30, 2009 and June 30, 2008
(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets						
Current and Other Assets	\$ 19,221.8	\$ 19,114.8	\$ 94.0	\$ 95.1	\$ 19,315.8	\$ 19,209.9
Capital Assets, net of Depreciation	<u>46,041.4</u>	<u>46,356.1</u>	<u>130.6</u>	<u>145.9</u>	<u>46,172.0</u>	<u>46,502.0</u>
<u>Total Assets</u>	<u>65,263.2</u>	<u>65,470.9</u>	<u>224.6</u>	<u>241.0</u>	<u>65,487.8</u>	<u>65,711.9</u>
Liabilities						
Current and Other Liabilities	8,095.6	7,476.9	30.7	42.7	8,126.3	7,519.6
Long-term Liabilities	<u>16,531.8</u>	<u>19,178.1</u>	<u>-0-</u>	<u>-0-</u>	<u>16,531.8</u>	<u>19,178.1</u>
<u>Total Liabilities</u>	<u>24,627.4</u>	<u>26,655.0</u>	<u>30.7</u>	<u>42.7</u>	<u>24,658.1</u>	<u>26,697.7</u>
Net Assets						
Invested in Capital Assets, net of Related Debt	28,191.0	25,676.2	130.6	146.0	28,321.6	25,822.2
Restricted	359.9	406.0	-0-	-0-	359.9	406.0
Unrestricted	<u>12,084.9</u>	<u>12,733.7</u>	<u>63.3</u>	<u>52.3</u>	<u>12,148.2</u>	<u>12,786.0</u>
<u>Total Net Assets</u>	<u>\$ 40,635.8</u>	<u>\$ 38,815.9</u>	<u>\$ 193.9</u>	<u>\$ 198.3</u>	<u>\$ 40,829.7</u>	<u>\$ 39,014.2</u>

Less than one percent of the Solanco School District's net assets represent resources that are reserved or restricted for upcoming debt service payments. The remaining unrestricted net asset balance of \$12.1 million or 29.8 percent of total net assets may be used to meet the School District's ongoing operations and obligations. The School District's combined net assets grew \$1.8 million or 4.7 percent during the 2008-2009 fiscal year. Governmental activities are responsible for the growth in net assets at June 30, 2009, representing 99.5 percent of government-wide total net assets.

The percentage of total net assets *Unrestricted* and available to fund future operations and obligations decreased \$0.6 million or 5.0 percent during the fiscal year ended June 30, 2009, while the portion of total net assets invested in *Capital Assets, net of Related Debt*, grew \$2.5 million or 9.7 percent. Capital asset purchases totaling \$2.1 million, annual depreciation expense of \$2.4 million and long-term bond debt reduction of \$2.8 million during the 2008-2009 fiscal year, contributed to the net growth in *Capital Assets, net of Related Debt* reported for governmental activities.

Total net assets of the Solanco School District exceeded total liabilities by \$16.2 million on June 30, 2009. Total current liabilities represent 42.1 percent of total current assets and total liabilities represent 37.7 percent of total assets. Both percentages signify the School District's strong financial position and capability to repay outstanding financial obligations.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Changes in Net Assets

The results of this year's operations as a whole are reported in the statement of activities on page F-30. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The basic education subsidy provided by the Pennsylvania Department of Education (PDE) and local taxes assessed to community taxpayers such as real estate and earned income, both of which are reported as general revenues, represent the two largest revenue sources for the School District. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2009 and 2008.

Figure 3
Changes in Net Assets
Fiscal Years Ended June 30, 2009 and June 30, 2008
(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 270.3	\$ 315.1	\$ 950.0	\$ 946.0	\$ 1,220.3	\$ 1,261.1
Operating Grants/Contributions	8,957.0	8,706.0	655.8	642.1	9,612.8	9,348.1
Capital Grants and Contributions	739.3	817.2	-0-	-0-	739.3	817.2
General Revenues:						
Property Taxes	16,582.4	16,055.7	-0-	-0-	16,582.4	16,055.7
Other Taxes	6,233.4	6,688.2	-0-	-0-	6,233.4	6,688.2
Grants, Subsidies, and Unrestricted Contributions	9,350.8	9,059.7	-0-	-0-	9,350.8	9,059.7
Other Revenue	<u>509.0</u>	<u>869.6</u>	<u>1.4</u>	<u>3.5</u>	<u>510.4</u>	<u>873.1</u>
<u>Total Revenues</u>	<u>42,642.2</u>	<u>42,511.5</u>	<u>1,607.2</u>	<u>1,591.6</u>	<u>44,249.4</u>	<u>44,103.1</u>
Expenses						
Instruction	25,812.4	23,999.4	-0-	-0-	25,812.4	23,999.4
Instructional Student Support	3,442.3	3,198.1	-0-	-0-	3,442.3	3,198.1
Administrative and Financial Support Services	3,660.0	3,492.5	-0-	-0-	3,660.0	3,492.5
Operation and Maintenance of Plant Services	3,333.3	3,148.0	-0-	-0-	3,333.3	3,148.0
Pupil Transportation	2,925.7	2,862.8	-0-	-0-	2,925.7	2,862.8
Student Activities	841.3	830.9	-0-	-0-	841.3	830.9
Community Services	23.1	20.9	-0-	-0-	23.1	20.9
Interest on Long-term Debt	688.9	787.2	-0-	-0-	688.9	787.2
Bond Issuance and Swap Termination Costs	-0-	-0-	-0-	-0-	-0-	-0-
Food Services	<u>-0-</u>	<u>-0-</u>	<u>1,706.8</u>	<u>1,728.8</u>	<u>1,706.8</u>	<u>1,728.8</u>
<u>Total Expenses</u>	<u>40,727.0</u>	<u>38,339.8</u>	<u>1,706.8</u>	<u>1,728.8</u>	<u>42,433.8</u>	<u>40,068.6</u>
Excess/(Deficiency) before Transfers	1,915.2	4,171.7	(99.6)	(137.2)	1,815.6	4,034.5
Transfers	<u>(95.3)</u>	<u>(72.0)</u>	<u>95.3</u>	<u>72.0</u>	<u>-0-</u>	<u>-0-</u>
<u>Increase (Decrease) in Net Assets</u>	\$ <u>1,819.9</u>	\$ <u>4,099.7</u>	\$ <u>(4.3)</u>	\$ <u>(65.2)</u>	\$ <u>1,815.6</u>	\$ <u>4,034.5</u>

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Changes in Net Assets (Continued)

The School District's total revenue for the fiscal year ended June 30, 2009 was \$44.2 million and the total cost of all programs and services during the same period was \$42.4 million. Total revenues exceeded total expenses by \$1.8 million during the fiscal year ended June 30, 2009 and \$4.0 million during the year ended June 30, 2008. Total 2008-2009 revenues remained relatively stable compared to the prior year, with a slight increase of \$0.1 million or less than one percent.

