

**COATESVILLE AREA SCHOOL DISTRICT  
COATESVILLE, PENNSYLVANIA**

**AUDIT REPORT**

**JUNE 30, 2011**

COATESVILLE AREA SCHOOL DISTRICT

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COATESVILLE AREA SCHOOL DISTRICT

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## INDEPENDENT AUDITORS' REPORT

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February 10, 2012

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, 2011, 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 2010 financial statements and, in our report dated March 11, 2011, 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, 2011, 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 February 10, 2012, 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 16 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 LLP*  
BARBACANE, THORNTON & COMPANY LLP

**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

**JUNE 30, 2011**

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, 2011. 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 \$5.3 million, due primarily to General Fund state revenue being \$6.6 million less than anticipated for the 2010-2011 year, offset by an additional \$3 million in federal American Recovery and Reinvestment Act revenue. At the same time, instructional and other expenditures were \$700 thousand more than anticipated. Program revenues accounted for \$34 million, or 24 percent of total revenues (\$144 million), and general revenues accounted for \$110 million, or 76 percent.

The General Fund reported a negative fund balance of \$743 thousand, a \$5.5 million decrease from the previous year, which reported a fund balance of \$4.7 million. The decrease in the General Fund balance was primarily the result of:

- A \$6.6 million shortfall from budgeted state revenues,
- A planned fund balance reduction of \$2.3 million,
- Healthcare expenditures that exceeded the budget by \$1.6 million,
- Special education expenditures that exceeded the budget by \$2 million,

Offset by:

- A \$3 million increase in federal revenues attributed to the American Recovery and Reinvestment Act,
- Salaries savings of \$2.8 million from early retirees and other attrition,
- Other benefits savings of \$600 thousand,
- Other expenditure savings of \$200 thousand.

Total fund balance of the governmental funds increased from \$11.6 million in the previous fiscal year to \$49.2 million primarily from the issuance of \$53.4 million in general obligation bonds, offset by \$10.3 million in capital project related costs net of interest and other financing proceeds, and the \$5.5 million decrease in the General Fund balance.

**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

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

**JUNE 30, 2011**

During the fiscal year, the District was able to achieve or maintain:

- The continued major renovation projects at its Coatesville Area High School campus.
- The continued planning of the District's educational facility's needs.
- Tutoring programs.
- Comprehensive curricula programs to improve academic achievement.
- The planning for a quality District-run cyber school.
- The consolidation of the Gordon Education Building into the Coatesville School District Alternative Education Program.
- The reduction of 70 staff positions through early retirements.
- Staff development.
- Greater use of targeted differentiated instruction, deeper data analysis of academic performance assessments and increased monitoring of students' academic progress.

**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 with 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, liabilities exceeded assets by \$0.3 million at the close of the most recent fiscal year. In the prior year, assets exceeded liabilities by \$3.3 million.

**COATESVILLE AREA SCHOOL DISTRICT**  
Coatesville, Pennsylvania

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

**JUNE 30, 2011**

The largest portion of the District's total net assets is its investment in capital assets (\$4.1 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 2011 to 2010 follows:

**NET ASSETS**

|   | Governmental Activities |                      | Business-type Activities |                   | Totals               |                      |
|---|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
|   | 2011                    | 2010                 | 2011                     | 2010              | 2011                 | 2010                 |
| <b>Assets:</b>                          |                         |                      |                          |                   |                      |                      |
| Current and other assets                | \$ 70,448,107           | \$ 30,171,622        | \$ 188,727               | \$ 278,467        | \$ 70,636,834        | \$ 30,450,089        |
| Capital assets                          | 177,359,328             | 172,671,186          | 227,872                  | 247,073           | 177,587,200          | 172,918,259          |
| <b>TOTAL ASSETS</b>                     | <u>\$247,807,435</u>    | <u>\$202,842,808</u> | <u>\$ 416,599</u>        | <u>\$ 525,540</u> | <u>\$248,224,034</u> | <u>\$203,368,348</u> |
| <b>Liabilities and Net Assets:</b>      |                         |                      |                          |                   |                      |                      |
| Current liabilities                     | \$ 26,635,201           | \$ 24,207,648        | \$ 43,092                | \$ 98,488         | \$ 28,678,293        | \$ 24,306,136        |
| Long-term liabilities                   | 221,458,030             | 175,641,609          | 104,122                  | 75,264            | 221,562,152          | 175,716,873          |
| <b>Total Liabilities</b>                | <u>248,093,231</u>      | <u>199,849,257</u>   | <u>147,214</u>           | <u>173,752</u>    | <u>248,240,445</u>   | <u>200,023,009</u>   |
| <b>Net Assets:</b>                      |                         |                      |                          |                   |                      |                      |
| Invested in capital assets, net of debt | 3,873,548               | 1,573,362            | 227,872                  | 247,073           | 4,101,420            | 1,820,435            |
| Restricted                              | 293,265                 | 681,831              | -                        | -                 | 293,265              | 681,831              |
| Unrestricted                            | (4,452,609)             | 738,358              | 41,513                   | 104,715           | (4,411,096)          | 843,073              |
| <b>Total Net Assets</b>                 | <u>(285,796)</u>        | <u>2,993,551</u>     | <u>269,385</u>           | <u>351,788</u>    | <u>(16,411)</u>      | <u>3,345,339</u>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$247,807,435</u>    | <u>\$202,842,808</u> | <u>\$ 416,599</u>        | <u>\$ 525,540</u> | <u>\$248,224,034</u> | <u>\$203,368,348</u> |

As the District experienced a \$389 thousand decrease in its restricted net assets as a result of capital reserve cash within the Capital Projects Fund being spent, it also experienced a \$5.3 million decrease in its unrestricted net assets as a result of less than anticipated state revenues and more than anticipated instructional expenditures, which resulted in less cash on hand at year end. In addition, there was an increase in accumulated depreciation for the District's depreciable assets. The District's investment in capital assets, net of related debt, increased by \$2.3 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.



**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)**

**JUNE 30, 2011**

**STATEMENT OF ACTIVITIES**

|                               | <u>Total Cost of<br/>Services 2011</u> | <u>Net Cost of<br/>Services 2011</u> | <u>Total Cost of<br/>Services 2010</u> | <u>Net Cost of<br/>Services 2010</u> |
|-------------------------------|--|--------------------------------------|--|--------------------------------------|
| <b>PROGRAM EXPENSES</b>       |  |                                      |  |                                      |
| Governmental Activities:      |  |                                      |  |                                      |
| Instruction                   | \$ 92,409,232                          | \$ 69,072,462                        | \$ 90,318,770                          | \$ 67,456,928                        |
| Instructional staff support   | 11,195,908                             | 10,742,646                           | 11,209,222                             | 10,763,839                           |
| Administration                | 10,470,495                             | 10,169,819                           | 10,241,375                             | 9,951,809                            |
| Maintenance                   | 11,242,833                             | 10,920,102                           | 11,241,457                             | 10,930,288                           |
| Pupil transportation          | 8,650,455                              | 3,558,661                            | 8,607,031                              | 3,624,862                            |
| Student activities            | 1,335,535                              | 1,231,544                            | 1,209,224                              | 1,091,048                            |
| Community services            | 53,508                                 | (477,551)                            | 55,266                                 | 39,761                               |
| Interest and fiscal charges   | 8,899,387                              | 7,599,741                            | 6,794,296                              | 6,431,640                            |
| <b>TOTAL PROGRAM EXPENSES</b> | <u>\$144,257,353</u>                   | <u>\$ 112,817,424</u>                | <u>\$139,676,641</u>                   | <u>\$110,290,175</u>                 |
| Business-type Activities:     |  |                                      |  |                                      |
| Food service                  | <u>\$ 2,756,834</u>                    | <u>\$ 82,877</u>                     | <u>\$ 2,735,088</u>                    | <u>\$ 90,580</u>                     |

The net cost of services for instruction increased from fiscal year 2010 to 2011 as a result of increased healthcare costs, other benefits paid pursuant to the structure of the District's early retirement incentive program in 2011 and increased charter school expenditures.

The net cost of administration increased as a result of increased healthcare costs and legal fees.

The net cost of pupil transportation decreased as a result of a modest increase in state transportation subsidy revenue.

Student activities net costs increased as a result of increased healthcare costs.

Community services net costs decreased as a result of rental revenues received for the District's former Gordon Education Center. District students who were formerly educated at Gordon are now educated in the District's Alternative Education Program building, which is shared with District Administration.

The increase in the net costs of services for interest and fiscal charges was the result of an increase in debt obligations, only partially offset by an increase in rental/sinking fund subsidy revenue.

The Food Service Fund's net costs decreased as a result of increased federal subsidies received.

