

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2009

COATESVILLE AREA SCHOOL DISTRICT

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COATESVILLE AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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January 12, 2010

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Coatesville Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2008 financial statements and, in our report dated January 13, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2010, on our consideration of Coatesville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of School Directors
Coatesville Area School District

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Coatesville Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


BARBACANE, THORNTON & COMPANY

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

JUNE 30, 2009

The discussion and analysis of the financial performance of Coatesville Area School District (the "District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers also should review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

The District's unrestricted net assets decreased by \$4.4 million, due primarily to the \$3.7 million planned reduction of the District's General Fund balance as well as decreased tax and interest revenues from a slower economy which resulted in less cash on hand at year end. Program revenues accounted for \$29 million, or 21 percent of total revenues (\$135 million), and general revenues accounted for \$106 million, or 79 percent.

The general fund reported a fund balance of \$12.5 million, a decrease from the previous year, which reported a fund balance of \$16.1 million. The decrease in the General Fund balance was the result of its planned reduction, offset by a savings in healthcare expenditures and proceeds from collateralized borrowing. Details of the factors that caused the \$3.6 million decrease in the General Fund balance follows:

- A budget plan that modestly increased property tax mills by 3.1 percent to 26.5 for the District's taxpayers, while allocating \$3.7 million of the District's fund balance to pay for increased expenditures.
- Tax revenues \$1 million less than anticipated as a result of a slower economy.
- Investment revenues \$800 thousand less than anticipated, due to a slower economy as well as fewer funds available for investment.
- Proceeds from extended-term financing agreements related to delinquent taxes \$700 thousand more than anticipated.
- Other local revenues \$400 thousand more than anticipated.
- State and federal subsidies \$200 thousand more than anticipated.
- Healthcare expenditure savings of \$3.8 million as a result of the District's switch in May 2008 to a new third-party administrator for employees' healthcare claims.
- Special education expenditures \$3.4 million more than anticipated.
- Transportation expenditures \$900 thousand more than anticipated.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

- Energy expenditures \$800 thousand more than anticipated.
- Charter school expenditures \$600 thousand more than anticipated.
- Salaries \$600 thousand less than anticipated.
- Other benefits \$300 thousand less than anticipated.
- Debt service expenditures \$300 thousand less than anticipated.
- Other expenditures were collectively \$400 thousand less than anticipated.
- A budget reserve of \$900 thousand was available.

As a result of its continued favorable ending governmental funds balances of \$75.2 million from the previous 2007-2008 fiscal year, the District raised its mills by only 3.1 percent to 26.5 for the 2008-2009 fiscal year. A mill represents the real estate tax generated from each \$1,000 in assessed real estate value. Even with this modest increase in mills, the District was able to achieve or maintain:

- The substantial completion of its new Rainbow Elementary School which opened in August 2009;
- The opening of Gordon Education Center to educate students with certain exceptionalities;
- The continued major renovation projects at its Coatesville Area High School campus, in which many areas reopened in August 2009;
- Continued review of options for North and South Brandywine Middle Schools;
- The continued planning of another new elementary school;
- The addition of instructional aides to serve students in the District's elementary schools;
- The addition of professional personnel as well as aides to serve the District's secondary students;
- Tutoring programs;
- New comprehensive curricula programs to improve academic achievement;
- Increased staff development;
- Greater use of targeted differentiated instruction, deeper data analysis of academic performance assessments and increased monitoring of students' academic progress.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its overall activities. These statements include all the assets and liabilities of the District (except for fiduciary funds held in trust for student purposes), using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them during the fiscal year. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as the District's property tax base, current property tax laws, student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the District.

ENTITY-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8.0 million at the close of the most recent fiscal year. In the prior year, assets exceeded liabilities by \$8.7 million.

The largest portion of the District's total net assets is its negative investment in capital assets (\$2.9 million), net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the 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.

A comparative analysis of fiscal year 2008 to 2009 follows:

NET ASSETS

	<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	\$ 37,542,363	\$ 94,640,803	\$ 286,430	\$ 553,111	\$ 36,167,527	\$ 95,193,914
Capital assets	<u>152,909,375</u>	<u>103,513,917</u>	<u>273,375</u>	<u>304,211</u>	<u>154,844,016</u>	<u>103,818,128</u>
TOTAL ASSETS	<u>\$190,451,738</u>	<u>\$198,154,720</u>	<u>\$ 559,805</u>	<u>\$ 857,322</u>	<u>\$191,011,543</u>	<u>\$199,012,042</u>
Liabilities and Net Assets:						
Current liabilities	\$ 15,813,170	\$ 20,400,965	\$ 26,224	\$ 13,082	\$ 15,839,394	\$ 20,414,047
Long-term liabilities	<u>167,073,312</u>	<u>169,786,967</u>	<u>92,944</u>	<u>81,761</u>	<u>167,166,256</u>	<u>169,868,728</u>
Total Liabilities	<u>182,886,482</u>	<u>190,187,932</u>	<u>119,168</u>	<u>94,843</u>	<u>183,005,650</u>	<u>190,282,775</u>

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

(continued)	<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>
Net Assets:						
Invested in capital assets, net of debt	(3,125,697)	(7,349,872)	273,375	304,211	(2,852,322)	(7,045,661)
Restricted	1,198,741	1,697,590	-	-	1,198,741	1,697,590
Unrestricted	9,492,212	13,619,070	167,262	458,268	9,659,474	14,077,338
Total Net Assets	<u>7,565,256</u>	<u>7,966,788</u>	<u>440,637</u>	<u>762,479</u>	<u>8,005,893</u>	<u>8,729,267</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$190,451,738</u>	<u>\$198,154,720</u>	<u>\$ 559,805</u>	<u>\$ 857,322</u>	<u>\$191,011,543</u>	<u>\$199,012,042</u>

While the District experienced a \$500 thousand decrease in its restricted net assets as a result of decreased capital reserve funds, it also experienced a \$4.4 million decrease in its unrestricted net assets as a result of the planned reduction of the District's General Fund balance, which resulted in less cash on hand at year end, as well as an increase in accumulated depreciation for the District's depreciable assets. The District's investment in capital assets, net of related debt, increased by \$4.2 million as a result of the District paying off the debt used to acquire the capital assets faster than the capital assets are being depreciated, as well as those assets that were acquired without the issuance of debt.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities.

STATEMENT OF ACTIVITIES

	<u>Total Cost of Services 2009</u>	<u>Net Cost of Services 2009</u>	<u>Total Cost of Services 2008</u>	<u>Net Cost of Services 2008</u>
PROGRAM EXPENSES				
Governmental Activities:				
Instruction	\$ 83,309,091	\$ 63,933,938	\$ 83,394,882	\$ 65,057,876
Instructional staff support	11,190,438	10,760,137	10,274,531	9,836,431
Administration	9,624,928	9,359,550	10,333,742	10,022,731
Maintenance	11,723,614	11,422,224	10,422,082	9,947,502
Pupil transportation	8,897,633	3,958,858	8,546,026	4,071,155
Student activities	1,207,588	1,091,079	1,121,023	991,034
Community services	41,018	(43,014)	44,901	(32,528)
Interest and fiscal charges	6,776,790	5,884,417	7,717,056	6,706,875
TOTAL PROGRAM EXPENSES	<u>\$132,771,100</u>	<u>\$106,367,189</u>	<u>\$ 131,854,243</u>	<u>\$ 106,601,076</u>
Business-type Activities:				
Food service	<u>\$ 2,950,710</u>	<u>\$ 337,809</u>	<u>\$ 2,843,149</u>	<u>\$ 196,474</u>

The net cost of services for instruction decreased from fiscal year 2008 to 2009 as a result of an increase in grant funding targeted for instruction.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

The net cost of services for instructional staff support increased as a result of increased staff training in a concerted effort to improve academic performance and the reassignment and addition of staff to operate Gordon Education Center, as well as salary contractual obligations for existing staff.

The net cost of services for maintenance increased as the result of increased energy costs as well as salary obligations for existing staff.

The net cost of pupil transportation decreased due to increased subsidies for transportation, offset by rising gas prices and additional buses needed for students.

The net cost of student activities increased due to increased officiating charges at student athletic events.

The decrease in the net cost of services for interest and fiscal charges was the result of a decrease in interest expense for debt, offset by a decrease in rental/sinking fund subsidy revenue.

The Food Service Fund's net costs increased as a result of increased food prices as well as salary contractual obligations for staff.