Program revenues collected from *Charges for Services* and *Capital Grants and Contributions* during 2008-2009 were collectively \$0.1 million or 5.7 percent lower than the previous year, however, *Operating Grants and Contributions*, reported an increase of \$0.3 million or 2.8 percent from the prior year. A new state revenue source labeled, "Reimbursement of Basic Education Expenditures", was received during 2008-2009 from the Pennsylvania Department of Education in the amount of \$0.5 million. The revenue was reported in the category, *Operating Grants and Contributions* and was primarily responsible for the net increase in total program revenues. Total income received from *General Revenues* remained relatively constant during 2008-2009 and 2007-2008.

The School District incurred total expenses of \$42.4 million for the fiscal year ended June 30, 2009, an increase of \$2.3 million or 5.9 percent from the 2007-2008, total of \$40.1 million. Expenses for each of the programs: *Instruction*, *Instructional Student Support*, *Administrative and Financial Support Services* and the *Operation and Maintenance of Plant Services* increased 4.8 percent or more during the 2008-2009 fiscal year. *Instruction* program expenses increased \$1.8 million or 7.6 percent, *Instructional Student Support* expenses grew by \$0.2 million or 7.6 percent, *Administrative and Financial Support Services* expenses expanded \$0.2 million or 4.8 percent from the prior year and expenses associated with the *Operation and Maintenance of Plant Services* rose by \$0.2 million or 5.9 percent. Higher payroll and benefit costs accounted for the growth of *Instruction* and *Instructional Student Support* program expenses. Expanded payroll and benefit costs and technology equipment expenditures attributed to the growth of *Administrative and Financial Support Services* expenses. *Operation and Maintenance of Plant Services* expenses were magnified by rising payroll and benefit costs in addition to higher energy supply costs.

Instruction program expenses represent 60.8 percent of total expenses for the 2008-2009 fiscal year. *Instructional Student Support* expenses account for 8.1 percent and include the following student support services: guidance, appraisal, attendance, psychological, speech/audiology, social work, student accounting, technology/computer assisted instruction, school library, instruction and curriculum development, instructional staff development and pupil health. *Administrative and Financial Support* expenses such as business services, board services, tax assessment and collection services, census services, negotiation and staff relations, legal services, administrative services, community relation services, staff services, non-instructional staff development, federal program liaison services and technology support services represent 8.6 percent of the total. Expenses associated with the *Operation and Maintenance of Plant Services* accounted for 7.9 percent and *Pupil Transportation* 6.9 percent. School sponsored athletic program expenses and other *Student Activities* expenses associated with school sponsored clubs, music department and drama department activities comprised 2.0 percent of total expenses. Payments for *Interest on Long-term Debt* generated 1.6 percent of total expenses for the year ended June 30, 2009. Expenses associated with *Community Services* represented less than 1.0 percent and expenses generated from *Food Services* activities accounted for 4.0 percent. The following pie graph illustrates the percentage of dollars utilized for each expense function (category) as a percentage of total School District expenses incurred during the fiscal year ended June 30, 2009.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Changes in Net Assets (Continued)

Figure 4
Government-wide Expenses as a % of Total Expenses

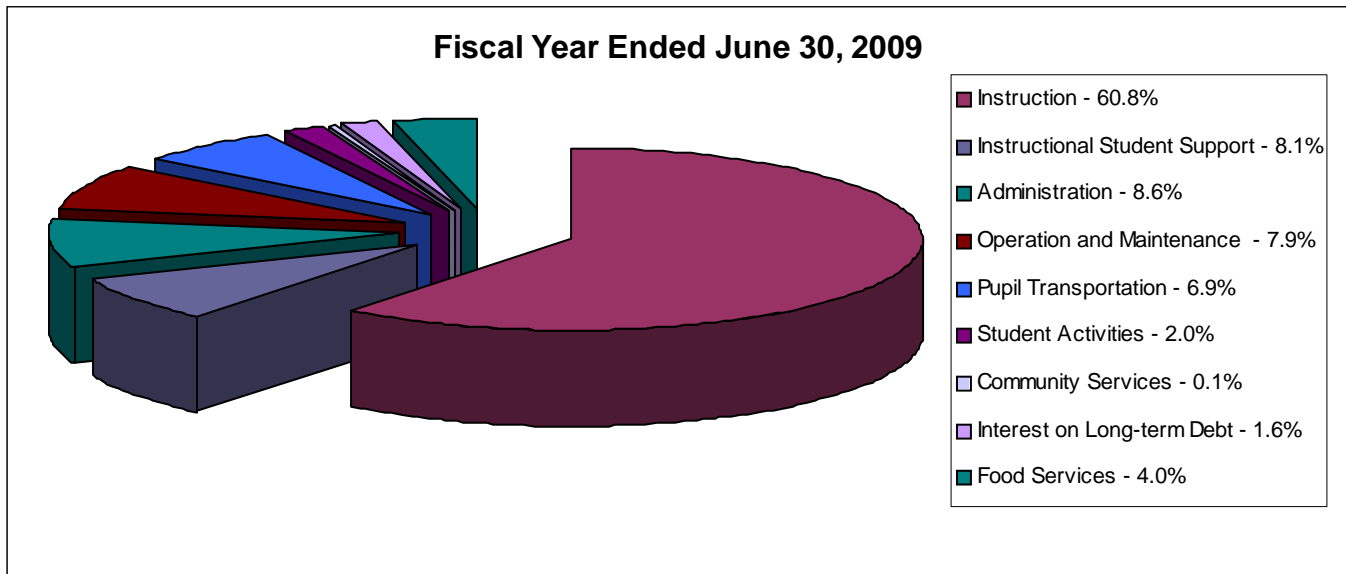


Figure 5 reveals that total School District spending during the fiscal year ended June 30, 2009, deviated slightly from the prior year based on a comparison of each functional expense as a percentage of total expenses. Instructional program expenses reported the largest variance from the prior year with an increase during 2008-2009 of less than 1.0 percent. The insignificant variances of the functional expense categories indicate that spending strategies remain consistent between the two years.

Figure 5
Comparison of Government-wide Expenses

<u>Functional Expense</u>	<u>2009</u>	<u>2008</u>
Instruction	60.8%	59.9%
Instructional Student Support	8.1%	8.0%
Administrative and Financial Support Services	8.6%	8.7%
Operation and Maintenance of Plant Services	7.9%	7.9%
Pupil Transportation	6.9%	7.1%
Student Activities	2.0%	2.1%
Community Services	0.1%	0.1%
Interest on Long-term Debt	1.6%	2.0%
Food Services	4.0%	4.3%

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Governmental Activities

Net assets of the Solanco School District's governmental activities increased \$1.8 million or 4.7 percent during the fiscal year ended June 30, 2009. Revenues generated by governmental activities exceeded \$42.6 million, a slight growth of \$0.1 million, less than one percent, from the previous fiscal year. Expenses incurred by governmental activities totaled \$40.7 million during 2008-2009, an increase of \$2.4 million or 6.2 percent.

