

SOUTHERN COLUMBIA AREA SCHOOL DISTRICT
CATAWISSA, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2005

The discussion and analysis of Southern Columbia Area District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial condition as a whole; readers should also review the notes to the basic financial statements and financial statements themselves to enhance their understanding of the District's financial condition.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

In November 2001, the electorate of the Southern Columbia Area School District approved a referendum implementing the provisions of Act 50 of 1998. Under Act 50 the District may not increase total local budgeted tax revenue (Real Estate, Earned Income, and Realty Transfer taxes) by a percentage greater than the increase in the Statewide Average Weekly Wage as determined by the Pennsylvania Department of Labor and Industry. Implementation began with the 2002-03 fiscal year and included increasing the Earned Income Tax rate from 0.5% to 1.5%.

In May 2005, the Board of School Directors adopted a resolution implementing the provisions of Act 72 of 2004, allowing the district's taxpayers to receive property tax relief when sufficient funds become available from gaming revenue generated in the Commonwealth. Act 72 contains restrictions similar to those of Act 50 in that property tax increase above a state-determined index requires approval of the public through a referendum process. As of this date, the Governor and General Assembly are meeting in a Special Session to modify the provisions of Act 72. The outcome and its effect on future District operations cannot be predicted at this time.

Overall, revenues were greater than expected due primarily to higher state subsidies put into place after the District's budget was adopted and higher than expected earned income tax revenue. Total expenditures were less than anticipated due to several positions left vacant by retirement, resignation or furlough and unspent grant funds, some of which were carried over into the next fiscal year. At the time of budget adoption, the District anticipated utilizing approximately \$411,085 of unrestricted fund balance in the General Fund for governmental activities during the fiscal year. Due to increased revenues and reduced expenditures, \$431 was added.

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OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indication of whether its financial health is improving or deteriorating, respectively. The District's budget planning process includes targets for use of, or additions to, unrestricted net assets that will maintain the proper balance between the educational needs of the students and the fiscal health of the District.

The government-wide financial statements of the District are divided into two categories:

- Governmental activities – All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- Business type activities –The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They 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 District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in

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the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship and student activity funds. All of the District's fiduciary activities are report in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

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FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net assets were \$6,730,954 at June 30, 2005, an increase of \$445,069, as detailed in Table A-1 below.

Table A-1
Fiscal Year ended June 30, 2005 and 2004
Net Assets

	<u>2005</u>			<u>2004</u>		
	<u>Government Activities</u>	<u>Business- type Activities</u>	<u>Total</u>	<u>Government Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Current and other assets	\$3,368,768	\$90,865	\$3,459,633	\$3,201,170	\$106,193	\$3,307,363
Capital assets	<u>10,423,114</u>	<u>32,100</u>	<u>10,455,214</u>	<u>10,778,672</u>	<u>42,573</u>	<u>10,821,245</u>
Total assets	\$13,791,882	\$122,965	\$13,914,847	\$13,979,842	\$148,766	\$14,128,608
Current and other liabilities	1,740,138	20,849	1,760,987	1,730,561	18,972	1,749,533
Long-term liabilities	<u>5,417,324</u>	<u>5,582</u>	<u>5,422,906</u>	<u>6,087,890</u>	<u>5,300</u>	<u>6,093,190</u>
Total Liabilities	\$7,157,462	\$26,431	\$7,183,893	\$7,818,451	\$24,272	\$7,842,723
Net Assets						
Invested in capital assets, net of related debt	5,007,614	32,100	5,039,714	4,723,672	42,573	4,766,245
Restricted	709,377	--	709,377	458,478	--	458,478
Unrestricted	<u>917,429</u>	<u>64,434</u>	<u>981,863</u>	<u>979,241</u>	<u>81,921</u>	<u>1,061,162</u>
Total Net Assets	<u>\$6,634,420</u>	<u>\$122,965</u>	<u>\$6,730,954</u>	<u>\$6,161,391</u>	<u>\$124,494</u>	<u>\$6,285,885</u>

Most of the District's net assets are invested in capital assets (buildings, land, and equipment). The restricted net assets are those set aside for future capital purchases or projects planned by the District. The remaining unrestricted net assets are available for future purchases or as reserves to enhance the financial strength of the District.