CHANGES IN NET ASSETS

	<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	\$ 410,629	\$ 434,355	\$1,149,735	\$1,258,125	\$ 1,560,364	\$ 1,692,480
Operating grants	25,993,282	24,818,812	1,463,166	1,388,550	27,456,448	26,207,362
Total Program Revenues	<u>26,403,911</u>	<u>25,253,167</u>	<u>2,612,901</u>	<u>2,646,675</u>	<u>29,016,812</u>	<u>27,899,842</u>
General Revenues:						
Property taxes	71,593,182	71,409,532	-	-	71,593,182	71,409,532
Taxes levied for specific	7,859,617	9,067,541	-	-	7,859,617	9,067,541
Grants and entitlements	24,396,818	19,694,050	-	-	24,396,818	19,694,050
Investment earnings	2,049,187	4,778,922	15,967	26,268	2,065,154	4,805,190
Miscellaneous	66,853	60,367	-	-	66,853	60,367
Total General Revenues	<u>105,965,657</u>	<u>105,010,412</u>	<u>15,967</u>	<u>26,268</u>	<u>105,981,624</u>	<u>105,036,680</u>
TOTAL REVENUES	<u>132,369,568</u>	<u>130,263,579</u>	<u>2,628,868</u>	<u>2,672,943</u>	<u>134,998,436</u>	<u>132,936,522</u>
EXPENSES						
Program Expenses:						
Instruction	83,309,091	83,394,882	-	-	83,309,091	83,394,882
Instructional staff support	11,190,438	10,274,531	-	-	11,190,438	10,274,531
Administration	9,624,928	10,333,742	-	-	9,624,928	10,333,742
Maintenance	11,723,614	10,422,082	-	-	11,723,614	10,422,082
Pupil transportation	8,897,633	8,546,026	-	-	8,897,633	8,546,026
Student activities	1,207,588	1,121,023	-	-	1,207,588	1,121,023
Community services	41,018	44,901	-	-	41,018	44,901
Interest and fiscal charges	6,776,790	7,717,056	-	-	6,776,790	7,717,056
Food service	-	-	2,950,710	2,843,149	2,950,710	2,843,149
TOTAL EXPENSES	<u>132,771,100</u>	<u>131,854,243</u>	<u>2,950,710</u>	<u>2,843,149</u>	<u>135,721,810</u>	<u>134,697,392</u>
Change in Net Assets	<u>\$ (401,532)</u>	<u>\$ (1,590,664)</u>	<u>\$ (321,842)</u>	<u>\$ (170,206)</u>	<u>\$ (723,374)</u>	<u>\$ (1,760,870)</u>

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Funds - Most of the 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 the modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the District's programs. 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 basic financial statements.

Proprietary Funds - Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements. Therefore, the statements essentially will match the business-type activities portion of the entity-wide statements.

Fiduciary Funds - The District is the trustee, or fiduciary, for its scholarship program and other items listed as private-purpose trust. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 26 and 27. The District excludes these activities from its other financial statements because the assets cannot be utilized by the District to finance its operations.

Fund Financial Statements

The fund financial statements of the District's major funds begin on page 18 and provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

The District's governmental funds reported a combined fund balance of \$20.2 million, which is significantly less than last year's total of \$75.2 million. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2009 and 2008.

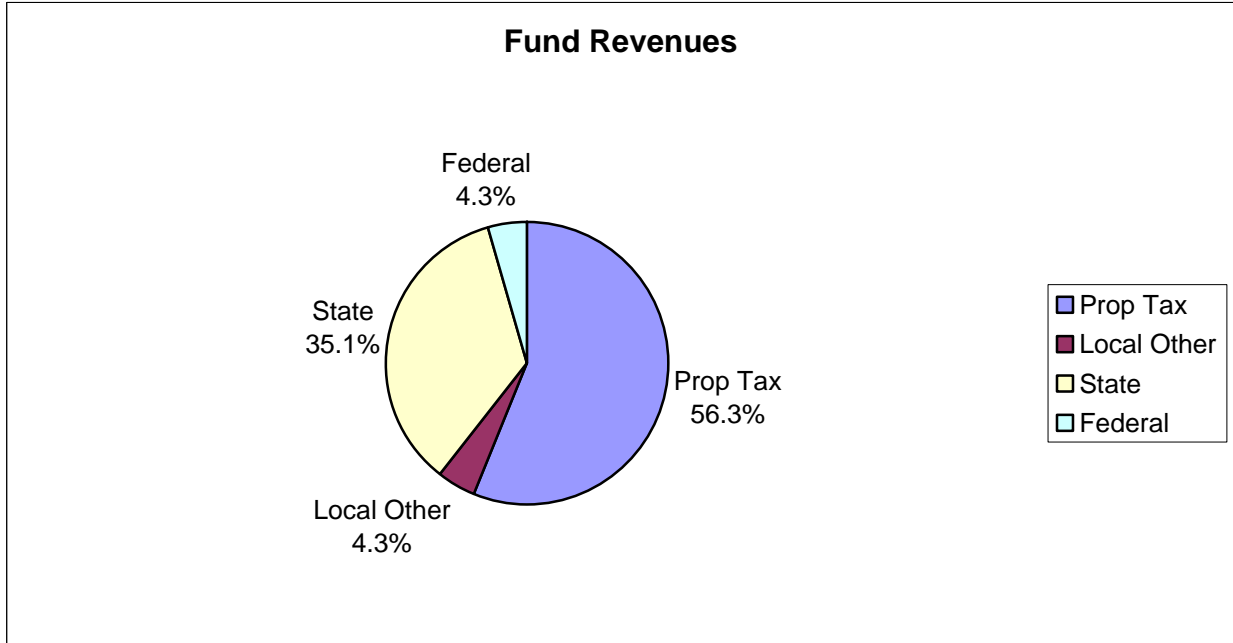
	<u>Fund Balance</u> <u>June 30, 2009</u>	<u>Fund Balance</u> <u>June 30, 2008</u>	<u>Increase</u> <u>(Decrease)</u>
General Fund	\$ 12,546,296	\$ 16,122,985	\$ (3,576,689)
Capital Reserve Fund	1,198,741	1,697,590	(498,849)
Capital Projects Fund	6,473,676	57,231,442	(50,757,766)
Other governmental funds	<u>778</u>	<u>103,257</u>	<u>(102,479)</u>
Total	<u>\$ 20,219,491</u>	<u>\$ 75,155,274</u>	<u>\$ (54,935,783)</u>

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

The District's reliance upon tax revenues is demonstrated by the graph below which indicates that 56.3 percent of total revenues for government activities comes from property taxes.



General Fund

The District's general fund balance decrease is due to many factors. The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

Revenues	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Taxes	\$ 74,546,050	\$ 75,901,478	\$ (1,355,428)	-1.8%
Investment earnings	1,222,700	2,227,950	(1,005,250)	-45.1%
Intergovernmental	50,389,519	44,297,709	6,091,810	13.8%
Proceeds from collateralized borrowing	4,821,625	5,102,098	(280,473)	-5.5%
Other revenue	<u>665,548</u>	<u>1,053,074</u>	<u>(387,526)</u>	<u>-36.8%</u>
Total	<u>\$131,645,442</u>	<u>\$128,582,309</u>	<u>\$ 3,063,133</u>	<u>2.4%</u>

Tax revenue decreased by \$1.4 million because of the Act 1 shift in tax revenues to state subsidy revenue, as well as decreases in earned income, real estate transfer and interim taxes - the result of a sluggish economy.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

While the District's real estate tax base growth of 1.4 percent, as well as its modest 3.1 percent tax increase, resulted in additional revenues of \$1 million and \$2.2 million, respectively, the District provided \$3.9 million in taxpayer homestead exemptions per Act 1, which resulted in a net decrease in real estate tax revenues. However, in accordance with Act 1, the state provided \$3.9 million additional subsidy revenue to the District for these taxpayer homestead exemptions. Fiscal year 2008-2009 was the first year in which the state provided subsidies for Act 1.

Investment earnings decreased by \$1 million, or 45 percent, as a result of lower interest rates brought about by the economy as well as fewer funds available for investment.

Intergovernmental revenue increased by \$6.1 million, or 13.8 percent, for the fiscal year due to \$3.9 million in additional Act 1 state subsidy revenue and \$1.1 in additional federal Access funding, as well as increases in other state and federal subsidies.

Proceeds from collateralized borrowings decreased by \$280 thousand - the result of a decrease in delinquent tax collections.

Other revenue decreased by \$387 thousand, largely the result of a decrease in refunds of prior year expenditures.

Other Funds

The capital projects fund balance decreased by \$50.8 million as bond proceeds were spent down to complete the new Rainbow Elementary School which opened in August 2009 and to continue the major renovations at the Coatesville Area High School Campus, as well as to review other projects. These other projects include the review of possibilities for the District's North and South Brandywine Middle Schools and the possibility of another new elementary school.

The capital reserve fund balance decreased by \$499 thousand as funds were spent down from the available fund balance to complete the following:

- Parking lot paving/resurfacing at Friendship Elementary School
- Roof restoration at Friendship Elementary School
- Roof replacement at King's Highway Elementary School
- Carpet replacement at Reeceville Elementary School
- Carpet replacement at East Fallowfield Elementary School
- Gym floor refinishing at Coatesville Intermediate High School

Business-type Activities

Business-type activities include the food service program. This program had a decrease in net assets of \$322 thousand for the fiscal year. This decrease is attributed primarily to a \$108 thousand increase in operating expenses, a \$108 thousand decrease in food service meal sales and the District's desire to reduce its Food Service Fund net assets by keeping lunch price increases to a minimum.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

During the year, the District's Board of Education and management review, approve and process budget transfers monthly. While some District expenditures were over their original budgets, the savings in healthcare expenditures offset these overages. As a result, total general fund expenditures were \$559 thousand under budget.