Program revenues generated from governmental activities for the category of *Operating Grants and Contributions* increased by \$0.3 million or 2.9 percent during 2008-2009. The new revenue source, "*Reimbursement of Basic Education Expenditures*," in the amount of \$0.5 million was primarily responsible for the net growth. This revenue represents a distribution from the Commonwealth's gaming fund as mandated by the Taxpayer Relief Act. Program revenues generated by *Charges from Services* decreased by \$44.9 thousand or 14.2 percent. The School District received revenue from other school districts during 2007-2008 for student therapy and technology services that were not provided during 2008-2009. Debt Service reimbursements reported as *Capital Grants and Contributions* declined \$77.8 thousand or 9.5 percent, a direct reflection of lower debt service payments made by the School District during 2008-2009. Total revenues provided from *General Revenues* remained stable from the prior year. The \$0.5 million loss of earned income taxes during 2008-2009 was mitigated by a \$0.5 million increase in property tax collections. A \$0.3 million increase in the 2008-2009 "Basic Instructional Subsidy" reported as *Unrestricted Grants and Subsidies* compensated for the \$0.4 million loss reported for *Investment Earnings*. Interest rates dropped to historical lows during the fiscal year ended June 30, 2009 as market conditions adjusted to the economic recession.

Figure 6 presents the total cost of expenses and the net cost of expenses for governmental activities. Net costs represent total expenses less the charges for services generated by the activities and intergovernmental aid provided for specific programs. The net cost of expenses represents the financial burden that was placed on the State and School District taxpayers for each of the program services. The total net cost of services for governmental activities during the 2008-2009 fiscal year grew \$2.3 million or 8.0 percent compared with the prior year.

Figure 6
Governmental Activities
Fiscal Years Ended June 30, 2009 and June 30, 2008
(In Thousands)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>		<u>Percentage of Net Cost Change</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	
Instruction	\$ 25,812.4	\$ 23,999.4	\$ 19,484.7	\$ 17,852.0	9.1%
Support Services:					
Instructional Student Support	3,442.3	3,198.1	2,862.9	2,711.1	5.6%
Administrative and Financial Support Services	3,660.0	3,492.5	3,352.9	3,188.4	5.2%
Operation and Maintenance of					
Plant Services	3,333.3	3,148.0	3,180.7	2,902.2	9.6%
Pupil Transportation	2,925.7	2,862.8	1,182.0	1,155.6	2.3%
Student Activities	841.3	830.9	744.8	721.0	3.3%
Community Services	23.1	20.9	2.8	1.2	1.3%
Interest on Long-term Debt	<u>688.9</u>	<u>787.2</u>	<u>(50.4)</u>	<u>(30.0)</u>	(68.0)%
<u>Total Governmental Activities Expenses</u>	\$ <u>40,727.0</u>	\$ <u>38,339.8</u>	\$ <u>30,760.4</u>	\$ <u>28,501.5</u>	<u>8.0%</u>

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Governmental Activities (Continued)

Program revenues are instrumental in minimizing the net cost of services such as *Instruction, Instructional Student Support, Pupil Transportation* and *Interest on Long-term Debt*. Expenses for governmental activities are partially offset by fees collected, grants and contributions, but are primarily funded by tax revenues. Program revenues which offset expenses during the fiscal year ended June 30, 2009 include:

- Charges for services totaling \$0.3 million consist of admission paid for student events and fees collected for student tuition, student therapy services, transportation services, facility rental, and tax certification services.
- Operating grants and contributions include state subsidies for special education, health services, transportation and employee benefits, as well as federal, state and local grants for specific programs such as vocational and alternative education, Inclusive, IDEA, CFF, Title I, Title 2A, Drug Free Schools, PA Accountability, Act 183 Technology and ACCESS. The School District received almost \$9.0 million in operating grants and contributions during the 2008-2009 fiscal year. Approximately 69.5 percent of total operating grants and contributions received during this period mitigated the cost of *Instruction* programs.
- Program revenues associated with the *Instruction* program lowered program costs by 24.5 percent and 25.6 percent during 2008-2009 and 2007-2008, respectively.
- *Pupil Transportation* expenses were reduced 59.6 percent during both years through program revenues, primarily the transportation subsidy, reported as an operating grant.
- Capital grants consist of state subsidies for rental and sinking fund payments. Capital grants exceeded program costs by \$50 thousand for the year ended June 30 2009. Rental and sinking fund subsidies are based on actual debt payments made during the fiscal year.

There is a heavy reliance on tax revenues to fund the operations of the School District. Tax revenues represented 53.5 percent of total governmental activities revenues for the 2008-2009 and 2007-2008 fiscal years. The net cost of governmental activities totaled \$30.8 million and was financed by general revenues, which consist of local taxes, (\$22.8 million), state basic education subsidy and local contributions (\$9.4 million), investment earnings and miscellaneous revenue (\$0.5 million). The Basic Education subsidy provided by PDE is reported as *Unrestricted Grants and Subsidies*, which comprises 28.6 percent of general revenues. Investment earnings and miscellaneous revenue accounted for 1.6 percent of general revenues during the 2008-2009 fiscal year.

Business-type Activities

Business-type activities reduced the Solanco School District's primary government total net assets by \$4.3 thousand for the fiscal year ended June 30, 2009. Business-type activities consist solely of the food service operations and represent less than 1.0 percent of total net assets at June 30, 2009. Revenues generated from business-type activities during the 2008-2009 fiscal year, excluding transfers from governmental activities, totaled approximately \$1.6 million, an increase of \$15.6 thousand or 1.0 percent from the prior year. Revenue collected from *Charges for Food Services* grew slightly by \$4.0 thousand, less than 1.0 percent during 2008-2009, and *Operating Grants and Contributions - Food Service* reported a small increase of \$13.6 thousand or 2.1 percent. Student and adult meal sales, catering, snack, drink and miscellaneous food sales are reported as *Charges for Food Services*. *Operating Grants and Contributions* received by the food service program consist of state and federal food nutrition subsidies, federal donated commodities and state retirement and social security reimbursements. Business-type activities normally receive no support from tax revenues; however, transfers from the governmental activities totaling \$95.3 thousand subsidized 2008-2009 food service operations. Total expenses generated by business-type activities shrank by \$22.0 thousand or 1.3 percent during the same period. Reduced salary and benefit expenses account for a significant portion of the decline in business-type activities program expenses.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

FINANCIAL ANALYSIS of the SCHOOL DISTRICT'S FUNDS

Governmental Funds

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Information about the School District's major funds begins on page F-31. The School District's major funds consist of the general fund, capital reserve, and debt service. The athletic fund is the only nonmajor fund reported by the School District for the fiscal year ended June 30, 2009. The focus of the School District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the School District's financing requirements. The unreserved fund balance is a useful measure of the School District's net resources available for spending at the end of the fiscal year. The financial performance of the School District as a whole is reflected in its governmental funds.