**COATESVILLE AREA SCHOOL DISTRICT**  
Coatesville, Pennsylvania

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

**JUNE 30, 2011**

**CHANGES IN NET ASSETS**

|                               | Governmental Activities |                       | Business-type Activities |                    | Totals                |                       |
|-------------------------------|-------------------------|-----------------------|--------------------------|--------------------|-----------------------|-----------------------|
|                               | 2011                    | 2010                  | 2011                     | 2010               | 2011                  | 2010                  |
| <b>REVENUES</b>               |                         |                       |                          |                    |                       |                       |
| Program Revenues:             |                         |                       |                          |                    |                       |                       |
| Charges for services          | \$ 869,989              | \$ 354,344            | \$ 992,010               | \$1,043,461        | \$ 1,861,999          | \$ 1,397,805          |
| Operating grants              | 30,569,940              | 29,032,122            | 1,681,947                | 1,592,701          | 32,251,887            | 30,624,823            |
| Capital contributions         | -                       | -                     | -                        | 8,346              | -                     | 8,346                 |
| <b>Total Program Revenues</b> | <b>31,439,929</b>       | <b>29,386,466</b>     | <b>2,673,957</b>         | <b>2,644,508</b>   | <b>34,113,886</b>     | <b>32,030,974</b>     |
| General Revenues:             |                         |                       |                          |                    |                       |                       |
| Property taxes                | 78,962,051              | 74,680,777            | -                        | -                  | 78,962,051            | 74,680,777            |
| Taxes levied for specific     | 8,069,083               | 7,847,247             | -                        | -                  | 8,069,083             | 7,847,247             |
| Grants and entitlements       | 22,133,144              | 22,825,122            | -                        | -                  | 22,133,144            | 22,825,122            |
| Investment earnings           | 184,188                 | 317,020               | 474                      | 1,731              | 184,662               | 318,751               |
| Gain on sale of fixed asset   | 52,098                  | -                     | -                        | -                  | 52,098                | -                     |
| Miscellaneous                 | 137,513                 | 48,304                | -                        | -                  | 137,513               | 48,304                |
| <b>Total General Revenues</b> | <b>109,538,077</b>      | <b>105,718,470</b>    | <b>474</b>               | <b>1,731</b>       | <b>109,538,551</b>    | <b>105,720,201</b>    |
| <b>TOTAL REVENUES</b>         | <b>140,978,006</b>      | <b>135,104,936</b>    | <b>2,674,431</b>         | <b>2,646,239</b>   | <b>143,652,437</b>    | <b>137,758,153</b>    |
| <b>EXPENSES</b>               |                         |                       |                          |                    |                       |                       |
| Program Expenses:             |                         |                       |                          |                    |                       |                       |
| Instruction                   | 92,409,232              | 90,318,770            | -                        | -                  | 92,409,232            | 90,318,770            |
| Instructional staff support   | 11,195,908              | 11,209,222            | -                        | -                  | 11,195,908            | 11,209,222            |
| Administration                | 10,470,495              | 10,241,375            | -                        | -                  | 10,470,495            | 10,241,375            |
| Maintenance                   | 11,242,833              | 11,241,457            | -                        | -                  | 11,242,833            | 11,241,457            |
| Pupil transportation          | 8,650,455               | 8,607,031             | -                        | -                  | 8,650,455             | 8,607,031             |
| Student activities            | 1,335,535               | 1,209,224             | -                        | -                  | 1,335,535             | 1,209,224             |
| Community services            | 53,508                  | 55,266                | -                        | -                  | 53,508                | 55,266                |
| Interest and fiscal charges   | 8,899,387               | 6,794,641             | -                        | -                  | 8,899,387             | 6,794,296             |
| Food service                  | -                       | -                     | 2,756,834                | 2,735,088          | 2,756,834             | 2,735,088             |
| <b>TOTAL EXPENSES</b>         | <b>144,257,353</b>      | <b>139,676,641</b>    | <b>2,756,834</b>         | <b>2,735,088</b>   | <b>147,014,187</b>    | <b>142,411,729</b>    |
| <b>Change in Net Assets</b>   | <b>\$ (3,279,347)</b>   | <b>\$ (4,571,705)</b> | <b>\$ (82,403)</b>       | <b>\$ (88,849)</b> | <b>\$ (3,361,750)</b> | <b>\$ (4,660,554)</b> |

**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.

**COATESVILLE AREA SCHOOL DISTRICT**  
Coatesville, Pennsylvania

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

**JUNE 30, 2011**

**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 27 and 28. 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 19 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 \$49.2 million, which is significantly more than last year's total of \$11.6 million. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2011 and 2010.

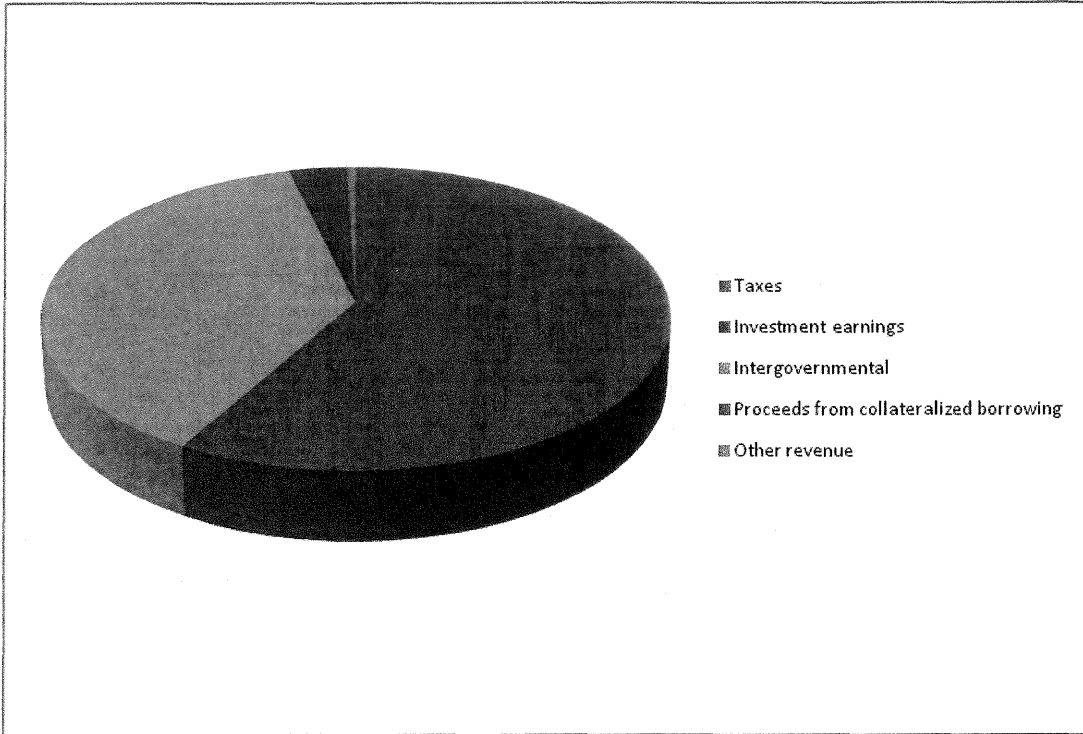
|                                   | FUND BALANCE<br>JUNE 30, 2011 | FUND BALANCE<br>JUNE 30, 2010 | INCREASE<br>(DECREASE) |
|-----------------------------------|-------------------------------|-------------------------------|------------------------|
| GENERAL FUND (DEFICIT)            | \$ (743,242)                  | \$ 4,712,325                  | \$ (5,455,567)         |
| CAPITAL RESERVE FUND              | 293,265                       | 681,831                       | (388,566)              |
| CAPITAL PROJECTS FUND - 2007 GOB  | 374,869                       | 373,487                       | 1,382                  |
| CAPITAL PROJECTS FUND - 2009A GOB | 556,066                       | 5,850,314                     | (5,294,248)            |
| CAPITAL PROJECTS FUND - 2010 GOB  | 48,762,053                    | -                             | 48,762,053             |
| <b>TOTAL FUND BALANCES</b>        | <b>\$ 49,243,011</b>          | <b>\$ 11,617,957</b>          | <b>\$ 37,625,054</b>   |

The District's reliance upon tax revenues is demonstrated by the graph on the next page, which indicates that a significant portion of total revenues for General Fund activities comes from property taxes.

**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

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

**JUNE 30, 2011**



**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.

|  | Fiscal Year           |                       | Variance            |           |
|--|-----------------------|-----------------------|---------------------|-----------|
|  | 2011                  | 2010                  | \$ CHANGE           | % CHANGE  |
| General Fund:                          |                       |                       |                     |           |
| Taxes                                  | \$ 81,784,704         | \$ 78,288,637         | \$ 3,496,067        | 4%        |
| Investment earnings                    | 80,371                | 278,784               | (198,413)           | -71%      |
| Intergovernmental                      | 53,048,040            | 51,924,296            | 1,123,744           | 2%        |
| Proceeds from collateralized borrowing | 4,696,197             | 4,183,567             | 512,630             | 12%       |
| Other revenue                          | 660,859               | 412,612               | 248,247             | 60%       |
| <b>TOTAL REVENUE</b>                   | <b>\$ 140,270,171</b> | <b>\$ 135,087,896</b> | <b>\$ 5,182,275</b> | <b>0%</b> |

**COATESVILLE AREA SCHOOL DISTRICT**  
Coatesville, Pennsylvania

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

**JUNE 30, 2011**

Tax revenue increased by \$3.5 million due to an increase in tax rates. Furthermore, it should be noted that District real estate taxpayers received a \$3.9 million offset in homestead exemptions per Act 1.

The District's real estate tax base grew modestly, and a 3.6 percent tax increase (the Act 1 limit) helped increase revenues.

Investment earnings decreased by \$198 thousand, or 71 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 \$1.1 million, or 2.0 percent, primarily due to additional federal funding from the American Recovery and Reinvestment Act.

Proceeds from collateralized borrowings increased by \$513 thousand - the result of an increase in delinquent tax collections.

Other revenue increased by \$248 thousand, primarily because the District realized \$516 thousand in increased rental income from the lease of the former Gordon Education Center building, offset by a \$268 thousand decrease in refunds of prior year and other expenditures.

**Other Funds**

The Capital Projects 2007 GOB fund balance increased slightly by \$1 thousand as a result of interest earnings.

The Capital Projects 2009 GOB fund balance decreased by \$5.3 million 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.

On August 15, 2010, the District issued \$53.4 million in general obligation bonds for the purpose of constructing new North and South Brandywine Middle Schools. During the year, the District expended a net \$4.6 million of these 2010 GOB proceeds, leaving a fund balance of \$48.8 million.

The capital reserve fund was recharacterized as a capital projects fund type at the beginning of the year. During the year, the District expended \$389 thousand in capital reserve expenditures, leaving a fund balance of \$293 thousand at year end.

**Business-type Activities**

Business-type activities include the food service program. This program had a decrease in net assets of \$82 thousand for the fiscal year, primarily because food service revenues were not commensurate with its operating expenditures. With the recent downturn in the economy, free and reduced lunch participation increased by 2 percent during the fiscal year. While the District desires to keep lunch prices to a minimum for those who can pay, it may become necessary to increase these prices, as net assets are reduced.