Spending Review

		<u>Original Budget</u>	<u>Actual</u>	<u>Diff \$</u>	<u>Diff %</u>
Instructional Services:					
Regular programs	1100	\$ 55,367,799	\$ 51,021,804	\$ 4,345,995	7.85
Special programs	1200	20,789,217	23,711,401	(2,922,184)	-14.06
Vocational programs	1300	3,446,783	3,183,704	263,079	7.63
Other instructional programs	1400	<u>1,135,826</u>	<u>2,931,784</u>	<u>(1,795,958)</u>	<u>-158.12</u>
Total Instructional Services		<u>80,739,625</u>	<u>80,848,693</u>	<u>(109,068)</u>	<u>-0.14</u>
Support Services:					
Pupil personnel services	2100	4,422,505	4,132,895	289,610	6.55
Instructional staff services	2200	5,063,768	4,952,885	110,883	2.19
Administrative services	2300	6,764,788	6,644,048	120,740	1.78
Pupil health	2400	1,070,181	1,067,592	2,589	0.24
Business services	2500	1,242,262	1,123,961	118,301	9.52
Operation and maintenance of plant	2600	10,916,468	11,240,190	(323,722)	-2.97
Student transportation services	2700	8,000,927	8,897,633	(896,706)	-11.21
Central services	2800	2,156,893	2,069,119	87,774	4.07
Other support services	2900	<u>49,742</u>	<u>50,535</u>	<u>(793)</u>	<u>-1.59</u>
Total Support Services		<u>39,687,534</u>	<u>40,178,858</u>	<u>(491,324)</u>	<u>-1.24</u>
Operation of Noninstructional Services:					
Student and community services	3300	-	<u>41,018</u>	<u>(41,018)</u>	<u>-100.00</u>
Total Operation of Noninstructional Services		-	<u>41,018</u>	<u>(41,018)</u>	<u>-100.00</u>
Debt Service, Transfers and Refunds:					
Debt service	5110	13,453,976	13,157,772	296,204	2.20
Transfers and budgetary reserve		1,900,000	991,000	909,000	47.84
Refunds of prior year receipts		-	<u>4,790</u>	<u>(4,790)</u>	<u>-100.00</u>
Total Debt Service, Transfers and Refunds		<u>15,353,976</u>	<u>14,153,562</u>	<u>1,200,414</u>	<u>7.82</u>
TOTAL EXPENDITURES		<u>\$135,781,135</u>	<u>\$135,222,131</u>	<u>\$ 559,004</u>	<u>0.41</u>

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

Using spending variances in excess of \$10,000 and using five percent as a spending tolerance, the most significant changes in the District's budget vs. actual expenditures were:

	<u>Original Budget</u>	<u>Actual</u>	<u>Diff \$</u>	<u>Diff %</u>
Regular programs	\$ 55,367,799	\$ 51,021,804	\$ 4,345,995	7.85%
Special programs	20,789,218	23,711,401	(2,922,183)	-14.06%
Vocational programs	3,446,783	3,183,704	263,079	7.63%
Other instructional programs	1,135,826	2,931,784	(1,795,958)	-158.12%
Pupil personnel	4,422,505	4,132,895	289,610	6.55%
Business services	1,242,262	1,123,961	118,301	9.52%
Student transportation services	8,000,927	8,897,633	(896,706)	-11.21%
Transfers and Budgetary Reserve	1,900,000	991,000	909,000	47.84%

Regular programs expenditures were under original budget by \$4.3 million. This is because \$1.5 million in grant expenditures was budgeted in the regular instructional programs category instead of other program categories per the state's original instructions. These budgeted expenditures were later reclassified per the state's subsequent instructions. With the correction, regular programs expenditures would have been \$2.8 million, or 5.3 percent under budget. In addition, the District's self-insured healthcare plan experienced significant savings overall with a \$2.5 million savings in regular programs. Furthermore, the District's expenditures for purchased property services were \$300 thousand less than anticipated.

Expenditures to meet the needs of special education students are often difficult to forecast. Circumstances or needs can change quickly and so can their costs. It is for these reasons that special education expenditures exceeded their original budget by \$2.9 million.

Vocational programs expenditures were \$263 thousand less than anticipated because Vo-Tech expenditures were less than anticipated.

Other instructional programs expenditures were over original budget by \$1.8 million. Again, \$2.4 million in grant expenditures was budgeted in the regular instructional programs category instead of the other instructional programs category as per the state's original instructions. These budgeted expenditures were later reclassified per the state's subsequent instructions. With the correction, other instructional programs expenditures would be \$575 thousand, or 0.5 percent under budget.

Pupil personnel expenditures were \$289 less than anticipated due to the significantly lower healthcare costs that the District experienced in its self-insured plan as well as lower than anticipated expenditures for salaries and supplies.

Business services expenditures were \$118 thousand less than anticipated due to the restructuring of personnel in the Business Office as well as the significantly lower healthcare costs that the District experienced in its self-insured plan.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

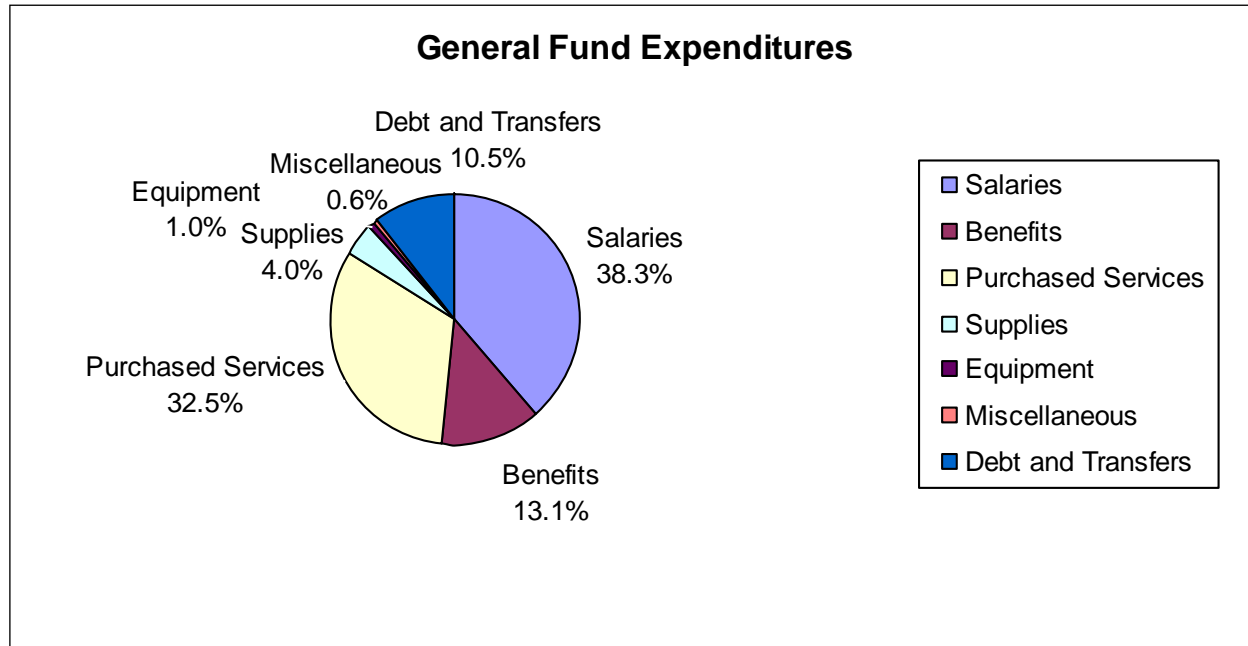
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

Student transportation services expenditures were \$897 thousand more than anticipated because of rising fuel prices as well as the need to add an additional bus run to accommodate students.

Because of the savings in healthcare expenditures, the District did not have the need to use all of its \$1 million in original budgeted reserve.

As the graph below illustrates, the largest portions of general fund expenditures are collectively for salaries and fringe benefits. The District is a service entity and as such is labor-intensive.



Expenditures by Object	2009	2008	Change	Percent
Salaries	\$ 51,814,411	\$ 48,515,377	\$ 3,299,034	6.80%
Benefits	17,742,697	20,386,616	(2,643,919)	-12.97%
Purchased Services	43,996,082	44,300,601	(304,519)	-0.69%
Supplies	5,366,572	4,209,068	1,157,504	27.50%
Equipment	1,366,369	1,598,482	(232,113)	-14.52%
Miscellaneous	782,438	861,559	(79,121)	9.18%
Debt and Transfers	14,153,562	12,544,788	1,608,774	12.82%
Total	\$135,222,131	\$132,416,491	\$ 2,805,640	2.12%

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

Expenditures were up \$2.8 million, or 2.1 percent, over the prior year.

The \$3.3 million increase in salaries was the result of collective bargaining agreements as well as the creation of additional positions at times to meet state mandates.

The net \$2.6 million decrease in benefits is attributed primarily to savings achieved as a result of the District's switch in May 2008 to a new third-party administrator for employees' healthcare claims.

Purchased services decreased by \$305 thousand, the result of the opening of the new Gordon Education Center, which serves students with certain exceptionalities. Previously, these students were served by an outside purchased service provider.

Supplies expenditures increased by \$1.2 million due to the rise in energy costs as well as new curricula initiatives to improve student achievement.