As of June 30, 2009, the Solanco School District's governmental funds reported combined ending fund balances of \$11.8 million, a decrease of 0.9 million or 6.9 percent in comparison with the prior year. Approximately 78.5 percent of this total amount (\$9.3 million) constitutes *unreserved, undesignated fund balance*, which is available for spending at the School District's discretion. The remainder of the fund balance is *reserved* or *designated* to indicate that it is not available for new spending because it has already been committed. Fund balance commitments as of June 30, 2009, include:

- \$329,718 for inventory under the purchase method (an increase of \$86,815 from June 30, 2008)
- \$26,768 for prepaid items (a decrease of \$213,186 from prior year)
- \$359,914 to satisfy debt service requirements (a decrease of \$46,120 from previous year)
- \$1,500,000 for retirement benefit expenditures (no change from June 30, 2008)
- \$325,000 for post-employment health care benefits (no change from prior year)

The general fund is the chief operating fund of the Solanco School District. At the end of the June 30, 2009, fiscal year, *unreserved, undesignated* fund balance of the general fund was \$3.6 million, a slight increase of \$18.6 thousand or less than one percent from the prior year. A comparison of both unreserved fund balance and total fund balance to total fund expenditures provides a measure of the general fund's liquidity. Unreserved, undesignated fund balance represents 8.4 percent of total general fund expenditures and other financing uses (\$42.6 million), while total fund balance represents 14.3 percent of total expenditures for the 2008-2009 fiscal year. Legislation enacted by the Commonwealth of Pennsylvania requires school districts to maintain an unreserved, undesignated fund balance of 8 percent or less of total budgeted expenditures for the subsequent fiscal year. Unreserved, undesignated fund balance at June 30, 2009, represents 7.6 percent of total budgeted expenditures for the 2009-2010 fiscal year (\$47.1 million). Historically, the School District has sought to maintain a fund balance in the general fund equal to approximately two months of expenditures on June 30. Significant start-up expenses are incurred during July and August in preparation of the new school year. The "two month expenditure fund balance reserve" enables the School District to satisfy cash flow requirements until tax revenues are received. Approximately 75 percent of real estate taxes are collected the last week of the real estate tax discount period.

The total fund balance of the Solanco School District's general fund decreased by \$0.1 million or 2.3 percent during the 2008-2009 fiscal year. Key factors impacting the governmental fund's June 30, 2009, fund balance include:

- Total general fund revenues expanded slightly by \$0.2 million, less than 1.0 percent from the previous year. State revenue received as "Reimbursement of Basic Education Expenditures" and revenues from the Title 1 and ACCESS federal programs account for the growth during 2008-2009.
- Property tax collections increased \$0.6 million or 3.7 percent as the School District's taxable percent of assessed property values grew by \$9.1 million, less than 1.0 percent and the real estate tax millage rate increased .5882 mills or 6.5 percent.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Governmental Funds (Continued)

- Earned income tax revenue decreased \$0.4 million or 6.3 percent, primarily a result of the economic recessionary climate.
- General fund expenditures (excluding transfers) grew \$1.4 million or 3.8 percent during the 2008-2009 fiscal year. *Instructional Services* expenditures, expanded \$0.5 million or 2.3 percent from the prior year and *Support Services* expenditures grew \$0.8 million or 7.0 percent.
- The growth in total *Instructional Services* expenditures is attributed to an increase of \$0.4 million or 2.3 percent of *Regular Education Programs* expenditures and a growth of \$0.5 million or 11.4 percent from *Special Education Programs* expenditures. Higher payroll, benefit and purchased professional services costs account for the inflated total for the program expenditures.
- *Support Services* expenditures rose through a combination of higher payroll and benefit costs reflected by *Instructional Staff* and *Operation and Maintenance of Plant Services*, increased supply costs for *Operation and Maintenance of Plant Services* and expanded contracted service costs for *Student Transportation Services*. Payroll and Benefits costs increased \$0.2 million or 8.0 percent, supply costs grew \$0.1 million or 11.6 percent and contracted service costs expanded \$0.2 million or 7.8 percent.

A fund balance of \$5.7 million was reported for the School District's capital reserve fund on June 30, 2009; a decrease of \$0.7 million or 11.3 percent from the prior year. The capital reserve fund balance represents 48.1 percent of total governmental fund balances. Total revenues shrank by \$0.1 million or 54.8 percent in comparison to the prior year a result of declining interest rates and the absence of grant receipts during 2008-2009. Capital expenditures for construction and technology purchases grew \$0.2 million or 12.0 percent during the same period. Capital reserve funding was utilized for the repair and replacement of the Bart Colerain Elementary School, Quarryville Elementary School and Solanco High School roofs, reconstruction and improvement of the high school stadium field and track, in addition to the purchase of technology for the elementary and high schools. A general fund transfer due to the capital reserve fund, in the amount of \$1.1 million, was reported at June 30, 2009. These monies will be utilized for future capital projects and long range expansion of School District technology.

The debt service fund reported a total fund balance of \$3.4 thousand on June 30, 2009, all of which is reserved for the payment of debt service. Total debt service expenditures (interest, principal and fiscal fees) decreased by \$70.4 thousand or 1.9 percent during 2008-2009.

The School District reported a fund balance of \$22.0 thousand at June 30, 2009, for its nonmajor fund, the athletic fund. The athletic fund reported an increase of \$8.7 thousand or 65.2 percent from the prior year. Total revenue declined \$10.0 thousand or 15.2 percent. Athletic fund revenues fluctuate from year to year and are directly impacted by the number of athletic events held "at home" on the School District's campus. Total expenditures grew \$5.6 thousand or 4.5 percent during 2008-2009. The general fund contributed \$83.2 thousand to the athletic fund's operations during the fiscal year ended June 30, 2009, an increase of \$18.0 thousand or 27.4 percent from the prior year.

Proprietary Funds

The enterprise fund and the internal service fund represent Solanco School District's proprietary funds. The information presented for the proprietary enterprise fund mirrors the information presented for the business-type activities. The food service fund is the School District's only enterprise fund or business-type activity. The internal service fund is comprised of the hospitalization and unemployment compensation funds. Unrestricted net assets of the enterprise fund at June 30, 2009, totaled \$0.2 million and unrestricted net assets of the internal service fund totaled \$2.4 million. The enterprise fund's unrestricted net assets decreased \$4.3 thousand during the fiscal year ended June 30, 2009. A discussion of the enterprise fund's financial activities has been addressed in the business-type activities section of the MD&A.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Proprietary Funds (Continued)

Unrestricted net assets of the internal service fund grew by \$0.5 million or 23.8 percent during 2008-2009. Revenues collected through insurance service charges increased by \$0.8 million or 26.2 percent. Internal service fund operating costs increased \$1.0 million during the same period. Insurance claims for the 2008-2009 fiscal year exceeded charges for insurance services by \$0.1 million. A general fund receivable of \$0.5 million mitigated the operating deficit at June 30, 2009.

GENERAL FUND BUDGETING HIGHLIGHTS

The School District's general fund budget is prepared according to Pennsylvania law and is based on the modified accrual basis of accounting. During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. State law does not prohibit end-of-year budget adjustments. Budgeted amounts were transferred within the revised or approved final budget for 2008-2009. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided on pages F-75 through F-86.