**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

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

**JUNE 30, 2011**

**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. The District's total General Fund expenditures and other financing sources were \$734 thousand under budget.

| <b>Spending Review</b>                          |      | Original             |                      | Variance           |           |
|---|------|----------------------|----------------------|--------------------|-----------|
|   |      | Budget               | Actual               | Change             | Change %  |
| <b>EXPENDITURES/FINANCING USES</b>              |      |                      |                      |                    |           |
| Instruction:                                    |      |                      |                      |                    |           |
| Regular programs                                | 1100 | \$ 58,573,339        | \$ 56,934,369        | \$ 1,638,970       | 3%        |
| Special programs                                | 1200 | 24,022,753           | 25,997,150           | (1,974,397)        | -8%       |
| Vocational programs                             | 1300 | 3,826,035            | 3,642,792            | 183,243            | 5%        |
| Other instructional programs                    | 1400 | 2,899,384            | 3,199,152            | (299,768)          | -10%      |
| Total Instruction                               |      | <u>89,321,511</u>    | <u>89,773,463</u>    | <u>(451,952)</u>   | -1%       |
| Support services:                               |      |                      |                      |                    |           |
| Pupil personnel services                        | 2100 | 4,753,945            | 4,970,907            | (216,962)          | -5%       |
| Instructional staff services                    | 2200 | 5,133,403            | 4,605,760            | 527,643            | 10%       |
| Administrative services                         | 2300 | 7,177,960            | 7,407,705            | (229,745)          | -3%       |
| Pupil health                                    | 2400 | 1,082,231            | 1,041,689            | 40,542             | 4%        |
| Business services                               | 2500 | 1,295,452            | 1,320,290            | (24,838)           | -2%       |
| Operation and maintenance of<br>plant services  | 2600 | 11,365,829           | 10,958,814           | 407,015            | 4%        |
| Student transportation services                 | 2700 | 8,311,062            | 8,650,455            | (339,393)          | -4%       |
| Central   | 2800 | 1,986,284            | 1,426,633            | 559,651            | 28%       |
| Other support services                          | 2900 | 52,832               | 55,279               | (2,447)            | -5%       |
| Total Support Services                          |      | <u>41,158,998</u>    | <u>40,437,532</u>    | <u>721,466</u>     | 2%        |
| Operation of noninstructional activities:       |      |                      |                      |                    |           |
| Student activities                              | 3200 | -                    | 1,297,455            | (1,297,455)        | -100%     |
| Student and Community services                  | 3300 | 25,001               | 53,508               | (28,507)           | -114%     |
| Total Operation of Noninstructional<br>Services |      | <u>25,001</u>        | <u>1,350,963</u>     | <u>(1,325,962)</u> | -5304%    |
| Debt service                                    | 5110 | 14,504,414           | 14,110,679           | 393,735            | 3%        |
| Refunds of prior year receipts                  | 5130 | -                    | 53,101               | (53,101)           | -100%     |
| Transfers and budgetary reserve                 | 5900 | 1,450,000            | -                    | 1,450,000          | 100%      |
| <b>TOTAL EXPENDITURES/FINANCING USES</b>        |      |                      |                      |                    |           |
|   |      | <u>\$146,459,924</u> | <u>\$145,725,738</u> | <u>\$ 734,186</u>  | <u>1%</u> |

**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

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

**JUNE 30, 2011**

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:

|                                 |      | Original<br>Budget | Actual       | Variance<br>Change | Change % |
|---------------------------------|------|--------------------|--------------|--------------------|----------|
| Special programs                | 1200 | \$24,022,753       | \$25,997,150 | \$(1,974,397)      | -8%      |
| Vocational programs             | 1300 | 3,826,035          | 3,642,792    | 183,243            | 5%       |
| Other instructional programs    | 1400 | 2,899,384          | 3,199,152    | (299,768)          | -10%     |
| Pupil personnel services        | 2100 | 4,753,945          | 4,970,907    | (216,962)          | -5%      |
| Instructional staff services    | 2200 | 5,133,403          | 4,605,760    | 527,643            | 10%      |
| Central services                | 2800 | 1,986,284          | 1,426,633    | 559,651            | 28%      |
| Student activities              | 3200 | -                  | 1,297,455    | (1,297,455)        | -100%    |
| Student and Community services  | 3300 | 25,001             | 53,508       | (28,507)           | -114%    |
| Transfers and budgetary reserve | 5900 | 1,450,000          | -            | 1,450,000          | 100%     |

Special education programs expenditures exceeded the original budget by \$2 million because not enough funds were budgeted to cover professional service expenditures.

Vocational programs were under budget by \$183 thousand because a minor part of other instructional programs salaries were originally budgeted to vocational programs.

Other instructional programs expenditures exceeded the original budget by \$300 thousand because grant expenditures exceeded the budget by \$185 thousand in this category, and some vocational programs salaries were originally budgeted in this category.

Pupil services expenditures exceeded the budget by \$217 thousand – the result of \$142 thousand in pupil services salaries originally budgeted in the regular education category, a \$154 thousand benefits shortfall, offset by \$79 thousand in supplies and other expenditure favorable variances.

Instructional staff services expenditures were under budget by \$528 thousand – the result of \$266 thousand in salary savings from the early retirement of four instructional staff, \$443 in some curriculum development and library supplies purchases being delayed, \$58 thousand in equipment and other purchases budgeted but not made, offset by a \$139 thousand benefits shortfall and \$100 thousand in Title II professional service expenditures that exceeded the budget.

Central services expenditures were under budget by \$560 thousand – the result of budgeted technology purchased services and supplies not made.

COATESVILLE AREA SCHOOL DISTRICT  
Coatesville, Pennsylvania

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

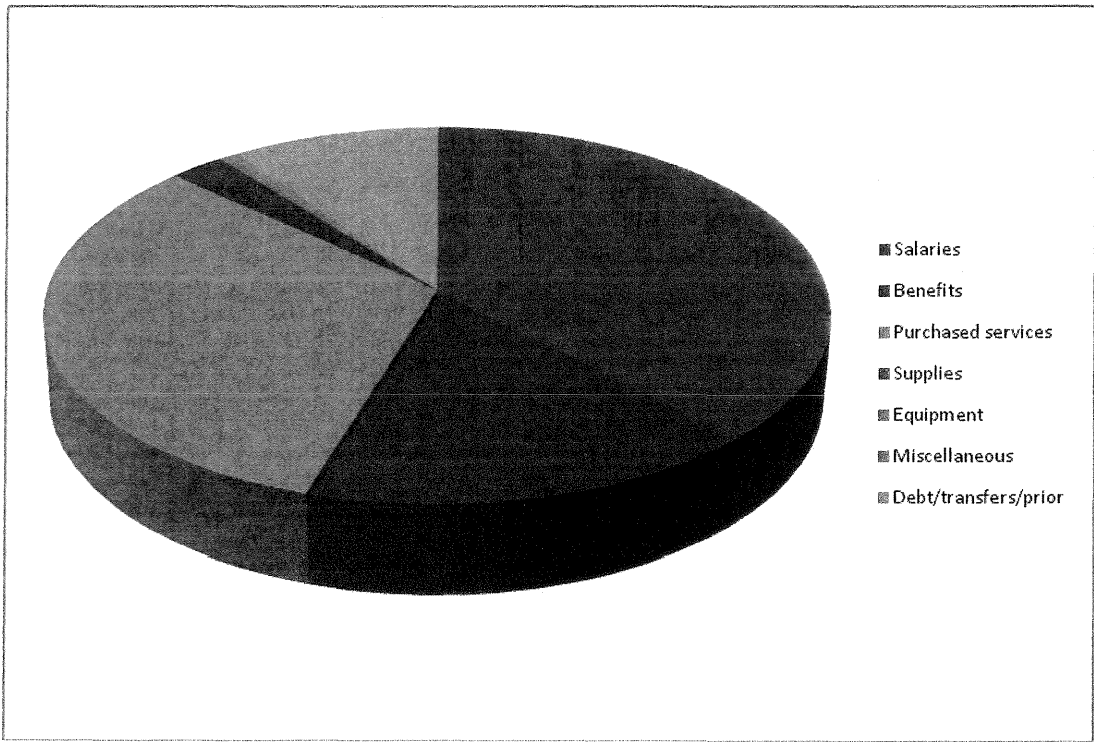
JUNE 30, 2011

Student activities expenditures exceeded the budget by \$1.3 million. This is because the former athletic fund was closed at the beginning of the year, and the General Fund assumed these expenditures. However, it should be noted that the General Fund did budget \$950 thousand in transfers that it planned to transfer to the athletic fund. With this considered, the athletic expenditures (termed 'student activities') exceeded the budget by \$350 thousand.

Student and community services expenditures exceeded the original budget by \$29 thousand due to grant expenditures that were originally budgeted in the regular programs category.

Expenditures for transfers and budgetary reserve were \$1.5 million less than budgeted – the result of \$950 thousand and \$500 thousand budgeted for transfers to the athletic fund and budgetary reserve, respectively, with no expenditures associated with it.

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.





**COATESVILLE AREA SCHOOL DISTRICT**  
Coatesville, Pennsylvania

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

**JUNE 30, 2011**

|                                     | Fiscal Year                 |                             | Variance                   |                     |
|-------------------------------------|-----------------------------|-----------------------------|----------------------------|---------------------|
|                                     | 2011                        | 2010                        | Change                     | Percent             |
| General Fund:                       |                             |                             |                            |                     |
| Salaries                            | \$ 55,179,041               | \$ 56,517,840               | \$ (1,338,799)             | -2.37%              |
| Benefits                            | 24,562,926                  | 19,681,948                  | 4,880,978                  | 24.80%              |
| Purchased services                  | 46,737,443                  | 45,318,616                  | 1,418,827                  | 3.13%               |
| Supplies                            | 3,781,388                   | 3,963,513                   | (182,125)                  | -4.60%              |
| Equipment                           | 618,111                     | 1,980,400                   | (1,362,289)                | -68.79%             |
| Miscellaneous                       | 736,150                     | 792,984                     | (56,834)                   | -7.17%              |
| Debt/transfers/prior                | 14,110,679                  | 14,626,467                  | (515,788)                  | -3.53%              |
| <b>TOTAL EXPENDITURES BY OBJECT</b> | <b><u>\$145,725,738</u></b> | <b><u>\$142,881,768</u></b> | <b><u>\$ 2,843,970</u></b> | <b><u>1.99%</u></b> |

Expenditures were up \$2.8 million, or 2 percent, over the prior year.

The \$1.3 million decrease in salaries was the result of 63 early retirements at the end of fiscal year 2010, which reduced 2011 total salaries.

The net \$4.9 million increase in benefits is attributed primarily due to an increase in the cost of health care benefits, with \$561 thousand of this amount attributed to an increase in retirement fund expenditures.

Purchased services increased by \$1.4 million - the result of increased special education professional services, increased charter school tuition expenditures and expenditures from the former athletic fund now being recorded in the General Fund.

Supplies and equipment expenditures decreased by \$182 thousand and \$1.4 million, respectively, due to purchases being postponed or not made, as the District exercised efforts to cut expenditures.

Miscellaneous expenditures decreased by \$57 thousand - the result of a decrease in refunds of prior year receipts.

Debt and transfers decreased by \$516 thousand, the result of a decrease in transfers to the athletic fund, as the athletic fund was closed, and its expenditures are now recorded in the General Fund, offset by an increase in debt service requirements from the issuance of general obligation bonds.