Equipment expenditures decreased by \$232 thousand, as previous fiscal year expenditures included the purchase of science equipment and laptops for teachers through special grant funds.

Debt and transfers increased by \$1.6 million, the result of an increase in debt service requirements from the issuance of general obligation bonds.

Expenditures exceeded revenues during the fiscal year resulting in a \$3.6 million decrease to the general fund balance. It should be noted that this was a planned reduction, as the District chose to modestly increase property tax mills by 3.1 percent to 26.5, while using its existing fund balance as a source to help meet expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has \$153.2 million invested in capital assets net of depreciation, with \$152.9 million attributed to governmental activities. Net acquisitions for governmental activities totaled \$53.1 million, and depreciation expense for the year was \$3.6 million. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

The acquisitions for governmental activities are significantly represented by the numerous renovation and building projects the District completed or is currently undergoing. These projects include:

- The new Rainbow Elementary School which opened in August 2009;
- The continued major renovation projects at the Coatesville Area High School Campus, in which many areas reopened in August 2009;
- The new Gordon Education Center which opened in August 2008;
- The continued review of options for North and South Brandywine Middle Schools;
- The continued planning of another new elementary school.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

JUNE 30, 2009

Debt

At June 30, 2009, the District had \$159.8 million in outstanding bonds and notes payable. During the year, the District increased its outstanding debt by \$35.7 million with the issuance of its Series 2009 general obligation bonds, which refunded the \$35.4 million balance of its Series 1999 general obligation bonds. In addition, the District made principal payments of \$6.1 million. Detailed information regarding long-term debt and notes payable activity is included in the notes to the basic financial statements (Note 7).

Under current state statutes, the District's general obligation bonded debt issues are subject to legal limitation based on 225 percent of the average revenues for the prior three years. At June 30, 2009, the District's gross borrowing capacity for debt was \$281.6 million; of this amount, \$159.8 million was outstanding as existing debt, leaving \$121.8 million remaining as the District's net borrowing capacity available for future debt issuances. As the District incurred new debt from the Series 2009 General Obligation Bond issue during the 2008-2009 fiscal year, it stayed within its remaining borrowing capacity.

At June 30, 2009, the District's Moody's and Standard & Poor's ratings were A3 and A+/Stable, respectively.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The District has experienced significant growth over the last 10 years. If the growth patterns in student population change so that more students enter the District than currently anticipated, adjustments will have to be made to the financial models upon which assumptions have been made.

Based on previous economic conditions, the District had anticipated its property tax base to grow at 2.5 percent during the 2008-2009 year. However, due to the nationwide downturn in economic conditions, the District's property tax base grew by only 1.4 percent. For this reason, the District's future growth will depend largely on the economy.

The District's overall enrollment, including private and charter school students (for which the District is responsible for transportation costs), is expected to continue to grow through fiscal year 2009-2010. The District's facilities are being renovated and/or expanded to adequately encompass the expected increases in student growth where appropriate and to meet current federal, state, county and municipal guidelines for health and safety criteria. New mandates for facility upgrades can be imposed by any of these governments at any time.

The reader is invited to review additional tax and enrollment information and to review official offering statements of recent District bond issues that contain related housing, commercial and demographic information at the District's Benner Education Services Center, 545 East Lincoln Highway, Coatesville, PA 19320. The reader also is invited to visit the District's web page (www.coatesville.k12.pa.us).

CONTACTING THE DISTRICT'S 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 District's accountability for the monies it receives. If you have questions about this report or wish to request additional financial information, please contact Ms. Karen DeShullo, Assistant Director of Business Administration, Coatesville Area School District, 545 East Lincoln Highway, Coatesville, Pennsylvania 19320-2447, (610) 466-2446.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009
(With Summarized Comparative Data for June 30, 2008)

	Governmental	Business-type	Totals	
	Activities	Activities	2009	2008
ASSETS				
Cash and cash equivalents	\$ 12,148,371	\$ 603,670	\$ 12,752,041	\$ 65,232,083
Investments	11,910,687	-	11,910,687	16,575,005
Internal balances	435,035	(435,035)	-	-
Interest receivable	173,713	-	173,713	222,467
Pledged taxes receivable	6,997,012	-	6,997,012	6,646,887
Due from other governments	1,857,945	77,541	1,935,486	2,088,470
Other receivables	749,946	3,838	753,784	543,940
Prepaid expenses	910,679	-	910,679	769,197
Inventories	-	36,416	36,416	41,324
Other assets	697,709	-	697,709	1,999,906
Issuance costs	1,661,266	-	1,661,266	1,074,635
Land	2,812,500	-	2,812,500	2,812,500
Construction-in-progress	64,816,754	-	64,816,754	35,944,619
Land improvements	7,054,922	-	7,054,922	7,054,922
Buildings and improvements	112,263,410	-	112,263,410	89,082,654
Furniture and equipment	10,965,574	1,520,210	12,485,784	12,357,149
Accumulated depreciation	(45,003,785)	(1,246,835)	(46,250,620)	(43,433,716)
TOTAL ASSETS	\$ 190,451,738	\$ 559,805	\$ 191,011,543	\$ 199,012,042
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable	\$ 5,796,244	\$ 2,292	\$ 5,798,536	\$ 7,513,535
Accrued salaries and benefits	3,243,291	23,932	3,267,223	3,257,772
Accrued interest	2,372,344	-	2,372,344	2,655,694
Collateralized borrowing	4,401,291	-	4,401,291	5,497,332
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable	5,310,000	-	5,310,000	4,380,000
Add: Bond premiums	347,679	-	347,679	254,240
Less: Bond discounts	(6,510)	-	(6,510)	(6,310)
Less: Deferred amounts on refunding	(154,729)	-	(154,729)	(115,441)
Note payable	1,775,000	-	1,775,000	1,720,000
Capital leases payable	47,896	-	47,896	47,897
Accumulated compensated absences	23,211	-	23,211	42,892
Portion due or payable after one year:				
Bonds payable	136,020,000	-	136,020,000	141,065,000
Add: Bond premiums	4,049,958	-	4,049,958	3,657,906
Less: Bond discounts	(69,430)	-	(69,430)	(76,140)
Less: Deferred amounts on refunding	(1,461,116)	-	(1,461,116)	(1,304,817)
Note payable	16,650,000	-	16,650,000	18,425,000
Capital leases payable	-	-	-	47,896
Other post-employment benefits	2,749,090	-	2,749,090	1,489,714
Accumulated compensated absences	1,792,263	92,944	1,885,207	1,730,605
TOTAL LIABILITIES	182,886,482	119,168	183,005,650	190,282,775
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	(3,125,697)	273,375	(2,852,322)	(7,045,661)
Restricted for capital projects	1,198,741	-	1,198,741	1,697,590
Unrestricted	9,492,212	167,262	9,659,474	14,077,338
TOTAL NET ASSETS	7,565,256	440,637	8,005,893	8,729,267
TOTAL LIABILITIES AND NET ASSETS	\$ 190,451,738	\$ 559,805	\$ 191,011,543	\$ 199,012,042

The accompanying notes are an integral part of these financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(With Summarized Comparative Data for the Year Ended June 30, 2008)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 83,309,091	\$ 241,484	\$ 19,133,669	\$ -	\$ (63,933,938)	\$ -	\$ (65,057,876)
Instructional student support	11,190,438	-	430,301	-	(10,760,137)	-	(9,836,431)
Administrative and financial support services	9,624,928	-	265,378	-	(9,359,550)	-	(10,022,731)
Operation and maintenance of plant services	11,723,614	-	301,390	-	(11,422,224)	-	(9,947,502)
Pupil transportation	8,897,633	-	4,938,775	-	(3,958,858)	-	(4,071,155)
Student activities	1,207,588	85,113	31,396	-	(1,091,079)	-	(991,034)
Community services	41,018	84,032	-	-	43,014	-	32,528
Interest on long-term debt	6,776,790	-	892,373	-	(5,884,417)	-	(6,706,875)
TOTAL GOVERNMENTAL ACTIVITIES	132,771,100	410,629	25,993,282	-	(106,367,189)	-	(106,601,076)
BUSINESS-TYPE ACTIVITIES							
Food service	2,950,710	1,149,735	1,463,166	-	-	(337,809)	(196,474)
TOTAL BUSINESS-TYPE ACTIVITIES	2,950,710	1,149,735	1,463,166	-	-	(337,809)	(196,474)
TOTAL PRIMARY GOVERNMENT	\$135,721,810	\$1,560,364	\$27,456,448	\$ -	(106,367,189)	(337,809)	(106,797,550)
GENERAL REVENUES							
Property taxes, levied for general purposes					71,593,182	-	71,593,182
Taxes levied for specific purposes					7,859,617	-	7,859,617
Grants and entitlements not restricted to specific programs					24,396,818	-	24,396,818
Investment earnings					2,049,187	15,967	2,065,154
Miscellaneous					66,853	-	66,853
TOTAL GENERAL REVENUES					105,965,657	15,967	105,981,624
CHANGE IN NET ASSETS					(401,532)	(321,842)	(1,760,870)
NET ASSETS, BEGINNING OF YEAR					7,966,788	762,479	10,490,137
NET ASSETS, END OF YEAR					\$ 7,565,256	\$ 440,637	\$ 8,729,267

The accompanying notes are an integral part of these financial statements.