Revenues

General fund total revenues for the fiscal year ended June 30, 2009, were budgeted at \$43.5 million. Actual general fund revenues received were lower than budget estimates by \$1.2 million, or 2.8 percent. Key factors accounting for the unexpected fluctuations in total revenue follow:

- Total local revenues surpassed budget estimates by \$0.1 million, less than 1.0 percent. Local grant revenue 'Passed through the Intermediate Unit' accounted for the positive variance.
- Total revenues received from state sources were \$0.9 million or 5.0 percent lower than budget projections. Subsidies for transportation and retirement reimbursement did not reach budget estimates. Transportation was \$0.3 million or 17.5 percent short and retirement reimbursement was \$0.3 million or 36.7 percent below budget forecasts.
- Revenue received from the CFF state technology grant was budgeted \$0.2 million or 74.3 percent higher than actual grant funds.
- A budgeted transfer from the internal service hospitalization fund in the amount of \$0.4 million was not realized. The unrealized transfer represents 33.4 percent of the total budget to actual shortfall.

Within local sources of revenue, real estate taxes (including current, interim, and delinquent) are by far the largest source of revenue for the School District. Real estate taxes comprised \$16.2 million or 67.1 percent of total local revenues during the 2008-2009 fiscal year. The total assessed value of taxable properties for the 2008-2009 year, located within the School District, increased by \$9.1 million or less than one percent from the prior year. The millage rate increased to 9.6378 for the fiscal year 2008-2009; an increase of .5882 mills or 6.5 percent from the 2007-2008 millage rate of 9.0496. The July 1, 2008 total tax levy increased \$0.6 million or 3.6 percent from the previous year and real estate tax collections increased \$0.6 million or 3.7 percent.

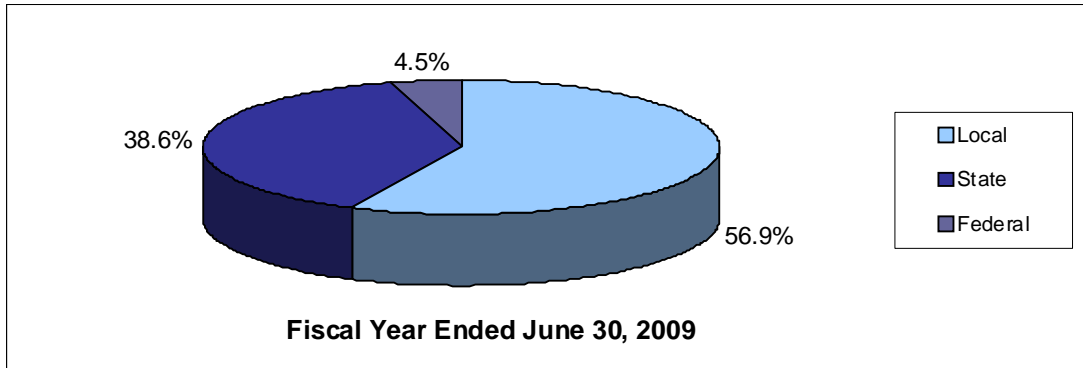
Act 1 – Tax Payer Relief legislation provided homeowners real estate tax reduction through homestead and farmstead exclusions. The Act required school districts to reduce real estate tax revenue by the amount of funding allocated from the Commonwealth's gaming funds. The School District received an allocation from the gaming fund of \$0.5 million. Real estate tax revenues for the 2008-2009 fiscal year were reduced by a corresponding amount. The allocation represented 3.5 percent of total real estate taxes collected for the same period.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Revenues (Continued)

The Act 1 gaming fund allocation reclassified the tax revenue, previously reported as local revenue, as state revenue labeled "Reimbursement of Basic Education Expenditures". The following pie graph illustrates the School District's high degree of reliance on local tax revenues for the fiscal year ended June 30, 2009.

Figure 7
Revenue Sources



Expenditures

By statute, school districts cannot overspend the expenditure budget on record, and in a year of major uncertainty, it is prudent to budget conservatively. Budgeted general fund expenditures (including other financing uses) for the fiscal year ended June 30, 2009, totaled \$44.5 million. Actual total expenditures were lower than budget projections by \$1.9 million or 4.3 percent of budgeted expenditures. Key comments addressing budget transfers and budget versus actual variances follow:

- Actual total *Current - Instructional Services* expenditures were under original budget projections by \$1.6 million or 6.5 percent. Expenditures for payroll, benefits, supplies and equipment were realized below budget forecasts. A budget transfer re-appropriated \$0.6 million of the budgeted funds from *Instructional Services* to *Other Financing Uses - Transfers Out*.
- Actual expenditures for *Total Support Services*, including *Pupil Personnel, Instructional Staff Service, Administrative Services, Operation and Maintenance of Plant Services* and *Pupil Transportation Services* were lower budget estimates by \$0.9 million or 6.3 percent. Reduced payroll, benefits and equipment expenditures accounted for the favorable variance.
- Dollars originally included in the budget for *Current - Instructional Services* and *Debt Service* were transferred to *Other Financing Uses - Transfers Out*. In addition, funds totaling \$0.5 million, initially budgeted as *Other Financing Uses - Budgetary Reserve*, were transferred to *Other Financing Uses - Transfers Out*. The total \$1.1 million re-appropriation of budgeted expenses to *Other Financing Uses - Transfers Out* enabled the School District to "pre-fund" future capital projects.

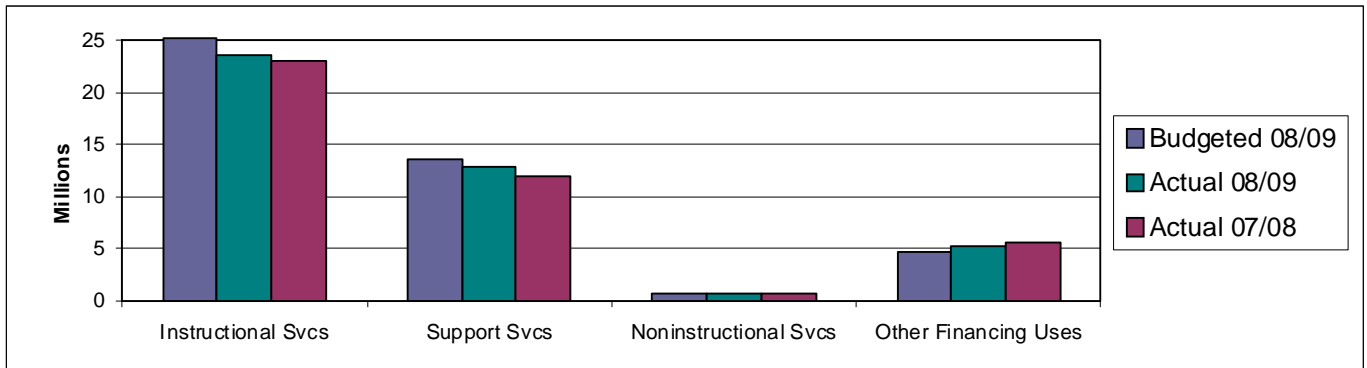
Actual total expenditures (including other financing uses) for the fiscal year ended June 30, 2009, totaled \$42.6 million, of which \$37.2 million was utilized for operational expenses and \$5.3 million was transferred to other governmental funds. Total expenditures for the previous fiscal year, 2007-2008, totaled \$41.5 million, and of this total, \$35.8 million was expended for operational expenditures and \$5.7 million for governmental fund transfers.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Expenditures (Continued)

Figure 8 provides an illustrative comparison of 2008-2009 budgeted expenses to actual 2008-2009 and actual 2007-2008 expenditures by major function.