**COATESVILLE AREA SCHOOL DISTRICT**  
**Coatesville, Pennsylvania**

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

**JUNE 30, 2011**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The District has \$177.6 million invested in capital assets net of depreciation, with \$177.4 million attributed to governmental activities. Net acquisitions for governmental activities totaled approximately \$8.2 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 continued major renovation projects at the Coatesville Area High School Campus.
- The planning and beginning construction phases of North and South Brandywine Middle Schools.
- The continued review of the District's elementary schools.

**Debt**

At June 30, 2011, the District had \$221 million in outstanding bonds and notes payable. During the year, the District increased its outstanding debt by \$53.4 million with the issuance of its Series 2010 general obligation bonds to be used to construct new North and South Brandywine Middle Schools.

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, 2011, the District's gross borrowing capacity for debt was \$285.5 million; of this amount, \$221 million was outstanding as existing debt, leaving \$64.5 million remaining as the District's net borrowing capacity available for future debt issuances. As the District incurred new debt from the Series 2010 General Obligation Bond issue during the 2010-2011 fiscal year, it stayed within its remaining borrowing capacity.

At June 30, 2011, the District's Moody's and Standard & Poor's ratings were A3 and A+ /Stable, respectively.

**COATESVILLE AREA SCHOOL DISTRICT**  
Coatesville, Pennsylvania

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

**JUNE 30, 2011**

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

While the District has experienced significant growth over the last 10 years, the recent downturn in the global economy has adversely affected all school districts and government at all levels. The District has taken steps to reduce expenditures, as discussed in this report. However, if the District continues to experience revenue shortfalls, further reductions will be warranted. Furthermore, if the growth patterns in student population change so that more students enter the District than currently anticipated, additional adjustments will have to be made to the financial models upon which assumptions have been based.

Based on previous and current economic conditions, the District has anticipated its property tax base to grow modestly due to the global downturn in economic conditions. 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 grow slightly through fiscal year 2011-2012. However, the District is expected to gain more students back from charter schools in the coming years. Accordingly, the District's facilities plans continue to be reviewed to accommodate changes in student population while meeting 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](http://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, 2011**  
**(With Summarized Comparative Data for June 30, 2010)**

|   | Governmental<br>Activities | Business-type<br>Activities | Totals               |                      |
|---|----------------------------|-----------------------------|----------------------|----------------------|
|   |                            |                             | 2011                 | 2010                 |
| <b>ASSETS</b>                                   |                            |                             |                      |                      |
| Cash and cash equivalents                       | \$ 6,519,223               | \$ 190,884                  | \$ 6,710,107         | \$ 6,155,026         |
| Investments                                     | 47,974,666                 | -                           | 47,974,666           | 8,532,000            |
| Internal balances                               | 77,684                     | (77,684)                    | -                    | -                    |
| Interest receivable                             | 39,718                     | -                           | 39,718               | 65,255               |
| Pledged taxes receivable                        | 7,145,302                  | -                           | 7,145,302            | 6,297,069            |
| Due from other governments                      | 2,570,792                  | 58,785                      | 2,629,577            | 4,433,591            |
| Other receivables                               | 786,650                    | 4,549                       | 791,199              | 494,610              |
| Prepaid expenses                                | 851,569                    | -                           | 851,569              | 828,907              |
| Inventories                                     | -                          | 12,193                      | 12,193               | 25,943               |
| Other assets                                    | 1,824,173                  | -                           | 1,824,173            | 1,566,241            |
| Issuance costs                                  | 2,658,330                  | -                           | 2,658,330            | 2,051,447            |
| Land  | 2,812,500                  | -                           | 2,812,500            | 2,812,500            |
| Construction-in-progress                        | 66,030,672                 | -                           | 66,030,672           | 58,219,059           |
| Land improvements                               | 7,067,357                  | -                           | 7,067,357            | 7,065,457            |
| Buildings and improvements                      | 141,457,916                | -                           | 141,457,916          | 141,248,020          |
| Furniture and equipment                         | 12,171,180                 | 1,544,844                   | 13,716,024           | 13,473,765           |
| Accumulated depreciation                        | (52,180,297)               | (1,316,972)                 | (53,497,269)         | (49,900,542)         |
| <b>TOTAL ASSETS</b>                             | <b>\$247,807,435</b>       | <b>\$ 416,599</b>           | <b>\$248,224,034</b> | <b>\$203,368,348</b> |
| <b>LIABILITIES AND NET ASSETS</b>               |                            |                             |                      |                      |
| <b>LIABILITIES:</b>                             |                            |                             |                      |                      |
| Accounts payable                                | \$ 7,224,279               | \$ 1,089                    | \$ 7,225,368         | \$ 5,776,587         |
| Accrued salaries and benefits                   | 2,564,581                  | 42,003                      | 2,606,584            | 3,873,328            |
| Accrued interest                                | 3,405,168                  | -                           | 3,405,168            | 2,686,541            |
| Collateralized borrowing                        | 5,596,051                  | -                           | 5,596,051            | 4,642,252            |
| Long-term liabilities                           |                            |                             |                      |                      |
| Portion due or payable within one year:         |                            |                             |                      |                      |
| Bonds payable                                   | 5,410,000                  | -                           | 5,410,000            | 5,275,000            |
| Add: Bond premiums                              | 355,457                    | -                           | 355,457              | 355,457              |
| Less: Bond discounts                            | (19,692)                   | -                           | (19,692)             | (6,510)              |
| Less: Deferred amounts on refunding             | (154,731)                  | -                           | (154,731)            | (154,729)            |
| Note payable                                    | 1,905,000                  | -                           | 1,905,000            | 1,835,000            |
| Accumulated compensated absences                | 349,088                    | -                           | 349,088              | 23,210               |
| Portion due or payable after one year:          |                            |                             |                      |                      |
| Bonds payable                                   | 200,760,000                | -                           | 200,760,000          | 152,745,000          |
| Add: Bond premiums                              | 3,471,257                  | -                           | 3,471,257            | 3,826,714            |
| Less: Bond discounts                            | (306,867)                  | -                           | (306,867)            | (62,920)             |
| Less: Deferred amounts on refunding             | (1,151,656)                | -                           | (1,151,656)          | (1,306,387)          |
| Note payable                                    | 12,910,000                 | -                           | 12,910,000           | 14,815,000           |
| Other post-employment benefits                  | 4,173,469                  | -                           | 4,173,469            | 3,996,149            |
| Accumulated compensated absences                | 1,601,827                  | 104,122                     | 1,705,949            | 1,703,317            |
| <b>TOTAL LIABILITIES</b>                        | <b>248,093,231</b>         | <b>147,214</b>              | <b>248,240,445</b>   | <b>200,023,009</b>   |
| <b>NET ASSETS (DEFICIT):</b>                    |                            |                             |                      |                      |
| Invested in capital assets, net of related debt | 3,873,548                  | 227,872                     | 4,101,420            | 1,820,435            |
| Restricted for capital projects                 | 293,265                    | -                           | 293,265              | 681,831              |
| Unrestricted                                    | (4,452,609)                | 41,513                      | (4,411,096)          | 843,073              |
| <b>TOTAL NET ASSETS (DEFICIT)</b>               | <b>(285,796)</b>           | <b>269,385</b>              | <b>(16,411)</b>      | <b>3,345,339</b>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b>\$247,807,435</b>       | <b>\$ 416,599</b>           | <b>\$248,224,034</b> | <b>\$203,368,348</b> |

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

**COATESVILLE AREA SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011  
(With Summarized Comparative Data for the Year Ended June 30, 2010)**

|   | 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               |                      |
|   |                      |                      |                                    |                                  |   |                          | 2011                 | 2010                 |
| <b>GOVERNMENTAL ACTIVITIES</b>                              |                      |                      |                                    |                                  |   |                          |                      |                      |
| Instruction   | \$ 92,409,232        | \$ 274,724           | \$ 23,062,046                      | \$ -                             | \$(69,072,462)                                  | \$ -                     | \$(69,072,462)       | \$(67,456,928)       |
| Instructional student support                               | 11,195,908           | -                    | 453,262                            | -                                | (10,742,646)                                    | -                        | (10,742,646)         | (10,763,839)         |
| Administrative and financial support services               | 10,470,495           | -                    | 300,676                            | -                                | (10,169,819)                                    | -                        | (10,169,819)         | (9,951,809)          |
| Operation and maintenance of plant services                 | 11,242,833           | -                    | 322,731                            | -                                | (10,920,102)                                    | -                        | (10,920,102)         | (10,930,288)         |
| Pupil transportation  | 8,650,455            | -                    | 5,091,794                          | -                                | (3,558,661)                                     | -                        | (3,558,661)          | (3,624,862)          |
| Student activities  | 1,335,535            | 64,206               | 39,785                             | -                                | (1,231,544)                                     | -                        | (1,231,544)          | (1,091,048)          |
| Community services  | 53,508               | 531,059              | -                                  | -                                | 477,551   | -                        | 477,551              | (39,761)             |
| Interest on long-term debt                                  | 8,899,387            | -                    | 1,299,646                          | -                                | (7,599,741)                                     | -                        | (7,599,741)          | (6,431,640)          |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>                        | <u>144,257,353</u>   | <u>869,989</u>       | <u>30,569,940</u>                  | <u>-</u>                         | <u>(112,817,424)</u>                            | <u>-</u>                 | <u>(112,817,424)</u> | <u>(110,290,175)</u> |
| <b>BUSINESS-TYPE ACTIVITIES</b>                             |                      |                      |                                    |                                  |   |                          |                      |                      |
| Food service  | 2,756,834            | 992,010              | 1,681,947                          | -                                | -   | (82,877)                 | (82,877)             | (90,580)             |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b>                       | <u>2,756,834</u>     | <u>992,010</u>       | <u>1,681,947</u>                   | <u>-</u>                         | <u>-</u>  | <u>(82,877)</u>          | <u>(82,877)</u>      | <u>(90,580)</u>      |
| <b>TOTAL PRIMARY GOVERNMENT</b>                             | <u>\$147,014,187</u> | <u>\$ 1,861,999</u>  | <u>\$ 32,251,887</u>               | <u>\$ -</u>                      | <u>(112,817,424)</u>                            | <u>(82,877)</u>          | <u>(112,900,301)</u> | <u>(110,380,755)</u> |
| <b>GENERAL REVENUES</b>                                     |                      |                      |                                    |                                  |   |                          |                      |                      |
| Property taxes, levied for general purposes                 |                      |                      |                                    |                                  | 78,962,051                                      | -                        | 78,962,051           | 74,680,777           |
| Taxes levied for specific purposes                          |                      |                      |                                    |                                  | 8,069,083                                       | -                        | 8,069,083            | 7,847,247            |
| Grants and entitlements not restricted to specific programs |                      |                      |                                    |                                  | 22,133,144                                      | -                        | 22,133,144           | 22,825,122           |
| Investment earnings   |                      |                      |                                    |                                  | 184,188   | 474                      | 184,662              | 318,751              |
| Gain on sale of fixed assets                                |                      |                      |                                    |                                  | 52,098  | -                        | 52,098               | -                    |
| Miscellaneous   |                      |                      |                                    |                                  | 137,513   | -                        | 137,513              | 48,304               |
| <b>TOTAL GENERAL REVENUES</b>                               |                      |                      |                                    |                                  | <u>109,538,077</u>                              | <u>474</u>               | <u>109,538,551</u>   | <u>105,720,201</u>   |
| <b>CHANGE IN NET ASSETS</b>                                 |                      |                      |                                    |                                  | (3,279,347)                                     | (82,403)                 | (3,361,750)          | (4,660,554)          |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                        |                      |                      |                                    |                                  | <u>2,993,551</u>                                | <u>351,788</u>           | <u>3,345,339</u>     | <u>8,005,893</u>     |
| <b>NET ASSETS (DEFICIT), END OF YEAR</b>                    |                      |                      |                                    |                                  | <u>\$ (285,796)</u>                             | <u>\$ 269,385</u>        | <u>\$ (16,411)</u>   | <u>\$ 3,345,339</u>  |