**COATESVILLE AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2009

(With Summarized Comparative Data for June 30, 2008)

	Major Funds				Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund	Nonmajor Fund	2009	2008
ASSETS						
Cash and cash equivalents	\$ 2,742,957	\$ 474,331	\$ 8,931,065	\$ 18	\$ 12,148,371	\$ 63,659,765
Investments	11,175,000	730,365	-	5,322	11,910,687	16,575,005
Interest receivable	173,713	-	-	-	173,713	222,467
Taxes receivable	6,997,012	-	-	-	6,997,012	6,646,887
Due from other funds	424,416	-	-	28,850	453,266	1,273,715
Due from other governments	1,857,945	-	-	-	1,857,945	2,015,060
Other receivables	749,124	-	-	822	749,946	539,730
Prepaid expenses	910,679	-	-	-	910,679	769,197
Other assets	697,709	-	-	-	697,709	1,999,906
TOTAL ASSETS	\$ 25,728,555	\$ 1,204,696	\$ 8,931,065	\$ 35,012	\$ 35,899,328	\$ 93,701,732
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Due to other funds	\$ -	\$ -	\$ 18,231	\$ -	\$ 18,231	\$ 135,564
Accounts payable	3,316,897	5,955	2,439,158	34,234	5,796,244	7,513,535
Accrued salaries and benefits	3,243,291	-	-	-	3,243,291	3,244,690
Deferred revenues	6,598,860	-	-	-	6,598,860	7,609,777
Accumulated compensated absences	23,211	-	-	-	23,211	42,892
TOTAL LIABILITIES	13,182,259	5,955	2,457,389	34,234	15,679,837	18,546,458
FUND BALANCES						
Reserved for capital projects	-	1,198,741	6,473,676	-	7,672,417	58,929,032
Reserved for athletic purposes	-	-	-	778	778	103,257
Unreserved	12,546,296	-	-	-	12,546,296	16,122,985
TOTAL FUND BALANCES	12,546,296	1,198,741	6,473,676	778	20,219,491	75,155,274
TOTAL LIABILITIES AND FUND BALANCES	\$ 25,728,555	\$ 1,204,696	\$ 8,931,065	\$ 35,012	\$ 35,899,328	\$ 93,701,732

The accompanying notes are an integral part of these financial statements.

**COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
STATEMENT OF NET ASSETS
JUNE 30, 2009**

TOTAL GOVERNMENTAL FUND BALANCES \$ 20,219,491

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 2,812,500	
Construction-in-progress	64,816,754	
Land improvements	7,054,922	
Buildings and improvements	112,263,410	
Furniture and equipment	10,965,574	
Accumulated depreciation	<u>(45,003,785)</u>	152,909,375

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(141,330,000)	
Notes payable	(18,425,000)	
Capital leases payable	(47,896)	
Accumulated compensated absences	(1,792,263)	
Accrued interest	(2,372,344)	
Collateralized borrowing	(4,401,291)	
Post-employment benefits	<u>(2,749,090)</u>	(171,117,884)

Debt issuance and refunded debt resulted in issuance costs and deferred charges and credits which will be amortized over the life of the new debt but do not represent current rights. (1,044,586)

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 6,598,860

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 7,565,256

The accompanying notes are an integral part of these financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(With Summarized Comparative Data for the Year Ended June 30, 2008)

	Major Funds			Totals
	General Fund	Capital Reserve Fund	Capital Projects Fund	
REVENUES				
Local sources	\$ 76,225,724	\$ 50,124	\$ 772,800	\$ 77,125,791
State sources	44,781,109	-	-	44,781,109
Federal sources	5,540,661	-	-	5,540,661
TOTAL REVENUES	<u>126,547,494</u>	<u>50,124</u>	<u>772,800</u>	<u>127,447,561</u>
EXPENDITURES				
Current:				
Instruction	80,848,693	-	-	80,848,693
Support services	40,178,858	-	698,215	40,877,073
Operation of noninstructional services	41,018	-	-	1,170,622
Capital outlays	-	548,973	51,503,918	52,052,891
Debt service	13,157,772	-	27,585	13,185,357
TOTAL EXPENDITURES	<u>134,226,341</u>	<u>548,973</u>	<u>52,229,718</u>	<u>188,175,654</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(7,678,847)</u>	<u>(498,849)</u>	<u>(51,456,918)</u>	<u>(60,728,093)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from collateralized borrowing	4,821,625	-	-	4,821,625
Proceeds from sale of fixed assets	15,258	-	-	15,258
Refund of prior year expenditures	261,065	-	937	262,002
Refund of prior year receipts	(4,790)	-	-	(4,790)
Transfers in	-	-	-	991,000
Transfers out	(991,000)	-	-	(991,000)
Issuance of debt	-	-	35,700,000	35,700,000
Payment of debt - refunding	-	-	(35,749,302)	(35,749,302)
Bond premium	-	-	747,517	747,517
TOTAL OTHER FINANCING SOURCES	<u>4,102,158</u>	<u>-</u>	<u>699,152</u>	<u>5,792,310</u>
NET CHANGE IN FUND BALANCES	<u>(3,576,689)</u>	<u>(498,849)</u>	<u>(50,757,766)</u>	<u>(54,935,783)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>16,122,985</u>	<u>1,697,590</u>	<u>57,231,442</u>	<u>75,155,274</u>
FUND BALANCES, END OF YEAR	<u>\$ 12,546,296</u>	<u>\$ 1,198,741</u>	<u>\$ 6,473,676</u>	<u>\$ 20,219,491</u>
				<u>\$ 75,155,274</u>

The accompanying notes are an integral part of these financial statements.

**COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (54,935,783)

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

Capital outlays are reported in governmental funds as expenditures, which are reported either as District-wide (capital outlay) or function-specific (i.e. instruction, pupil services.) However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$53,053,696) exceeded depreciation (\$3,599,817). 49,453,879

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. 89,269

Revenues in the statement of activities that provided current financial resources in the current year but recorded as income in the statement of activities in prior years. (4,145)

The statement of activities reports a gain or loss on the disposal of capital assets based on the proceeds received and the net book value of the assets at the time of disposal. The loss on disposal is calculated as the excess of the cost of the assets disposed (\$805,920) over the accumulated depreciation of the assets disposed (\$747,499). (58,421)

Debt proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, incurring debt increases liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. This is the amount by which debt payments (\$41,582,897) exceeded debt proceeds (\$35,700,000). 5,882,897

Governmental funds report issuance costs, bond discounts and deferred amounts on refunding as other financing uses and bond premiums as other financing sources. However, these amounts are reported in the statement of net assets as deferred charges and credits and are amortized over the life of the debt. This is the amount by which current deferred charges exceeded net amortization. 290,217

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave), other post-employment benefits and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (1,402,795)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 283,350

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (401,532)

The accompanying notes are an integral part of these financial statements.

**COATESVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Local sources	\$ 77,816,877	\$ 77,816,877	\$ 76,225,724	\$(1,591,153)
State sources	45,411,613	45,411,613	44,781,109	(630,504)
Federal sources	4,798,900	4,798,900	5,540,661	741,761
TOTAL REVENUES	<u>128,027,390</u>	<u>128,027,390</u>	<u>126,547,494</u>	<u>(1,479,896)</u>
EXPENDITURES				
Instruction:				
Regular programs	55,367,799	52,984,607	51,021,804	1,962,803
Special programs	20,789,217	20,787,662	23,711,401	(2,923,739)
Vocational programs	3,446,783	3,452,201	3,183,704	268,497
Other instructional programs	1,135,826	3,122,297	2,931,784	190,513
Total Instruction	<u>80,739,625</u>	<u>80,346,767</u>	<u>80,848,693</u>	<u>(501,926)</u>
Support services:				
Pupil personnel services	4,422,505	4,424,674	4,132,895	291,779
Instructional staff services	5,063,768	5,167,232	4,952,885	214,347
Administrative services	6,764,788	6,916,253	6,644,048	272,205
Pupil health	1,070,181	1,080,662	1,067,592	13,070
Business services	1,242,262	1,252,261	1,123,961	128,300
Operation and maintenance of plant services	10,916,468	10,916,468	11,240,190	(323,722)
Student transportation services	8,000,927	8,000,927	8,897,633	(896,706)
Central support services	2,156,893	2,351,893	2,069,119	282,774
Other support services	49,742	50,536	50,535	1
Total Support Services	<u>39,687,534</u>	<u>40,160,906</u>	<u>40,178,858</u>	<u>(17,952)</u>
Operation of noninstructional services:				
Community services	-	36,036	41,018	(4,982)
Total Operation of Noninstructional Services	<u>-</u>	<u>36,036</u>	<u>41,018</u>	<u>(4,982)</u>
Debt service	13,453,976	13,453,976	13,157,772	296,204
TOTAL EXPENDITURES	<u>133,881,135</u>	<u>133,997,685</u>	<u>134,226,341</u>	<u>(228,656)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(5,853,745)</u>	<u>(5,970,295)</u>	<u>(7,678,847)</u>	<u>(1,708,552)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from collateralized borrowing	4,098,843	4,098,843	4,821,625	722,782
Proceeds from sale of fixed assets	-	-	15,258	15,258
Refund of prior year expenditures	-	-	261,065	261,065
Refund of prior year receipts	-	-	(4,790)	(4,790)
Transfers out	(900,000)	(900,000)	(991,000)	(91,000)
Budgetary reserve	(1,000,000)	(883,450)	-	883,450
TOTAL OTHER FINANCING SOURCES	<u>2,198,843</u>	<u>2,315,393</u>	<u>4,102,158</u>	<u>1,786,765</u>
NET CHANGE IN FUND BALANCE	(3,654,902)	(3,654,902)	(3,576,689)	78,213
FUND BALANCE, BEGINNING OF YEAR	<u>16,122,985</u>	<u>16,122,985</u>	<u>16,122,985</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 12,468,083</u>	<u>\$ 12,468,083</u>	<u>\$ 12,546,296</u>	<u>\$ 78,213</u>

The accompanying notes are an integral part of these financial statements.