Figure 8
Budget to Actual Expenditure Comparison



CAPITAL ASSETS and DEBT ADMINISTRATION

Capital Assets

The Solanco School District's investment in capital assets for its governmental and business-type activities as of June 30, 2009, totaled \$46.2 million (net of accumulated depreciation). This investment in capital assets includes land, site improvements, buildings, furniture and equipment, vehicles, library books and construction in process. The following chart, Figure 9, presents capital asset balances net of depreciation for the fiscal years ended June 30, 2009 and 2008.

Figure 9
Capital Assets at June 30, 2009 and 2008
Net of Depreciation
(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land and Site						
Improvements	\$ 4,278.0	\$ 3,400.0	\$ -0-	\$ -0-	\$ 4,278.0	\$ 3,400.0
Buildings and Building						
Improvements	38,298.3	39,512.8	-0-	-0-	38,298.3	39,512.8
Furniture and Equipment	2,231.8	2,487.4	130.6	145.9	2,362.4	2,633.3
Vehicles	421.2	376.9	-0-	-0-	421.2	376.9
Library Books	162.1	154.3	-0-	-0-	162.1	154.3
Construction in						
Process	<u>650.0</u>	<u>424.7</u>	<u>-0-</u>	<u>-0-</u>	<u>650.0</u>	<u>424.7</u>
	\$ <u>46,041.4</u>	\$ <u>46,356.1</u>	\$ <u>130.6</u>	\$ <u>145.9</u>	\$ <u>46,172.0</u>	\$ <u>46,502.0</u>

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Capital Assets (Continued)

The School District's net investment in capital assets for the fiscal year ended June 30, 2009, decreased \$0.3 million, less than 1 percent compared with the previous year. Annual depreciation expense totaled \$2.5 million for 2008-2009 exceeding capital asset additions of \$2.2 million during the same period. The result was an overall decline of total net investment in capital assets at June 30, 2009. Repairs and replacements of the Bart Colerain Elementary, Quarryville Elementary and Solanco High School roofs represent \$1.0 million or 44.0 percent of capital asset additions during 2008-2009. Reconstruction and improvements to the High School stadium field and track represent \$0.7 million or 31.9 percent, technology equipment purchases represent \$0.3 million or 15.7 percent and vehicle purchases represent \$0.1 million or 6.1 percent. Additional information concerning the School District's capital assets can be found in Note 8 on pages F-58 and F-59 of this report.

Debt Administration

At June 30, 2009, the School District reported a balance of \$19.7 million in general obligation bonds, bond issue premium, estimated liability for compensated absences, estimated liability for accrued retirement bonus and estimated net other postemployment benefit obligation, of which \$3.2 million is due within one year. The following figure presents a summary of the School District's outstanding long-term debt for the fiscal years ended June 30, 2009 and 2008.

Figure 10
Outstanding Long-term Debt
Fiscal Years Ended June 30, 2009 and 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>	<u>% of</u> <u>Change</u>
General Obligation Bonds	\$ 17,610.0	\$ 20,350.0	(13.5)%
Bond Issue Premium	240.4	329.9	(27.1)%
Estimated Liability for Compensated Absences	983.1	1,000.1	(1.7)%
Estimated Liability for Accrued Retirement Bonus	575.6	482.2	19.4 %
Estimated Net Other Postemployment Benefit Obligation	<u>299.9</u>	<u>-0-</u>	100.0 %
	<u>\$ 19,709.0</u>	<u>\$ 22,162.2</u>	<u>(11.1)%</u>

State statutes currently limit the amount of general obligation debt a school district may issue to 225 percent of the three-year average of the school district's revenues. The current overall debt limitation for the School District is \$91.0 million. The current outstanding general obligation debt level is only 19.3 percent of the permissible overall debt limit. The School District maintains a significant borrowing capacity for future years.

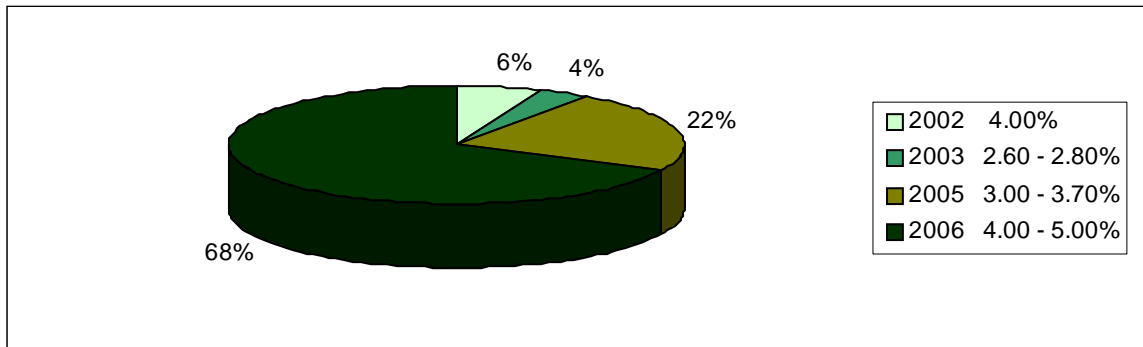
Estimated liability for compensated absences includes accrued vacation pay, sick leave compensation and related payroll taxes of the School District as of June 30th. The estimated liability for accrued retirement bonus consists of lump sum retirement bonuses and related payroll taxes. The School District implemented Governmental Accounting Standards Board Statement No. 45 during the 2008-2009 fiscal year. As a result, an estimated liability for the net other postemployment benefit obligation (OPEB) was reported for the year. The OPEB liability represents the actuarially calculated obligation associated with healthcare benefits provided to school district retirees. Additional information regarding the School District's long-term debt can be found in Notes 11 - 14 on pages F-60 through F-65 of this report.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Debt Administration (Continued)

The Series of 2006 bond issue comprises 68.1 percent of the School District's total bond debt. The 2006 bonds were issued at a premium, of which \$0.2 million will be amortized over the next six years. This bond series carries the highest interest rate of the four bond obligations. The final principal and interest payments for the Series of 2002 and Series of 2003 general obligation bond liabilities are scheduled for February 2011. The Series of 2006 and Series of 2005 bond liabilities are scheduled to be completely satisfied during February 2014 and February 2015, respectively.