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

**COATESVILLE AREA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011  
(With Summarized Comparative Data for June 30, 2010)**

|  | Major Funds                |                            |  |  |  | Totals                      |                             |
|--|----------------------------|----------------------------|--|--|--|-----------------------------|-----------------------------|
|  | General<br>Fund            | Capital<br>Reserve<br>Fund | Capital<br>Projects Fund -<br>2007 GOB | Capital<br>Projects Fund -<br>2009 GOB | Capital<br>Projects Fund -<br>2010 GOB | 2011                        | 2010                        |
| <b>ASSETS</b>                              |                            |                            |  |  |  |                             |                             |
| Cash and cash equivalents                  | \$ 2,942,765               | \$ 293,265                 | \$ 374,869                             | \$ 979,575                             | \$ 1,928,749                           | \$ 6,519,223                | \$ 8,272,046                |
| Investments                                | 2,975,000                  | -                          | -                                      | -                                      | 44,999,666                             | 47,974,666                  | 8,532,000                   |
| Interest receivable                        | 13,574                     | -                          | -                                      | -                                      | 26,144                                 | 39,718                      | 65,255                      |
| Taxes receivable                           | 7,145,302                  | -                          | -                                      | -                                      | -                                      | 7,145,302                   | 6,297,069                   |
| Due from other funds                       | -                          | -                          | -                                      | -                                      | 2,001,975                              | 2,001,975                   | 691,000                     |
| Due from other governments                 | 2,570,792                  | -                          | -                                      | -                                      | -                                      | 2,570,792                   | 4,355,577                   |
| Other receivables                          | 786,650                    | -                          | -                                      | -                                      | -                                      | 786,650                     | 488,538                     |
| Prepaid expenses                           | 851,569                    | -                          | -                                      | -                                      | -                                      | 851,569                     | 828,907                     |
| Other assets                               | 1,824,173                  | -                          | -                                      | -                                      | -                                      | 1,824,173                   | 1,566,241                   |
| <b>TOTAL ASSETS</b>                        | <b><u>\$19,109,825</u></b> | <b><u>\$ 293,265</u></b>   | <b><u>\$ 374,869</u></b>               | <b><u>\$ 979,575</u></b>               | <b><u>\$48,956,534</u></b>             | <b><u>\$ 69,714,068</u></b> | <b><u>\$ 31,096,633</u></b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                            |                            |  |  |  |                             |                             |
| <b>LIABILITIES:</b>                        |                            |                            |  |  |  |                             |                             |
| Cash overdraft                             | \$ -                       | \$ -                       | \$ -                                   | \$ -                                   | \$ -                                   | \$ -                        | \$ 2,190,925                |
| Due to other funds                         | 1,719,596                  | -                          | -                                      | 204,695                                | -                                      | 1,924,291                   | 785,533                     |
| Accounts payable                           | 6,810,984                  | -                          | -                                      | 218,814                                | 194,481                                | 7,224,279                   | 5,776,472                   |
| Accrued salaries and benefits              | 2,564,581                  | -                          | -                                      | -                                      | -                                      | 2,564,581                   | 3,797,749                   |
| Deferred revenues                          | 8,408,818                  | -                          | -                                      | -                                      | -                                      | 8,408,818                   | 6,904,787                   |
| Accumulated compensated absences           | 349,088                    | -                          | -                                      | -                                      | -                                      | 349,088                     | 23,210                      |
| <b>TOTAL LIABILITIES</b>                   | <b><u>19,853,067</u></b>   | <b><u>-</u></b>            | <b><u>-</u></b>                        | <b><u>423,509</u></b>                  | <b><u>194,481</u></b>                  | <b><u>20,471,057</u></b>    | <b><u>19,478,676</u></b>    |
| <b>FUND BALANCES (DEFICIT)</b>             |                            |                            |  |  |  |                             |                             |
| Nonspendable                               | 851,569                    | -                          | -                                      | -                                      | -                                      | 851,569                     | 828,907                     |
| Restricted                                 | -                          | 293,265                    | 374,869                                | 556,066                                | 48,762,053                             | 49,986,253                  | 6,905,632                   |
| Unassigned                                 | (1,594,811)                | -                          | -                                      | -                                      | -                                      | (1,594,811)                 | 3,883,418                   |
| <b>TOTAL FUND BALANCES (DEFICIT)</b>       | <b><u>(743,242)</u></b>    | <b><u>293,265</u></b>      | <b><u>374,869</u></b>                  | <b><u>556,066</u></b>                  | <b><u>48,762,053</u></b>               | <b><u>49,243,011</u></b>    | <b><u>11,617,957</u></b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b><u>\$19,109,825</u></b> | <b><u>\$ 293,265</u></b>   | <b><u>\$ 374,869</u></b>               | <b><u>\$ 979,575</u></b>               | <b><u>\$48,956,534</u></b>             | <b><u>\$ 69,714,068</u></b> | <b><u>\$ 31,096,633</u></b> |

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, 2011**

TOTAL GOVERNMENTAL FUND BALANCES \$ 49,243,011

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   | 66,030,672          |             |
| Land improvements          | 7,067,357           |             |
| Buildings and improvements | 141,457,916         |             |
| Furniture and equipment    | 12,171,180          |             |
| Accumulated depreciation   | <u>(52,180,297)</u> | 177,359,328 |

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                    | (206,170,000)      |               |
| Notes payable                    | (14,815,000)       |               |
| Accumulated compensated absences | (1,601,827)        |               |
| Accrued interest                 | (3,405,168)        |               |
| Collateralized borrowing         | (5,596,051)        |               |
| Post-employment benefits         | <u>(4,173,469)</u> | (235,761,515) |

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.

464,562

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.

8,408,818

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (285,796)

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, 2011**  
**(With Summarized Comparative Data for the Year Ended June 30, 2010)**

|  | Major Funds         |                      |                                  |                                  |                                  | Totals              |                     |
|--|---------------------|----------------------|----------------------------------|----------------------------------|----------------------------------|---------------------|---------------------|
|  | General Fund        | Capital Reserve Fund | Capital Projects Fund - 2007 GOB | Capital Projects Fund - 2009 GOB | Capital Projects Fund - 2010 GOB | 2011                | 2010                |
| <b>REVENUES</b>                                  |                     |                      |                                  |                                  |                                  |                     |                     |
| Local sources                                    | \$82,800,658        | \$ 338               | \$ 906                           | \$ 8,148                         | \$ 94,425                        | \$82,904,475        | \$79,305,529        |
| State sources                                    | 42,551,810          | -                    | -                                | -                                | -                                | 42,551,810          | 42,789,381          |
| Federal sources                                  | 10,130,153          | -                    | -                                | -                                | -                                | 10,130,153          | 8,880,544           |
| <b>TOTAL REVENUES</b>                            | <u>135,482,621</u>  | <u>338</u>           | <u>906</u>                       | <u>8,148</u>                     | <u>94,425</u>                    | <u>135,586,438</u>  | <u>130,975,454</u>  |
| <b>EXPENDITURES</b>                              |                     |                      |                                  |                                  |                                  |                     |                     |
| Current:   |                     |                      |                                  |                                  |                                  |                     |                     |
| Instruction                                      | 89,773,463          | -                    | -                                | -                                | -                                | 89,773,463          | 87,410,124          |
| Support services                                 | 40,437,532          | -                    | -                                | -                                | 276,821                          | 40,714,353          | 40,647,417          |
| Operation of noninstructional services           | 1,350,963           | -                    | -                                | -                                | -                                | 1,350,963           | 1,254,200           |
| Capital outlays                                  | -                   | 388,904              | 1,419                            | 5,354,534                        | 2,235,731                        | 7,980,588           | 22,328,602          |
| Bond issuance costs                              | -                   | -                    | -                                | -                                | 874,327                          | 874,327             | 615,991             |
| Debt service                                     | 14,110,679          | -                    | -                                | -                                | 1,370,493                        | 15,481,172          | 13,533,507          |
| <b>TOTAL EXPENDITURES</b>                        | <u>145,672,637</u>  | <u>388,904</u>       | <u>1,419</u>                     | <u>5,354,534</u>                 | <u>4,757,372</u>                 | <u>156,174,866</u>  | <u>165,789,841</u>  |
| <b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b> | <u>(10,190,016)</u> | <u>(388,566)</u>     | <u>(513)</u>                     | <u>(5,346,386)</u>               | <u>(4,662,947)</u>               | <u>(20,588,428)</u> | <u>(34,814,387)</u> |
| <b>OTHER FINANCING SOURCES (USES)</b>            |                     |                      |                                  |                                  |                                  |                     |                     |
| Proceeds from collateralized borrowing           | 4,696,197           | -                    | -                                | -                                | -                                | 4,696,197           | 4,183,567           |
| Proceeds from sale of fixed assets               | -                   | -                    | -                                | 52,098                           | -                                | 52,098              | 15,995              |
| Refund of prior year expenditures                | 91,106              | -                    | 1,895                            | 40                               | -                                | 93,041              | -                   |
| Refund of prior year receipts                    | (53,101)            | -                    | -                                | -                                | -                                | (53,101)            | (141,454)           |
| Insurance recoveries                             | 247                 | -                    | -                                | -                                | -                                | 247                 | 14,754              |
| Transfers in                                     | -                   | -                    | -                                | -                                | -                                | -                   | 1,094,000           |
| Transfers out                                    | -                   | -                    | -                                | -                                | -                                | -                   | (1,094,000)         |
| Issuance of debt                                 | -                   | -                    | -                                | -                                | 53,425,000                       | 53,425,000          | 22,000,000          |
| Bond premium                                     | -                   | -                    | -                                | -                                | -                                | -                   | 139,991             |
| <b>TOTAL OTHER FINANCING SOURCES</b>             | <u>4,734,449</u>    | <u>-</u>             | <u>1,895</u>                     | <u>52,138</u>                    | <u>53,425,000</u>                | <u>58,213,482</u>   | <u>26,212,853</u>   |
| <b>NET CHANGE IN FUND BALANCES</b>               | <u>(5,455,567)</u>  | <u>(388,566)</u>     | <u>1,382</u>                     | <u>(5,294,248)</u>               | <u>48,762,053</u>                | <u>37,625,054</u>   | <u>(8,601,534)</u>  |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>          | <u>4,712,325</u>    | <u>681,831</u>       | <u>373,487</u>                   | <u>5,850,314</u>                 | <u>-</u>                         | <u>11,617,957</u>   | <u>20,219,491</u>   |
| <b>FUND BALANCES, END OF YEAR</b>                | <u>\$ (743,242)</u> | <u>\$ 293,265</u>    | <u>\$ 374,869</u>                | <u>\$ 556,066</u>                | <u>\$48,762,053</u>              | <u>\$49,243,011</u> | <u>\$11,617,957</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, 2011**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 37,625,054