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2009
(With Comparative Data for June 30, 2008)**

	Major Fund	
	Food Service Fund	
	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 603,670	\$ 1,572,318
Other receivables	3,838	4,210
Due from other governments	77,541	73,410
Inventories	36,416	41,324
Total Current Assets	<u>721,465</u>	<u>1,691,262</u>
CAPITAL ASSETS:		
Furniture and equipment	1,520,210	1,586,460
Accumulated depreciation	(1,246,835)	(1,282,249)
Capital Assets, Net	<u>273,375</u>	<u>304,211</u>
TOTAL ASSETS	<u>\$ 994,840</u>	<u>\$ 1,995,473</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Due to other funds	\$ 435,035	\$ 1,138,151
Accounts payable	2,292	-
Accrued salaries and benefits	23,932	13,082
Total Current Liabilities	<u>461,259</u>	<u>1,151,233</u>
NONCURRENT LIABILITIES:		
Accumulated compensated absences	92,944	81,761
Total Liabilities	<u>554,203</u>	<u>1,232,994</u>
NET ASSETS		
Invested in capital assets, net of related debt	273,375	304,211
Unrestricted	167,262	458,268
Total Net Assets	<u>440,637</u>	<u>762,479</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 994,840</u>	<u>\$ 1,995,473</u>

The accompanying notes are an integral part of these financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Data for the Year Ended June 30, 2008)

	Major Fund	
	Food Service Fund	
	2009	2008
OPERATING REVENUES		
Food service revenues	\$ 1,149,735	\$ 1,258,125
Total Operating Revenues	1,149,735	1,258,125
OPERATING EXPENSES		
Salaries	872,993	842,943
Employee benefits	389,982	409,755
Purchased professional and technical services	8,677	8,774
Purchased property services	42,544	65,458
Other purchased services	197,943	162,415
Supplies	1,401,181	1,315,009
Depreciation	35,536	36,794
Other operating expenses	1,854	2,001
Total Operating Expenses	2,950,710	2,843,149
OPERATING LOSS	(1,800,975)	(1,585,024)
NONOPERATING REVENUES		
Earnings on investments	15,967	26,268
State sources	113,505	113,064
Federal sources	1,349,661	1,275,486
Total Nonoperating Revenues	1,479,133	1,414,818
CHANGE IN NET ASSETS	(321,842)	(170,206)
NET ASSETS, BEGINNING OF YEAR	762,479	932,685
NET ASSETS, END OF YEAR	\$ 440,637	\$ 762,479

The accompanying notes are an integral part of these financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Data for the Year Ended June 30, 2008)

	Major Fund	
	Food Service Fund	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services and other operating revenues	\$ 1,150,107	\$ 1,259,139
Payments to suppliers	(1,941,273)	(58,017)
Payments for other operating expenses	(242,341)	(229,874)
Payments to employees	(1,249,619)	(1,239,759)
NET CASH USED BY OPERATING ACTIVITIES	(2,283,126)	(268,511)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State sources	113,697	108,787
Federal sources	1,189,514	1,081,370
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,303,211	1,190,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(4,700)	(104,140)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,700)	(104,140)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from earnings on investments	15,967	29,727
Proceeds from sale of investments	-	350,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	15,967	379,727
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(968,648)	1,197,233
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,572,318	375,085
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 603,670	\$ 1,572,318
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,800,975)	\$ (1,585,024)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	35,536	36,794
Donated commodities	155,824	154,570
(Increase) decrease in:		
Other receivables	372	1,014
Inventories	4,908	(15,591)
Increase (decrease) in:		
Accounts payable	2,292	-
Accrued salary	10,850	13,082
Due to other funds	(703,116)	1,118,013
Accumulated compensated absences	11,183	8,631
NET CASH USED BY OPERATING ACTIVITIES	\$ (2,283,126)	\$ (268,511)
SUPPLEMENTAL DISCLOSURE:		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	\$ 155,824	\$ 154,570

The accompanying notes are an integral part of these financial statements.

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2009**

	Private- Purpose Trust	Agency
ASSETS		
Cash	\$ 190,703	\$ 197,130
Due from other fund	-	32,006
TOTAL ASSETS	\$ 190,703	\$ 229,136
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ -	\$ 229,136
Due to other fund	32,006	
 NET ASSETS:		
Reserved for trust	158,697	
 TOTAL LIABILITIES AND NET ASSETS	\$ 190,703	

The accompanying notes are an integral part of these financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Data for the Year Ended June 30, 2008)

	Private-Purpose Trust	
	2009	2008
ADDITIONS		
Local contributions	\$ 64,077	\$ 25,000
Interest income	4,963	8,604
TOTAL ADDITIONS	<u>69,040</u>	<u>33,604</u>
DEDUCTIONS		
Fees paid and scholarships awarded	<u>66,063</u>	<u>66,838</u>
TOTAL DEDUCTIONS	<u>66,063</u>	<u>66,838</u>
CHANGE IN NET ASSETS	2,977	(33,234)
NET ASSETS, BEGINNING OF YEAR	<u>155,720</u>	<u>188,954</u>
NET ASSETS, END OF YEAR	<u><u>\$ 158,697</u></u>	<u><u>\$ 155,720</u></u>

The accompanying notes are an integral part of these financial statements.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Coatesville Area School District (the "District") operates six elementary schools, three middle schools and two senior high schools to provide education and related services to the residents of the City of Coatesville, two boroughs (South Coatesville and Modena) and six townships (Caln, East Fallowfield, Sadsbury, Valley, West Brandywine and West Caln). The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member Board form of government.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Joint Ventures

The District is a participating member of the Center for Arts and Technology (the "Vo-Tech"). The Vo-Tech is run by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of the debt and operating costs of the Vo-Tech based on the number of students from each district. For fiscal year ended June 30, 2009, the District's share of operating costs was \$1,712,825. The Vo-Tech prepares financial statements which are available to the public. The financial statements of the Vo-Tech are available from the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

Basis of Presentation

Entity-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the primary financial activities of the District, except for fiduciary funds.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The entity-wide financial statements report net assets in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from special revenue and capital projects funds. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The single nonmajor governmental fund is presented in a single column on the governmental fund financial statements. Fiduciary fund financial statements are presented by fund type.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The **Capital Projects Fund** and the **Capital Reserve Fund** are used to account for the acquisition, construction and renovation of major capital facilities.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when payment is due. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

These 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 proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's enterprise fund include payroll, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the entity-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict the guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of students of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as internal balances.

Pledged Taxes Receivable

The District has entered into an agreement with the Harrisburg Municipal Authority (the "Authority") under which the District relinquishes to the Authority delinquent property tax revenues. The District receives from the Authority an annual lump sum payment in exchange for the rights to receive

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

and retain future delinquent property tax revenues. This agreement qualifies as a collateralized borrowing in accordance with GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." Taxes receivable are considered as pledged for financial statement purposes. Proceeds received by the District are reported as a liability in the statement of net assets and as another financing source in the fund financial statements. Subsequent collections of the pledged receivables that are paid to the Authority reduce the liability on the District's statement of net assets.

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 - August 31	-	Discount period, 2% of gross levy
September 1 - October 31	-	Face Period
November 1 to collection	-	Penalty Period, 10% of gross levy
January 15	-	Lien Date

Assessed valuations of property are determined by the Chester County Board of Assessments. The District's taxes are billed and collected by a third-party administrator. The tax on real estate for public school purposes for fiscal 2008-2009 was 26.50 mills (\$26.50 for \$1,000 of assessed valuation) for the entire District.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both entity-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

School buildings and improvements	20-50 years
Site improvements	15-20 years
Equipment	5-10 years
Vehicles	8-15 years
Library books	5-7 years

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days as stipulated in each bargaining unit's contract. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts on refunding are recorded as a decrease to debt payable and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except for refundings paid from proceeds which are reported as other financing uses.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

GASB Statement No. 45

The GASB has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as "other post-employment benefits," or OPEB.

GASB Statement No. 45 ("GASB No. 45") generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB No. 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods.

GASB No. 45 is effective in three phases based on a government's total annual revenues. The general provisions of GASB No. 45 were implemented by the District for the fiscal year ending June 30, 2008, as more fully discussed in Note 14.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for all capital projects funds.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to the date final action on adoption is taken by the Board.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and include the effect of approved budget amendments.