The results of this year's operations as a whole are reported in the Statement of Activities. 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 District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

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Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Fiscal Year ended June 30, 2005 and 2004
Changes in Net Assets

	<u>2005</u>			<u>2004</u>		
	<u>Govern- mental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>	<u>Govern- mental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues						
Program revenues						
Charges for services	\$52,440	\$315,067	367,507	\$36,525	\$325,837	362,362
Operating grants and contributions	3,502,534	171,684	3,674,218	3,184,227	147,997	3,332,224
General revenues						
Property & other taxes	6,860,353	--	6,860,353	6,384,787	--	6,384,787
Grants, subsidies and contributions, unrestricted	3,701,796	--	3,701,796	3,557,795	--	3,557,795
Other	<u>90,787</u>	<u>1,775</u>	<u>92,562</u>	<u>80,881</u>	<u>880</u>	<u>81,761</u>
Total revenues	<u>\$14,207,910</u>	<u>\$488,526</u>	<u>\$14,696,436</u>	<u>\$13,244,215</u>	<u>\$474,714</u>	<u>\$13,718,929</u>
Expenses						
Instruction	\$8,861,583	--	\$8,861,583	\$8,662,788	--	\$8,662,788
Instructional student support	1,065,265	--	1,065,265	1,058,091	--	1,058,091
Administrative and financial support	987,846	--	987,846	957,499	--	957,499
Operation and maintenance of plant	1,014,780	--	1,014,780	1,032,947	--	1,032,947
Pupil transportation	1,167,077	--	1,167,077	1,047,505	--	1,047,505
Student activities	343,934	--	343,934	358,788	--	358,788
Community services	46,047	--	46,047	91,389	--	91,389
Interest on long-term debt	248,349	--	248,349	231,945	--	231,945
Food Services	--	<u>516,486</u>	<u>516,486</u>	--	<u>490,663</u>	<u>490,663</u>
Total expenses	<u>\$13,734,881</u>	<u>\$516,486</u>	<u>\$14,251,367</u>	<u>\$13,440,952</u>	<u>\$490,663</u>	<u>\$13,931,615</u>
Increase (decrease) in net assets	<u>\$473,029</u>	<u>\$(27,960)</u>	<u>\$445,069</u>	<u>\$(196,737)</u>	<u>\$(15,949)</u>	<u>\$(212,686)</u>

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The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes, other miscellaneous revenues and asset reserves.

Table A-3
Fiscal Year ended June 30, 2005 and 2004
Governmental Activities

<u>Functions/Programs</u>	<u>2005</u>		<u>2004</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$8,861,583	\$6,678,477	\$8,662,788	\$6,613,993
Instructional student support	1,065,265	996,186	1,058,091	1,021,203
Administrative	987,846	955,178	957,499	927,560
Operation and maintenance	1,014,780	995,336	1,032,947	1,013,277
Pupil transportation	1,167,077	342,094	1,047,505	398,444
Student activities	343,934	281,029	358,788	321,245
Community services	46,047	1,000	91,389	4,424
Interest on long-term debt	<u>248,349</u>	<u>(63,393)</u>	<u>231,945</u>	<u>(79,946)</u>
Total governmental activities	\$13,734,881	\$10,179,907	\$13,440,952	\$10,220,200
Less:				
Unrestricted grants, subsidies		<u>3,701,796</u>		<u>3,557,795</u>
Total needs from local Taxes, other revenues & net assets		<u>\$6,478,111</u>		<u>\$6,466,548</u>

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Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-4
Fiscal Year ended June 30, 2005 and 2004
Business-type Activities

<u>Functions/Programs</u>	<u>2005</u>		<u>2004</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Food Services	\$515,250	\$29,453	\$490,663	\$16,829
Less:				
Investment earnings		<u>1,775</u>		<u>880</u>
Total business-type activities		<u>\$27,768</u>		<u>\$15,949</u>

The Statement of Revenues, Expenses and Changes in Fund Net Assets for this proprietary fund will further detail the actual results of operations.