Figure 11
Individual Bond Debt as Percentage of Total Bond Debt
As of June 30, 2009



ECONOMIC FACTORS and NEXT YEAR'S BUDGETS AND RATES

2009-2010 Budget

Many factors were considered by the School District's administration during the process of developing the budget for the 2009-2010 fiscal year. Several significant factors considered during the budget process included: impact of the Commonwealth's Act 1 (Taxpayer Relief) legislation on real estate tax revenues, the economic climate, legislated fund balance restrictions, achievement of staff development targets, escalating payroll and benefit costs, unstable fuel and energy prices, enrollment projections, No Child Left Behind (NCLB) student achievement requirements, technology updates and advancements, capital asset maintenance and the completion of current and planned capital projects. A comparison of 2008-2009 actual revenues to 2009-2010 budgeted revenues is presented in figure 12.

Figure 12
2008-2009 Actual vs. 2009-2010 Budgeted Revenue Totals
(In Thousands)

	2008-2009 <u>Actual</u>	2009-2010 <u>Budgeted</u>	Increase/ <u>(Decrease)</u>	% of <u>Change</u>
Revenues:				
Local	\$ 24,095.5	\$ 25,767.2	\$1,671.7	6.9%
State	16,338.8	17,048.9	710.1	4.3%
Federal	1,887.6	3,350.9	1,463.3	77.5%
Other	<u>15.8</u>	<u>390.0</u>	<u>374.2</u>	2,368.4%
	\$ <u>42,337.7</u>	\$ <u>46,557.0</u>	\$ <u>4,219.3</u>	<u>10.0 %</u>

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

2009-2010 Budget (Continued)

Local revenues are expected to grow \$1.7 million or 6.9 percent, primarily from increased tax revenues. Real estate tax revenue is projected to expand \$1.1 million or 7.1 percent, due to growth from taxable assessed property values and higher millage rate. The taxable assessed value of property is forecasted to rise \$32.1 million or 1.8 percent for the 2009-2010 tax year. The millage rate increased from the 2008-2009 rate of 9.6378 to 10.1582 for 2009-2010, an increase of 0.52 mills or 5.4 percent. Augmented state subsidies account for the anticipated growth in state revenue. The receipt of federal stimulus funds distributed through the ARRA - Title 1 and ARRA - IDEA programs, totaling \$1.4 million, inflated federal revenues for the 2009-2010 budget. A \$0.4 million transfer from the hospitalization internal service fund has been included in the budget for the fiscal year ended June 30, 2010, as an *Other Financing Source*. A comparison of 2008-2009 actual revenues and expenditures to 2009-2010 budgeted amounts is presented in the following figure.

Figure 13
2008-2009 Actual vs. 2009-2010 Budgeted Expenditure Totals
(In Thousands)

	2008-2009 <u>Actual</u>	2009-2010 <u>Budgeted</u>	Increase <u>(Decrease)</u>	% of <u>Change</u>
Expenditures:				
Instruction	\$ 23,688.0	\$ 27,228.7	\$ 3,540.7	14.9 %
Support Services	12,809.3	14,197.5	1,388.2	10.8 %
Non-Instructional Services	724.5	818.4	93.9	13.0 %
Other Expenditures/Transfers	<u>5,345.0</u>	<u>4,836.6</u>	<u>(508.4)</u>	<u>(9.5)%</u>
	<u>\$ 42,566.8</u>	<u>\$ 47,081.2</u>	<u>\$ 4,514.4</u>	<u>10.6 %</u>

2009-2010 general fund **budgeted** expenditures total \$47.1 million, an increase of 10.6 percent from **actual** 2008-2009 expenditures of \$42.6 million. *Instruction* expenditures were magnified by \$3.5 million or 14.9 percent for the 2009-2010 budget. Payroll, benefits, and expenditures associated with the ARRA - Title 1 and ARRA - IDEA grant programs, are reflected in the enhanced budget estimates. Higher payroll, benefit and purchased professional service expenditures are reflected in 2009-2010 estimates for *Support Services* and *Non-Instructional Services*. Transfers to other funds during 2009-2010 are expected to be \$.5 million lower than 2008-2009. The School District appropriated \$0.5 million of its unreserved fund balance at June 30, 2009, to supplement the 2009-2010 budget.

Several local economic influences are expected to remain constant with no significant fluctuations that would materially impact the School District's finances during the 2009-2010 fiscal year. Gradual population growth, continued land development, steadily rising property assessment values, slightly declining student enrollment and the ability to attract and maintain highly qualified personnel are economic factors that continue to provide positive influence on the School District's budgeting process.

FACTS BEARING ON THE SCHOOL DISTRICT'S FUTURE

Solanco School District maintains a financially strong position as conveyed in the preceding narrative and figures. Positive fund balance reserves exist in all governmental and proprietary funds. Routine investments in fixed assets enable the School District to maintain a quality campus in which to provide comprehensive educational services. The School District considers future implications of current and ongoing financial obligations and prudently manages its financial assets.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

At the time these financial statements were prepared and audited, the School District was aware of several existing circumstances that could impact its future financial health. Brief explanations addressing these circumstances follow.

Medical and Related Benefits

The costs of medical benefits will continue to play a major role in the School District's budgeting process as a competitive benefits package continues to be offered to employees. The School District is self-insured and pays claims as they are incurred. The July 2006 - June 2010 Collective Bargaining Agreement has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. Innovative healthcare programs have been offered, with success, to employees during the past few years as a means to provide better quality healthcare services to employees in a more economical manner. Employee contributions will continue to be implemented at competitive and reasonable levels for our employees, within and outside the bargaining unit.

Health benefit expenses for the fiscal year ended June 30, 2009, increased almost \$1 million or 33.9 percent from the prior year. Approximately 390 School District employees and retirees participated in the School District's health benefit plan during 2008-2009, a slight increase from the 2007-2008 enrollment of 385 participants. The growth of health benefit expenses is attributed to a 26 percent higher utilization of the plan by participants and a 37 percent increase in the average cost of claims paid during the period. Employee contributions for the cost of health benefits totaled \$0.2 million with retirees contributing an additional \$0.2 million during 2008-2009. Figure 14 presents total employee and retiree health plan contributions as a percentage of total health benefit expenses for the fiscal years 2008-09 through 2004-05. During this period, approximately 86.3 percent of the financial responsibility for health benefit expenses was borne by the School District.