NOTE 3 DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2009, the carrying amount of the District's deposits was \$13,139,874 and the bank balance was \$17,596,848. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$17,346,848 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools or mutual funds.

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

Certificates of deposit due within one year - collateral held by pledging bank's agent in the District's name	\$ 8,275,000
Pennsylvania School District Liquid Asset Fund ("PSDLAF") and Pennsylvania Local Government Investment Trust ("PLGIT")	<u>3,635,687</u>
TOTAL	<u>\$ 11,910,687</u>

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

Interest Rate Risk

The District's investment policy limits investment maturities to securities with maturity dates under one year as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2009, the District's investments in certificates of deposit had maturity dates of less than one year.

Credit Risk

The District limits its investment choices to those with the highest credit ratings by a nationally recognized statistical rating organization. As of June 30, 2009, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating organization.

NOTE 4 DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition of resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue reported in the general fund resulted from delinquent earned income and property taxes receivable, and grants and entitlements received but not earned.

NOTE 5 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,812,500	\$ -	\$ -	\$ 2,812,500
Construction-in-progress	<u>35,944,619</u>	<u>52,052,891</u>	<u>23,180,756</u>	<u>64,816,754</u>
Total Capital Assets Not Being Depreciated	<u>38,757,119</u>	<u>52,052,891</u>	<u>23,180,756</u>	<u>67,629,254</u>
Capital assets being depreciated:				
Land improvements	7,054,922	-	-	7,054,922
Buildings and improvements	89,082,654	23,180,756	-	112,263,410
Furniture and equipment	<u>10,770,689</u>	<u>1,000,805</u>	<u>805,920</u>	<u>10,965,574</u>
Total Capital Assets Being Depreciated	<u>106,908,265</u>	<u>24,181,561</u>	<u>805,920</u>	<u>130,283,906</u>
Less accumulated depreciation for:				
Land improvements	2,523,778	324,505	-	2,848,283
Buildings and improvements	32,151,771	1,997,819	-	34,149,590
Furniture and equipment	<u>7,475,918</u>	<u>1,277,493</u>	<u>747,499</u>	<u>8,005,912</u>
Total Accumulated Depreciation	<u>42,151,467</u>	<u>3,599,817</u>	<u>747,499</u>	<u>45,003,785</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total Capital Assets Being Depreciated, Net	<u>64,756,798</u>	<u>20,581,744</u>	<u>58,421</u>	<u>85,280,121</u>
Governmental Activities Capital Assets, Net	<u>\$ 103,513,917</u>	<u>\$ 72,634,635</u>	<u>\$ 23,239,177</u>	<u>\$ 152,909,375</u>
Business-type Activities: Capital assets being depreciated:				
Furniture and equipment	\$ 1,586,460	\$ 4,700	\$ 70,950	\$ 1,520,210
Less accumulated depreciation	<u>1,282,249</u>	<u>35,536</u>	<u>70,950</u>	<u>1,246,835</u>
Business-type Capital Assets, Net	<u>\$ 304,211</u>	<u>\$ (30,836)</u>	<u>\$ -</u>	<u>\$ 273,375</u>

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

Governmental activities:	
Instruction	\$ 2,552,869
Instructional student support	342,668
Administrative and financial support services	312,457
Operation and maintenance of plant services	354,857
Student activities	<u>36,966</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,599,817</u>
Depreciation Expense - Business-type Activities	<u>\$ 35,536</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2009 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 424,416	Food Service Fund	\$ 435,035
Nonmajor Fund	28,850	Capital Projects Fund	18,231
Agency Fund	<u>32,006</u>	Trust Fund	<u>32,006</u>
	<u>\$ 485,272</u>		<u>\$ 485,272</u>

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS (cont'd)

Interfund transfers for the year ended June 30, 2009 are as follows:

Transfer In:	Transfer Out:	
Nonmajor Fund	General Fund	\$ 991,000

This transfer represents funds to subsidize athletic activities.

NOTE 7 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental and business-type activities for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Governmental Activities:				
Bonds payable	\$ 145,445,000	\$ 35,700,000	\$ 39,815,000	\$ 141,330,000
Bond premiums	3,912,146	747,517	262,026	4,397,637
Bond discounts	(82,450)	-	(6,510)	(75,940)
Deferred amount on refunding	(1,420,258)	(314,302)	(118,715)	(1,615,845)
Note payable	20,145,000	-	1,720,000	18,425,000
Capital lease payable	95,793	-	47,897	47,896
Accumulated				
compensated absences	1,691,736	123,738	-	1,815,474
Other post-employment	-	2,749,090	-	2,749,090
Collateral borrowing	5,497,332	5,974,525	7,070,566	4,401,291
TOTALS	\$ 175,284,299	\$ 44,980,568	\$ 48,790,264	\$ 171,474,603
Business-type Activities:				
Accumulated				
compensated absences	\$ 81,761	\$ 11,183	\$ -	\$ 92,944

Payments of long-term debt from bonds and notes payable are to be funded by the general fund, while long-term debt from compensated absences is paid out of the fund from which the liability was incurred.

General Obligation Bonds:

Series of 2003, maturing through November 15, 2011 bearing interest ranging from 2.00% to 3.25%, interest payable semi-annually on May 15 and November 15. \$ 6,530,000

Series of 2004, maturing through August 15, 2020 bearing interest ranging from 2.00% to 5.25%, interest payable semi-annually on February 15 and August 15. 16,605,000

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT (cont'd)

Series of 2005, maturing through August 15, 2020 bearing interest ranging from 3.10% to 4.15%, interest payable semi-annually on February 15 and August 15. 9,320,000

Series of 2006, maturing through August 15, 2019 bearing interest ranging from 3.55% to 4.00%, interest payable semi-annually on February 15 and August 15. 9,625,000

Series of 2007, maturing through August 15, 2026 bearing interest ranging from 4.25% to 5.00%, interest payable semi-annually on February 1 and August 1. 63,550,000

Series of 2009, maturing through October 2016, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually on April 1 and October 1. The Series 2009 provided funds to currently refund the Series 1999 bonds and to pay expenses related to the issuance of such bonds. This current refunding was undertaken to reduce total debt payments over the next 8 years by \$2,330,675 and resulted in an economic gain of \$2,330,675. 35,700,000

Total General Obligation Bonds 141,330,000

Note Payable:

Series of 2001, maturing through November 25, 2017 with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. 18,425,000

TOTAL \$159,755,000

Presented below is a summary of debt service requirements to maturity by years:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2010	\$ 7,085,000	\$ 6,358,401	\$ 13,443,401
2011	7,105,000	6,334,258	13,439,258
2012	7,305,000	6,134,604	13,439,604
2013	7,505,000	5,933,923	13,438,923
2014	7,715,000	5,728,181	13,443,181
2015-2019	43,070,000	24,134,247	67,204,247
2020-2024	53,830,000	13,372,170	67,202,170
2025-2027	26,140,000	1,363,030	27,503,030
	<u>\$159,755,000</u>	<u>\$ 69,358,814</u>	<u>\$229,113,814</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT (cont'd)

Advance Refunding

The District has defeased certain outstanding bond issues. The defeased bonds are not included in the District's financial statements as they are being held in escrow by the paying agent until final maturity. The principal balance of the defeased bonds outstanding are as follows:

	<u>Final Maturity</u>	<u>Interest</u>	<u>Principal Outstanding</u>
General Obligation Bond Series of 2004	08/15/2014	4.31%	<u>\$ 8,445,000</u>

NOTE 8 CAPITAL LEASES - LESSEE

The District has entered into lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

Furniture and equipment	\$ 239,484
Less: Accumulated depreciation	<u>(141,022)</u>
Total	<u>\$ 98,462</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009 were as follows:

Year Ending June 30,

2010	\$ 54,398
Less: Amount representing interest	<u>(6,502)</u>
Present value of minimum lease payments	<u>\$ 47,896</u>

NOTE 9 OPERATING LEASES

The District currently is obligated under operating lease agreements for office equipment and fiber optic cable. The following is a schedule by years of future minimum lease payments:

Year Ending June 30,

2010	\$ 419,615
2011	95,201
2012	<u>13,229</u>
Total	<u>\$ 528,045</u>

Rental expense, including short-term rentals, for the year ended June 30, 2009 was \$691,978.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and their beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125 or by accessing its website at <http://www.psers.state.pa.us/publications/cafr/index.htm>.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25 and 7.5 percent of salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2009, the rate of employer contribution was 4.76 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2007, 2008 and 2009 were \$2,913,795, \$3,424,477 and \$2,188,640 respectively, equal to the required contribution for each year.

NOTE 11 SELF-INSURANCE

The District administers a self-insurance program to provide for the medical care for eligible employees and their dependents. Benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a liability for claims incurred through June 30, 2009.

Change in Aggregate Claim Liabilities

Year Ending June 30, 2009

Claims Liability, beginning of year	\$ 935,908
Current year claims and changes in estimates	12,065,392
Claim payments by the District	<u>(11,122,400)</u>
Claims Liability, end of year	<u>\$ 1,878,900</u>

Self-insurance benefits also are offered to retired District employees according to the provisions set forth in each bargaining unit's ERIP agreement. Currently, 187 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$2,532,975 for the year ended June 30, 2009.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims are not yet determinable.