THE DISTRICT FUNDS

At June 30, 2005, the District governmental funds reported a combined fund balance of \$2,220,419, which is an increase of \$244,553.

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted revenues increased \$904,293 as a result of additional approved grants. Budgeted expenditures also increased this same amount to compensate for the additional approved grants.

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Transfers between specific categories of expenditures/financing uses occur during the year. Typically, the most significant transfers occur from the budget reserve category to specific expenditure areas. The budgetary reserve includes amounts to be used to fund unforeseen expenditures or to take advantage of financial opportunities that may present themselves during the year.

Capital Reserve Fund

The District does not formally adopt a budget for the Capital Reserve Fund but maintains and annually updates a list of capital and major maintenance projects anticipated over the next five years. Except for major construction projects, the District utilizes the Capital Reserve Fund to pay for these needs. The primary source of funds for the Capital Reserve Fund is a budgeted transfer from the General Fund on an annual basis.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had \$10,423,113 invested in a broad range of capital assets, including land, site improvements, infrastructure, buildings and furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$355,559.

Table A-5
Governmental Activities
Capital assets - net of depreciation

	2005	2004
Land	\$ 25,000	\$ 25,000
Site Improvements	194,467	216,416
Infrastructure	135,940	140,563
Buildings	9,026,205	9,334,852
Furniture & Equipment	1,041,501	1,061,841

Significant capital additions during the fiscal year included replacing the Southern Columbia High School auditorium roof, purchasing 4 pupil transportation vehicles, and purchasing 48 additional computers for the G.C. Hartman Elementary Center.

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Debt Administration

As of July 1, 2004, the District had total outstanding bond and note principal of \$6,055,000. During the year, the District paid principal in the amount of \$650,000 and incurred additional debt under a General Obligation Note of \$10,500. The outstanding debt as of June 30, 2005 is \$5,415,500.

Table A-6
Outstanding Debt

	2005	2004
General Obligation Bonds:		
- Bonds, Series of 2001	\$1,365,000	\$2,005,000
- Bonds, Series of 2003	4,040,000	4,045,000
- Note, Series of 2005	10,500	-

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District experiences slow but steady growth in both property assessments and residents. The 2005-06 General Fund Budget, adopted in June 2005, increased budgeted expenditures 2.6% over the 2004-05 fiscal year. Building and athletic fund budgets that were reduced 10% for 2004-05 after three years of budget freezes were maintained at those levels for 2005-06. In addition, two vacant instructional aide positions and one maintenance position vacated by furlough were not filled in 2005-06. An additional High School English teacher was included, restoring a position previously left vacant by retirement.

Budgeted revenue increased 4.0% including the maximum permitted increase under the Act 50 local tax system. The budget "gap" or difference between expenditures and revenues is \$232,803 and consists of contingencies and one-time expenditures that are covered through the use of the District's unrestricted net assets.

Historically, the actual financial results of a given fiscal year show higher revenues than forecast and lower expenditures than budgeted. Given this fact, the Board Finance Committee established the following goals for the budget gap over a 3-year period. Achieving these goals would stabilize the District's unrestricted net assets at a level that will ensure a strong financial position for the future. As you can see, all targets have been met, putting the District on stable financial ground for the foreseeable future:

Target for 2003-04	\$586,085	(target met for 2003-04)
Target for 2004-05	\$411,085	(target met for 2004-05)
Target for 2005-06	\$236,085	(target met for 2005-06)

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CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Manager at Southern Columbia Area School District, 800 Southern Drive, Catawissa, PA 17820, (570) 356-2331.