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 (\$8,249,380) exceeded depreciation (\$3,561,238). 4,688,142

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. (550,232)

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. 1,100,464

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 (\$7,110,000) was exceeded by debt proceeds (\$53,425,000). (46,315,000)

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. 1,064,740

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). (173,888)

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. (718,627)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (3,279,347)

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, 2011**

|   | Budgeted Amounts    |                     | Actual<br>(GAAP Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|------------------------|---|
|   | Original            | Final               |                        |   |
| <b>REVENUES</b>                                     |                     |                     |                        |   |
| Local sources                                       | \$ 82,598,775       | \$ 82,598,775       | \$ 82,800,658          | \$ 201,883  |
| State sources                                       | 49,165,720          | 49,165,720          | 42,551,810             | (6,613,910)   |
| Federal sources                                     | 7,163,123           | 7,163,123           | 10,130,153             | 2,967,030   |
| <b>TOTAL REVENUES</b>                               | <u>138,927,618</u>  | <u>138,927,618</u>  | <u>135,482,621</u>     | <u>(3,444,997)</u>                                      |
| <b>EXPENDITURES</b>                                 |                     |                     |                        |   |
| Instruction:  |                     |                     |                        |   |
| Regular programs                                    | 58,573,339          | 58,287,614          | 56,934,369             | 1,353,245   |
| Special programs                                    | 24,022,753          | 24,022,753          | 25,997,150             | (1,974,397)   |
| Vocational programs                                 | 3,826,035           | 3,831,622           | 3,642,792              | 188,830   |
| Other instructional programs                        | 2,899,384           | 2,932,606           | 3,199,152              | (266,546)   |
| <b>Total Instruction</b>                            | <u>89,321,511</u>   | <u>89,074,595</u>   | <u>89,773,463</u>      | <u>(698,868)</u>  |
| Support services:                                   |                     |                     |                        |   |
| Pupil personnel services                            | 4,753,945           | 4,874,912           | 4,970,907              | (95,995)  |
| Instructional staff services                        | 5,133,403           | 5,151,506           | 4,605,760              | 545,746   |
| Administrative services                             | 7,177,960           | 7,018,469           | 7,407,705              | (389,236)   |
| Pupil health  | 1,082,231           | 1,082,231           | 1,041,689              | 40,542  |
| Business services                                   | 1,295,452           | 1,338,802           | 1,320,290              | 18,512  |
| Operation and maintenance of plant services         | 11,365,829          | 11,351,497          | 10,958,814             | 392,683   |
| Student transportation services                     | 8,311,062           | 8,311,826           | 8,650,455              | (338,629)   |
| Central support services                            | 1,986,284           | 1,986,284           | 1,426,633              | 559,651   |
| Other support services                              | 52,832              | 52,832              | 55,279                 | (2,447)   |
| <b>Total Support Services</b>                       | <u>41,158,998</u>   | <u>41,168,359</u>   | <u>40,437,532</u>      | <u>730,827</u>  |
| Operation of noninstructional services:             |                     |                     |                        |   |
| Auxiliary services                                  | -                   | -                   | 1,297,455              | (1,297,455)   |
| Community services                                  | 25,001              | 1,021,664           | 53,508                 | 968,156   |
| <b>Total Operation of Noninstructional Services</b> | <u>25,001</u>       | <u>1,021,664</u>    | <u>1,350,963</u>       | <u>(329,299)</u>  |
| Debt service  | 14,504,414          | 14,504,414          | 14,110,679             | 393,735   |
| <b>TOTAL EXPENDITURES</b>                           | <u>145,009,924</u>  | <u>145,769,032</u>  | <u>145,672,637</u>     | <u>96,395</u>   |
| <b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>    | <u>(6,082,306)</u>  | <u>(6,841,414)</u>  | <u>(10,190,016)</u>    | <u>(3,348,602)</u>                                      |
| <b>OTHER FINANCING SOURCES (USES)</b>               |                     |                     |                        |   |
| Proceeds from collateralized borrowing              | 5,200,000           | 5,200,000           | 4,696,197              | (503,803)   |
| Proceeds from insurance recoveries                  | -                   | -                   | 247                    | 247   |
| Refund of prior year expenditures                   | -                   | -                   | 91,106                 | 91,106  |
| Refund of prior year receipts                       | -                   | -                   | (53,101)               | (53,101)  |
| Transfers out                                       | (950,000)           | -                   | -                      | -   |
| Budgetary reserve                                   | (500,000)           | (690,892)           | -                      | 690,892   |
| <b>TOTAL OTHER FINANCING SOURCES</b>                | <u>3,750,000</u>    | <u>4,509,108</u>    | <u>4,734,449</u>       | <u>225,341</u>  |
| <b>NET CHANGE IN FUND BALANCE</b>                   | <u>(2,332,306)</u>  | <u>(2,332,306)</u>  | <u>(5,455,567)</u>     | <u>(3,123,261)</u>                                      |
| <b>FUND BALANCE, BEGINNING OF YEAR</b>              | <u>10,113,190</u>   | <u>10,113,190</u>   | <u>4,712,325</u>       | <u>(5,400,865)</u>                                      |
| <b>FUND BALANCE, END OF YEAR</b>                    | <u>\$ 7,780,884</u> | <u>\$ 7,780,884</u> | <u>\$ (743,242)</u>    | <u>\$ (8,524,126)</u>                                   |

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

**COATESVILLE AREA SCHOOL DISTRICT  
STATEMENTS OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2011 AND 2010**

|   | Major Fund               |                          |
|---|--------------------------|--------------------------|
|   | Food Service Fund        |                          |
|   | 2011                     | 2010                     |
| <b>ASSETS</b>                                   |                          |                          |
| <b>CURRENT ASSETS:</b>                          |                          |                          |
| Cash and cash equivalents                       | \$ 190,884               | \$ 73,905                |
| Other receivables                               | 4,549                    | 6,072                    |
| Due from other funds                            | -                        | 94,533                   |
| Due from other governments                      | 58,785                   | 78,014                   |
| Inventories                                     | 12,193                   | 25,943                   |
| Total Current Assets                            | <u>266,411</u>           | <u>278,467</u>           |
| <b>CAPITAL ASSETS:</b>                          |                          |                          |
| Furniture and equipment                         | 1,544,844                | 1,528,556                |
| Accumulated depreciation                        | (1,316,972)              | (1,281,483)              |
| Capital Assets, Net                             | <u>227,872</u>           | <u>247,073</u>           |
| <b>TOTAL ASSETS</b>                             | <u><u>\$ 494,283</u></u> | <u><u>\$ 525,540</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>               |                          |                          |
| <b>CURRENT LIABILITIES:</b>                     |                          |                          |
| Due to other funds                              | \$ 77,684                | \$ -                     |
| Accounts payable                                | 1,089                    | 115                      |
| Accrued salaries and benefits                   | 42,003                   | 98,373                   |
| Total Current Liabilities                       | <u>120,776</u>           | <u>98,488</u>            |
| <b>NONCURRENT LIABILITIES:</b>                  |                          |                          |
| Accumulated compensated absences                | 104,122                  | 75,264                   |
| Total Liabilities                               | <u>224,898</u>           | <u>173,752</u>           |
| <b>NET ASSETS</b>                               |                          |                          |
| Invested in capital assets, net of related debt | 227,872                  | 247,073                  |
| Unrestricted                                    | 41,513                   | 104,715                  |
| Total Net Assets                                | <u>269,385</u>           | <u>351,788</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u><u>\$ 494,283</u></u> | <u><u>\$ 525,540</u></u> |