Figure 14
Health Plan Participant Contributions as % of Health Benefit Expenses

<u>Fiscal Year</u>	<u>Employee Contributions</u>	<u>Retiree Contributions</u>	<u>Health Benefit Expenses</u>	<u>Contributions as % of Expense</u>
08/09	\$ 208,757	\$ 231,006	\$3,922,888	11.2%
07/08	197,393	239,584	2,929,185	14.9%
06/07	185,736	259,693	2,744,050	16.2%
05/06	145,886	230,822	3,142,989	12.0%
04/05	124,156	249,571	2,613,761	14.3%

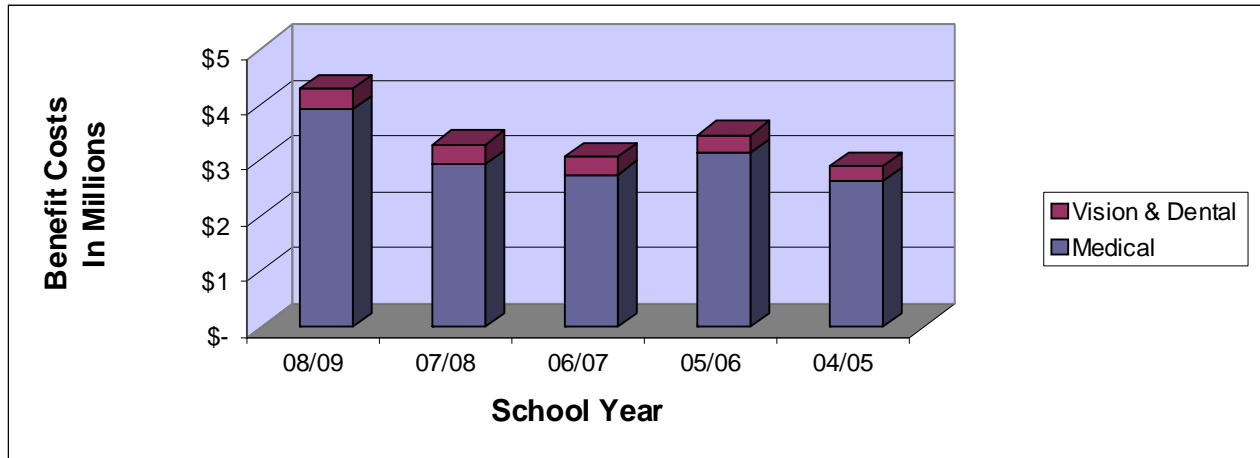
A reimbursement plan is available to employees for vision and dental claims. Eligible vision and dental claims were submitted for reimbursement up to the maximum total of \$1,600 per employee for the fiscal year, 2008-2009. Vision and dental expenses rose 2.3 percent during the fiscal year ended June 30, 2009; an increase of \$8.1 thousand. Additional information regarding the School District's health care plan is included in Notes 14 and 16 of the financial section of this report.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Medical and Related Benefits (Continued)

Figure 15 portrays the trending of employee benefit costs for medical, vision and dental expenses reported by the School District during the five-year period, 2008-2009 through 2004-2005.

Figure 15
Medical and Related Benefit Costs



Actual history of claims paid by category for the past five years.

Cyber Education

Cyber charter schools offer School District residents an alternate source from which to obtain a kindergarten through 12th grade public education. The School District is financially responsible for tuition costs associated with resident charter school students. Figure 16 details the rate assessed to the School District for the enrollment of resident students (primarily home school students) in charter schools and the annual tuition cost paid during the past five years. Charter school tuition expenditures increased 77.0 percent during the four-year period, 2004-05 through 2007-08, and then decreased 13.2 percent during 2008-09. The recent reduction in charter school costs resulted from the School District's expanded efforts to maintain open channels of communication with families of students that are not enrolled in Solanco schools and to provide alternate educational opportunities to the students. The Solanco Virtual Academy is one of the opportunities available to non-traditional students.

Figure 16
Charter School Tuition

	Regular Education Tuition Rate	Special Education Tuition Rate	Tuition Paid	Average Daily Membership
2008-09	\$ 7,260	\$ 13,472	\$ 562,526	71.705
2007-08	\$ 6,727	\$ 12,019	\$ 647,970	83.503
2006-07	\$ 6,844	\$ 12,223	\$ 422,554	56.182
2005-06	\$ 6,067	\$ 10,278	\$ 316,920	50.910
2004-05	\$ 5,689	\$ 9,528	\$ 366,188	64.373

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Cyber Education (Continued)

Solanco School District established the 'Solanco Virtual Academy' (SVA) as its own version of a "virtual/cyber academy" and created other "cyber instructional programs" in an effort to minimize the impact of charter school expenditures on the School District's finances and as an additional means of providing instructional services to students. These "cyber" programs offer an instructional alternative to students that are not able to reach their academic potential through traditional school programs. Enrollment during the SVA's first full school year totaled 26 resident students. Enrollment expanded to 37 students during the 2008-2009 school year, including 17 nonresident students. SVA services were offered to students attending grades, kindergarten through 9th grade, during the fiscal year 2008-2009. SVA services will expand to encompass all grade levels, kindergarten through 12th grade, for the 2009-2010 school year.

NCLB

In addition to meeting Pennsylvania Academic Standards for school districts, there is the additional challenge of the No Child Left Behind (NCLB) mandates imposed by the federal government. This legislation has far-reaching requirements on academic performance, adequate yearly progress, teacher qualifications and training, disaggregation of student achievement data, and extensive reporting to the community. Mandated acceptable student outcome levels (test scores) continue to increase in 2008-2009 as the legislation phases in proficiency levels reaching 100 percent by the year 2013-2014. NCLB will require a continued, and possibly greater, emphasis on investment in technology, staff development, data management and communication for school districts to satisfy the requirements of this legislation.

Capital Asset Investment

Maintaining an appropriate physical environment for learning requires investment in the construction, expansion and renovation of school facilities. This is a well-planned and ongoing process in the Solanco School District, accompanied by constant monitoring of enrollment trends. The School District is currently engaged in a feasibility study to assess existing facilities, review enrollment projections and identify current and potential needs of the School District. Information derived from the feasibility study will guide the planning and development of current and future capital projects.

Rapid changes in technology have created numerous challenges. An independent technology study was completed during 2007-2008 resulting in an updated technology plan. This technology plan continues to provide focus and direction as the School District develops technology infrastructure that will maintain current technology levels and future technology demands.

The School District has invested in land and buildings for future School District growth. A vacant elementary school building, located in Little Britain Township, has been maintained for future enrollment increases. Undeveloped land adjoining the Bart Colerain Elementary School campus and Little Britain property is available for future expansion as the need arises.

Solanco School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2009
(Continued)

Professional Employees Collective Bargaining Agreement

The current collective bargaining agreement between the Solanco Education Association and the Solanco School District Board of Directors expires on June 30, 2010. The agreement establishes salary and benefit levels for professional employees during the years covered under the terms of the new agreement. Act 1 legislative restrictions that limit the ability for a school district to increase local real estate tax revenue to fund operating expenses, national and state mandates to improve student performance, rising health benefit and retirement benefit costs, in conjunction with the current economic recession will create challenges for the Association and Board of School Directors during negotiations.

In conclusion, Solanco School District is financially stable and positioned for the future. Continued diligence in all financial matters and a strong commitment by the School District's personnel to control costs, while providing a high quality education, will be key components of continued financial performance.

CONTACTING DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it received. If you have questions about this report or need additional financial information, please contact Timothy J. Shrom, Business Manager at Solanco School District, 121 South Hess Street, Quarryville, PA 17566.