Capital Improvement Commitments

As of June 30, 2009, the District was in the process of several capital projects. Construction commitments completed to date are as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to 06/30/2009</u>	<u>Commitments</u>
North Brandywine Middle School - renovations	\$ 1,430,654	\$ 231,738	\$ 1,198,916
South Brandywine Middle School - renovations	1,446,797	249,997	1,196,800
Coatesville High School - renovations	55,212,004	35,549,006	19,662,998
New Rainbow Elementary School	<u>29,197,884</u>	<u>23,948,298</u>	<u>5,249,586</u>
	<u>\$ 87,287,339</u>	<u>\$ 59,979,039</u>	<u>\$ 27,308,300</u>

In addition, the District has incurred costs in the amount of \$4,837,715 for other projects that were not under a formal construction commitment as of June 30, 2009.

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverages of the 2008-2009 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

Effective for the 2007-2008 fiscal year, the District has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits provided by the District. This Statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors assigns the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2009, the District contributed \$1,484,493 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

Annual required contribution	\$ 2,963,943
Interest on net OPEB obligation	67,626
Adjustment to annual required contribution	<u>(287,700)</u>
Annual OPEB cost (expense)	2,743,869
Contributions made	<u>(1,484,493)</u>
Increase in net OPEB obligation	1,259,376
Net OPEB obligation - beginning of year	<u>1,489,714</u>
Net OPEB obligation - end of year	<u>\$ 2,749,090</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$12,242,360, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$12,242,360. The covered payroll (annual payroll of active employees covered by the plan) was \$43,220,618, and the ratio of the UAAL to the covered payroll was 28.33 percent.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 9.0 percent in 2007, reduced by decrements to an ultimate rate of five percent in 2015 or later. The UAAL is being amortized based on the level dollar, 15-year blended period. The remaining amortization period at June 30, 2009 was 13 years.

NOTE 15 SUBSEQUENT EVENTS

On August 1, 2009, the District issued General Obligation Bonds, Series A of 2009 in the amount of \$22,000,000 for current and future capital projects.

The District has evaluated all subsequent events through January 12, 2010, the date the financial statements were available to be issued.

SINGLE AUDIT

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 12, 2010

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania as of and for the year ended June 30, 2009 and have issued our report thereon dated January 12, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Coatesville Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Coatesville Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal

Board of School Directors
Coatesville Area School District

control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting which we have reported to management of Coatesville Area School District in a separate letter dated January 12, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Coatesville Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of School Directors, Audit Committee, management and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.


BARBACANE, THORNTON & COMPANY

REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

January 12, 2010

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Compliance

We have audited the compliance of Coatesville Area School District, Coatesville, Pennsylvania, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Coatesville Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Coatesville Area School District's management. Our responsibility is to express an opinion on Coatesville Area School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Coatesville Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Coatesville Area School District's compliance with those requirements.

In our opinion, Coatesville Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Coatesville Area School District, Coatesville, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit,

To the Board of School Directors
Coatesville Area School District

we considered Coatesville Area School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coatesville Area School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of School Directors, Audit Committee, management and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.


BARBACANE, THORNTON & COMPANY

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses unqualified opinions on the financial statements of Coatesville Area School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance relating to the financial statements of Coatesville Area School District was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for the major federal award program for Coatesville Area School District expresses an unqualified opinion.
6. The auditee is considered to be a low-risk auditee. The dollar threshold for determining a Type A program is \$300,000.
7. The programs tested as major programs were:

<u>Program Name</u>	<u>CFDA #</u>
Title I	84.010
21st Century Community Learning Centers	84.287

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING / ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 07/01/2008	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2009
U.S. Department of Education										
Passed through PA Department of Education										
Title I	I	84.010	013-08-0089	07/01/07 - 09/30/09	\$ 1,676,357	\$ 670,532	\$ 455,669	\$ 214,863	\$ 214,863	\$ -
Title I	I	84.010	013-09-0089	07/01/08 - 09/30/10	1,511,969	1,196,185	-	1,464,472	1,464,472	268,287
Title I - Delinquent	I	84.010	107-08-0089	07/01/07 - 09/30/09	29,622	-	(3,257)	3,257	3,257	-
Title I - Delinquent	I	84.010	107-09-0089	07/01/08 - 09/30/10	28,311	11,918	-	10,108	10,108	(1,810)
Title I - Program Improvement	I	84.010	042-07-0089	07/01/06 - 09/30/08	33,000	18,857	10,953	7,904	7,904	-
Title I - Program Improvement	I	84.010	042-09-0089	07/01/08 - 09/30/10	98,000	26,703	-	95,752	95,752	69,049
Title I - Program Improvement	I	84.010	042-09-0089	07/01/08 - 09/30/10	85,000	21,036	-	6,515	6,515	(14,521)
Title I - Academic Achievement Award	I	84.010	077-09-0089	07/01/08 - 09/30/09	2,000	714	-	-	-	(714)
Title II - Improving Teacher Quality	I	84.367	020-08-0089	07/01/07 - 09/30/09	544,910	254,292	108,479	145,813	145,813	-
Title II - Improving Teacher Quality	I	84.367	020-09-0089	07/01/08 - 09/30/10	531,957	379,969	-	424,768	424,768	44,799
Title II - Educational Technology	I	84.318	055-07-0089	07/01/06 - 09/30/08	120,000	-	(29,300)	29,300	29,300	-
Title II - Educational Technology	I	84.318	055-08-0089	07/01/07 - 09/30/09	162,200	94,540	5,579	-	-	(16,706)
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-07-0089	07/01/06 - 09/30/08	61,940	21,881	21,881	-	-	17,033
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-08-0089	07/01/07 - 09/30/09	59,614	8,516	(29,153)	54,702	54,702	(70,740)
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-09-0089	07/01/08 - 09/30/10	163,065	75,261	-	4,521	4,521	-
Drug-free Schools	I	84.186	100-09-0089	07/01/08 - 09/30/09	28,277	28,277	-	28,277	28,277	-
21st Century Community Learning Centers	I	84.287	410-02-7658	10/01/08 - 09/30/09	82,500	-	-	82,500	82,500	82,500
21st Century Community Learning Centers	I	84.287	410-04-3306	01/01/07 - 09/30/08	155,293	141,308	124,272	17,036	17,036	-
21st Century Community Learning Centers	I	84.287	410-04-3306	07/01/08 - 09/30/09	235,207	-	-	235,207	235,207	235,207
Passed Through Chester County Intermediate Unit										
I.D.E.A.	I	84.027	062-08-0024	07/01/07 - 06/30/08	993,848	83,321	83,321	-	-	-
I.D.E.A.	I	84.027	062-09-0024	07/01/08 - 06/30/09	1,031,150	696,382	-	1,031,150	1,031,150	334,768
Passed through Allegheny I.U. #3 Inclusive Practices Mini-Grant										
TOTAL U.S. DEPARTMENT OF EDUCATION	I	84.027	N/A	12/03/08 - 06/30/09	25,000	-	-	21,084	21,084	21,084
Department of Public Welfare										
Passed through Leader Services										
Medical Assistance Reimbursement	I	93.778	N/A	7/1/08 - 6/30/09	204,705	-	204,705	204,705	204,705	-
TOTAL DEPARTMENT OF PUBLIC WELFARE	I	93.778	N/A	7/1/08 - 6/30/09	204,705	-	204,705	204,705	204,705	-
U.S. Department of Agriculture										
Passed through PA Department of Agriculture										
National School Lunch Program - Commodities	I	10.555	N/A	07/01/08 - 06/30/09	N/A	165,265	(5,150)	155,824	155,824	(14,591)
Passed through PA Department of Education										
Breakfast Program	I	10.553	N/A	07/01/07 - 06/30/08	N/A	12,341	12,341	-	-	-
Breakfast Program	I	10.553	N/A	07/01/08 - 06/30/09	N/A	207,259	-	221,125	221,125	13,866
National School Lunch Program	I	10.555	N/A	07/01/07 - 06/30/08	N/A	54,388	54,388	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/08 - 06/30/09	N/A	914,599	-	971,785	971,785	57,186
After School Snacks	I	10.555	N/A	07/01/08 - 06/30/09	N/A	927	-	927	927	-
State Matching Share	S	N/A	N/A	07/01/07 - 06/30/08	N/A	6,681	6,681	-	-	-
State Matching Share	S	N/A	N/A	07/01/07 - 06/30/08	N/A	107,016	-	113,505	113,505	6,489
TOTAL U.S. DEPARTMENT OF AGRICULTURE										
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS										
						\$ 5,198,169	\$ 1,021,409	\$ 5,617,355	\$ 5,617,355	\$ 1,031,186

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Share

Footnotes:

- a) Total amount of commodities received from U.S. Department of Agriculture.
- b) Beginning inventory at July 1.
- c) Total amount of commodities used.
- d) Ending inventory at June 30.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

NOTE A SCOPE OF THIS SCHEDULE

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

NOTE B BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note C. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 National School Lunch - Commodities represent surplus food consumed by the District during the 2008-2009 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2009 was \$1,386,472.