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

**COATESVILLE AREA SCHOOL DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

|   | Major Fund         |                    |
|---|--------------------|--------------------|
|   | Food Service Fund  |                    |
|   | 2011               | 2010               |
| <b>OPERATING REVENUES</b>                     |                    |                    |
| Food service revenues                         | \$ 992,010         | \$ 1,043,461       |
| Total Operating Revenues                      | <u>992,010</u>     | <u>1,043,461</u>   |
| <b>OPERATING EXPENSES</b>                     |                    |                    |
| Salaries                                      | 917,448            | 935,999            |
| Employee benefits                             | 253,441            | 188,671            |
| Purchased professional and technical services | 8,347              | 3,877              |
| Purchased property services                   | 150,107            | 21,821             |
| Other purchased services                      | 13,711             | 196,921            |
| Supplies                                      | 1,377,228          | 1,353,907          |
| Depreciation                                  | 35,489             | 34,648             |
| Other operating expenses                      | 1,063              | 6,222              |
| Total Operating Expenses                      | <u>2,756,834</u>   | <u>2,742,066</u>   |
| <b>OPERATING LOSS</b>                         | <u>(1,764,824)</u> | <u>(1,698,605)</u> |
| <b>NONOPERATING REVENUES</b>                  |                    |                    |
| Earnings on investments                       | 474                | 1,731              |
| Capital contributions                         | -                  | 8,346              |
| Local sources                                 | 14,339             | -                  |
| State sources                                 | 117,057            | 113,556            |
| Federal sources                               | 1,550,551          | 1,486,123          |
| Total Nonoperating Revenues                   | <u>1,682,421</u>   | <u>1,609,756</u>   |
| <b>CHANGE IN NET ASSETS</b>                   | (82,403)           | (88,849)           |
| <b>NET ASSETS, BEGINNING OF YEAR</b>          | <u>351,788</u>     | <u>440,637</u>     |
| <b>NET ASSETS, END OF YEAR</b>                | <u>\$ 269,385</u>  | <u>\$ 351,788</u>  |

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

**COATESVILLE AREA SCHOOL DISTRICT  
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

|   | Major Fund           |                      |
|---|----------------------|----------------------|
|   | Food Service Fund    |                      |
|   | 2011                 | 2010                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                      |                      |
| Cash received for services and other operating revenues                           | \$ 993,533           | \$ 1,041,227         |
| Payments to suppliers   | (1,053,637)          | (1,694,640)          |
| Payments for other operating expenses   | (164,881)            | (224,964)            |
| Payments to employees   | (1,206,748)          | (1,071,786)          |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>                                      | <b>(1,431,733)</b>   | <b>(1,950,163)</b>   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                           |                      |                      |
| Local sources   | 14,339               | -                    |
| State sources   | 118,854              | 113,900              |
| Federal sources   | 1,431,333            | 1,304,767            |
| <b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>                       | <b>1,564,526</b>     | <b>1,418,667</b>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                  |                      |                      |
| Purchase of capital assets  | (16,288)             | -                    |
| <b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>                  | <b>(16,288)</b>      | <b>-</b>             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                      |                      |
| Cash received from earnings on investments  | 474                  | 1,731                |
| Proceeds from sale of investments   | -                    | -                    |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>                                  | <b>474</b>           | <b>1,731</b>         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>116,979</b>       | <b>(529,765)</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                               | <b>73,905</b>        | <b>603,670</b>       |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                     | <b>\$ 190,884</b>    | <b>\$ 73,905</b>     |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b> |                      |                      |
| Operating loss  | \$(1,764,824)        | \$(1,698,605)        |
| Adjustments to reconcile operating loss to net cash used by operating activities: |                      |                      |
| Depreciation  | 35,489               | 34,648               |
| Donated commodities   | 136,650              | 180,539              |
| (Increase) decrease in:   |                      |                      |
| Other receivables   | 1,523                | (2,234)              |
| Due from other funds  | 94,533               | (94,533)             |
| Inventories   | 13,750               | 10,473               |
| Increase (decrease) in:   |                      |                      |
| Accounts payable  | 974                  | (2,177)              |
| Accrued salary  | (56,370)             | 74,441               |
| Due to other funds  | 77,684               | (435,035)            |
| Accumulated compensated absences  | 28,858               | (17,680)             |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>                                      | <b>\$(1,431,733)</b> | <b>\$(1,950,163)</b> |
| <b>SUPPLEMENTAL DISCLOSURE:</b>   |                      |                      |
| <b>NONCASH NONCAPITAL FINANCING ACTIVITY:</b>                                     |                      |                      |
| Capital asset contributions   | \$ -                 | \$ 8,346             |
| USDA donated commodities  | <b>\$ 136,650</b>    | <b>\$ 180,359</b>    |

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

**COATESVILLE AREA SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS  
JUNE 30, 2011**

|   | Private-<br>Purpose<br>Trust | Agency     |
|---|------------------------------|------------|
| <b>ASSETS</b>                           |                              |            |
| Cash                                    | \$ 186,783                   | \$ 193,410 |
| <b>TOTAL ASSETS</b>                     | \$ 186,783                   | \$ 193,410 |
| <br><b>LIABILITIES AND NET ASSETS</b>   |                              |            |
| <b>LIABILITIES:</b>                     |                              |            |
| Accounts payable                        | \$ -                         | \$ 193,410 |
| <br><b>NET ASSETS:</b>                  |                              |            |
| Reserved for trust                      | 186,783                      |            |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | \$ 186,783                   |            |

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

**COATESVILLE AREA SCHOOL DISTRICT  
STATEMENTS OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

|                                    | Private-Purpose Trust |            |
|------------------------------------|-----------------------|------------|
|                                    | 2011                  | 2010       |
| ADDITIONS                          |                       |            |
| Local contributions                | \$ 102,625            | \$ 68,924  |
| Interest income                    | 421                   | 366        |
|                                    | 103,046               | 69,290     |
| TOTAL ADDITIONS                    |                       |            |
| DEDUCTIONS                         |                       |            |
| Fees paid and scholarships awarded | 76,119                | 68,131     |
|                                    | 76,119                | 68,131     |
| TOTAL DEDUCTIONS                   |                       |            |
| CHANGE IN NET ASSETS               | 26,927                | 1,159      |
| NET ASSETS, BEGINNING OF YEAR      | 159,856               | 158,697    |
| NET ASSETS, END OF YEAR            | \$ 186,783            | \$ 159,856 |

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

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 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, 2011, the District's share of operating costs was \$2,286,028. 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. 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. In 2010-2011, the Athletic Fund (a nonmajor governmental fund) was eliminated and consolidated with the General Fund.

The **Capital Projects Funds** 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. 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 2010-2011 was 28.49 mills (\$28.49 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. 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

As of June 30, 2011, fund balances of the governmental funds are classified, if applicable, as follows:

*Nonspendable* – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

*Restricted* – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – Amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Directors.

*Assigned* – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Finance Committee or Director of Management Services may assign amounts for specific purposes.

*Unassigned* – All other spendable amounts.

As of June 30, 2011, fund balances are composed of the following:

|                      | General Fund        | Capital Reserve Fund | Capital Projects Fund 2007 GOB | Capital Projects Fund 2009 GOB | Capital Projects Fund 2010 GOB | Total Governmental Funds |
|----------------------|---------------------|----------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------|
| Nonspendable         | \$ 851,569          | \$ -                 | \$ -                           | \$ -                           | \$ -                           | \$ 851,569               |
| Restricted:          |                     |                      |                                |                                |                                |                          |
| Capital projects     | -                   | 293,265              | 374,869                        | 556,066                        | 48,762,053                     | 49,986,253               |
| Unassigned (deficit) | (1,594,811)         | -                    | -                              | -                              | -                              | (1,594,811)              |
| Total Fund Balances  | <u>\$ (743,242)</u> | <u>\$ 293,265</u>    | <u>\$ 374,869</u>              | <u>\$ 556,066</u>              | <u>\$ 48,762,053</u>           | <u>\$ 49,243,011</u>     |

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.

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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 that 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.

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 includes 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, 2011, the carrying amount of the District's deposits was \$7,090,300 and the bank balance was \$8,810,024. Of the bank balance, \$263,658 was covered by federal depository insurance and \$8,546,366 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.

All of the District's investments are in the Pennsylvania Local Government Investment Trust ("PLGIT") and the Pennsylvania School District Liquid Asset Fund ("PSDLAF"). 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. The carrying value of the District's investments at June 30, 2011 was \$47,974,666.

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, 2011, the District had no investments in certificates of deposit.

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, 2011, 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, 2011 was as follows:

|  | Beginning<br>Balance | Increases          | Decreases | Ending<br>Balance  |
|--|----------------------|--------------------|-----------|--------------------|
| Governmental Activities:                       |                      |                    |           |                    |
| Capital assets not being depreciated:          |                      |                    |           |                    |
| Land   | \$ 2,812,500         | \$ -               | \$ -      | \$ 2,812,500       |
| Construction-in-progress                       | 58,219,059           | 7,811,613          | -         | 66,030,672         |
| Total Capital Assets Not Being<br>Depreciated  | <u>61,031,559</u>    | <u>7,811,613</u>   | <u>-</u>  | <u>68,843,172</u>  |
| Capital assets being depreciated:              |                      |                    |           |                    |
| Land improvements                              | 7,065,457            | 1,900              | -         | 7,067,357          |
| Buildings and improvements                     | 141,248,020          | 209,896            | -         | 141,457,916        |
| Furniture and equipment                        | 11,945,209           | 225,971            | -         | 12,171,180         |
| Total Capital Assets Being Depreciated         | <u>160,258,686</u>   | <u>437,767</u>     | <u>-</u>  | <u>160,696,453</u> |
| Less accumulated depreciation for:             |                      |                    |           |                    |
| Land improvements                              | 3,158,020            | 295,016            | -         | 3,453,036          |
| Buildings and improvements                     | 36,429,611           | 2,568,143          | -         | 38,997,754         |
| Furniture and equipment                        | 9,031,428            | 698,079            | -         | 9,729,507          |
| Total Accumulated Depreciation                 | <u>48,619,059</u>    | <u>3,561,238</u>   | <u>-</u>  | <u>52,180,297</u>  |
| Total Capital Assets Being<br>Depreciated, Net | <u>111,639,627</u>   | <u>(3,123,471)</u> | <u>-</u>  | <u>108,516,156</u> |



COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

| (cont'd)                                       | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Governmental Activities Capital<br>Assets, Net | <u>\$ 172,671,186</u>        | <u>\$ 4,688,142</u> | <u>\$ -</u>      | <u>\$ 177,359,328</u>     |
| Business-type Activities:                      |                              |                     |                  |                           |
| Capital assets being depreciated:              |                              |                     |                  |                           |
| Furniture and equipment                        | 1,528,556                    | \$ 16,288           | \$ -             | \$ 1,544,844              |
| Less accumulated depreciation                  | <u>1,281,483</u>             | <u>35,489</u>       | <u>-</u>         | <u>1,316,972</u>          |
| Business-type Capital Assets, Net              | <u>\$ 247,073</u>            | <u>\$ (19,201)</u>  | <u>\$ -</u>      | <u>\$ 227,872</u>         |

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

|  |                     |
|--|---------------------|
| Governmental activities:                             |                     |
| Instruction  | \$ 2,601,096        |
| Instructional student support                        | 307,656             |
| Administrative and financial support services        | 295,822             |
| Operation and maintenance of plant services          | 317,521             |
| Student activities                                   | <u>39,143</u>       |
| Total Depreciation Expense - Governmental Activities | <u>\$ 3,561,238</u> |
| Depreciation Expense - Business-type Activities      | <u>\$ 35,489</u>    |

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

| <u>Receivable To</u>                | <u>Amount</u>       | <u>Payable From</u>                 | <u>Amount</u>       |
|-------------------------------------|---------------------|-------------------------------------|---------------------|
| Capital Projects Fund -<br>2007 GOB | <u>\$ 2,001,975</u> | General Fund                        | \$ 1,719,596        |
|                                     |                     | Food Service Fund                   | 77,684              |
|                                     |                     | Capital Projects Fund -<br>2009 GOB | <u>204,695</u>      |
|                                     | <u>\$ 2,001,975</u> |                                     | <u>\$ 2,001,975</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 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, 2011:

|                                  | <u>Balance<br/>July 1, 2010</u> | <u>Additions</u>     | <u>Reductions</u>    | <u>Balance<br/>June 30, 2011</u> |
|----------------------------------|---------------------------------|----------------------|----------------------|----------------------------------|
| <b>Governmental Activities:</b>  |                                 |                      |                      |                                  |
| Bonds payable                    | \$ 158,020,000                  | \$ 53,425,000        | \$ 5,275,000         | \$ 206,170,000                   |
| Bond premiums                    | 4,182,171                       | -                    | 355,457              | 3,826,714                        |
| Bond discounts                   | (69,430)                        | (276,821)            | (19,692)             | (326,559)                        |
| Deferred amount on refunding     | (1,461,116)                     | -                    | (154,729)            | (1,306,387)                      |
| Note payable                     | 16,650,000                      | -                    | 1,835,000            | 14,815,000                       |
| <b>Accumulated</b>               |                                 |                      |                      |                                  |
| compensated absences             | 1,651,263                       | 403,774              | -                    | 2,055,037                        |
| Other post-employment            | 3,973,355                       | 200,114              | -                    | 4,173,469                        |
| Collateral borrowing             | <u>4,642,252</u>                | <u>5,596,051</u>     | <u>4,642,252</u>     | <u>5,596,051</u>                 |
| <b>TOTALS</b>                    | <u>\$ 187,588,495</u>           | <u>\$ 59,348,118</u> | <u>\$ 11,933,288</u> | <u>\$ 235,003,325</u>            |
| <b>Business-type Activities:</b> |                                 |                      |                      |                                  |
| Accumulated compensated absences | <u>\$ 75,264</u>                | <u>\$ 28,858</u>     | <u>\$ -</u>          | <u>\$ 104,122</u>                |

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.  | \$ 2,240,000 |
| 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. | 116,595,000  |
| 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. | 9,190,000    |
| 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. | 9,470,000    |

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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. 63,540,000

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. 29,715,000

Series A of 2009, maturing through August 15, 2026 bearing interest ranging from 4.00% to 5.00%, interest payable semi-annually on February 15 and August 15. 21,995,000

Series of 2010, maturing through August 2031 bearing interest from 2.25% to 5.00%. Interest payable semi-annually on February 15 and August 15. 53,425,000

Total General Obligation Bonds 206,170,000

**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. 14,815,000

**TOTAL**

**\$ 220,985,000**

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> |
|-----------------------------|-----------------------------|----------------------------|-------------------------|
| 2012                        | \$ 7,315,000                | \$ 9,601,222               | \$ 16,916,222           |
| 2013                        | 7,515,000                   | 9,400,228                  | 16,915,228              |
| 2014                        | 7,725,000                   | 9,194,174                  | 16,919,174              |
| 2015                        | 7,985,000                   | 8,931,784                  | 16,916,784              |
| 2016                        | 8,275,000                   | 8,642,909                  | 16,917,909              |
| 2017-2021                   | 46,915,000                  | 37,675,250                 | 84,590,250              |
| 2022-2026                   | 59,435,000                  | 25,158,529                 | 84,593,529              |
| 2027-2031                   | 75,460,000                  | 9,132,000                  | 84,592,000              |
| 2032                        | 360,000                     | 8,100                      | 368,100                 |
|                             | <u>\$220,985,000</u>        | <u>\$117,744,196</u>       | <u>\$338,729,196</u>    |

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 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,

|       |                  |
|-------|------------------|
| 2012  | \$ <u>13,229</u> |
| Total | \$ <u>13,229</u> |

Rental expense, including short-term rentals, for the year ended June 30, 2011 was \$580,277.

NOTE 9 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, 2011, the rate of employer contribution was 5.4 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2009, 2010 and 2011 were \$2,188,640, \$2,656,205 and \$3,153,886, respectively, equal to the required contribution for each year.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 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, 2011.

Change in Aggregate Claim Liabilities

Year Ending June 30, 2011

|  |                     |
|--|---------------------|
| Claims Liability, beginning of year          | \$ 1,116,576        |
| Current year claims and changes in estimates | 14,937,091          |
| Claim payments by the District               | <u>(15,024,103)</u> |
| Claims Liability, end of year                | <u>\$ 1,029,564</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, 152 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$3,415,637 for the year ended June 30, 2011.

NOTE 11 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, 2011, the District was in the process of several capital projects. Construction commitments completed to date are as follows:

| <u>Project</u>                                | <u>Contract<br/>Amount</u> | <u>Completed<br/>as of<br/>06/30/2011</u> | <u>Commitments</u> |
|---|----------------------------|---|--------------------|
| Coatesville Area Senior High<br>- renovations | <u>\$ 51,160,393</u>       | <u>\$ 50,194,583</u>                      | <u>\$ 965,811</u>  |

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES (cont'd)

In addition, the District has incurred costs in the amount of \$15,836,089 for projects that were not under a formal construction commitment as of June 30, 2011.

NOTE 12 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 2010-2011 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Plan Description

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.

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN

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 2011, the District contributed \$289,993 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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

|  |                     |
|--|---------------------|
| Annual required contribution               | \$ 1,791,547        |
| Interest on net OPEB obligation            | 179,827             |
| Adjustment to annual required contribution | <u>(549,767)</u>    |
| Annual OPEB cost (expense)                 | 1,421,607           |
| Contributions made                         | <u>(1,244,287)</u>  |
| Increase in net OPEB obligation            | 177,320             |
| Net OPEB obligation - beginning of year    | <u>3,996,149</u>    |
| Net OPEB obligation - end of year          | <u>\$ 4,173,469</u> |

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|--|
| 6/30/2009                | \$ -                          | \$10,031,540                              | \$10,031,540              | 0.00%              | \$47,186,043        | 21.26%   |
| 6/30/2007                | \$ -                          | \$12,242,360                              | \$12,242,360              | 0.00%              | \$43,220,618        | 28.33%   |

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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

In the June 30, 2009 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 8.0 percent in 2009, reduced by decrements to an ultimate rate of 5.5 percent in 2014. The UAAL is being amortized based on the level dollar, 15-year blended period. The remaining amortization period at June 30, 2011 was 9 years.

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following General Fund functions incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2011:

|  |              |
|--|--------------|
| Instruction - special programs                     | \$ 1,974,397 |
| Instruction - other instructional programs         | \$ 266,546   |
| Support services – pupil personnel services        | \$ 95,995    |
| Support services – administrative services         | \$ 389,236   |
| Support services – student transportation services | \$ 338,629   |
| Support services – other support services          | \$ 2,447     |
| Auxiliary services                                 | \$ 1,297,455 |

The excess of expenditures over appropriations was financed with surplus generated in prior years and positive budget variances in other functions.

NOTE 15 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through February 10, 2012, 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**

February 10, 2012

To the Board of School Directors and Audit Committee  
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, 2011 which collectively comprise Coatesville Area School District's basic financial statements and have issued our report thereon dated February 10, 2012.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Coatesville Area School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a

To the Board of School Directors and Audit Committee  
Coatesville Area School District

combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations as #11-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and recommendations as #11-2 to be a significant deficiency.

#### 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*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Coatesville Area School District in a separate letter dated February 10, 2012.

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 LLP*

BARBACANE, THORNTON & COMPANY LLP

REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

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February 10, 2012

To the Board of School Directors and Audit Committee  
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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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, 2011.

To the Board of School Directors and Audit Committee  
Coatesville Area School District

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, 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as item #11-3 to be a material weakness.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses.

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 LLP*

BARBACANE, THORNTON & COMPANY LLP

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified?  X  Yes   None reported
- Noncompliance material to financial statements noted?   Yes  X  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified?   Yes  X  None reported

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

Yes  X  No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553, 10.555

Child Nutrition Cluster

84.010, 84.389

Title I, Part A Cluster

84.027, 84.391

Special Education Cluster (IDEA)

84.367

Title II Program

84.394

State Fiscal Stabilization Fund (SFSF) - Education

State Grants, Recovery Act

84.410

Education Jobs Fund, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X  Yes   No

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

**11-1 GENERAL FUND BUDGET**

During the current year, we noted that the District over-expended the General Fund budget by approximately \$3.1 million. In reviewing the budget, we noted a number of areas in which the budget does not appear to represent current activity levels of the District. For instance, professional services for special education were budgeted at \$6.6 million, though actual expenditures in 2010-2011 were \$8.5 million. Expenditures in this area increased \$0.3 million to \$8.8 million, but because of the budget, this small adjustment led to a budget overage of \$2.2 million.

We recommend the District review its budget policy to ensure that the budget accurately projects the reality of the District's expenditures. With the current General Fund deficit, it is extremely important that the budget be carefully established and followed by the District.

**11-2 INTERFUND BORROWING**

During our current year audit, we noted the General Fund has borrowed over \$1.7 million from the Capital Projects Funds to cover short term cash needs. Given the current fund balance deficit in the General Fund and net decrease in fund balances over each of the last three years, the General Fund may not be able to repay these funds without carefully budgeting and planning.

We recommend that the District develop a plan to repay the outstanding interfund payable and procedures to require a repayment plan as part of any significant future interfund lending.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

COATESVILLE AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

11-3 REPORTING

- Condition:** The District included certain purchases on its IDEA-ARRA 1512 report for the quarter ended June 30, 2011 which had been encumbered but not expended.
- Criteria:** ARRA 1512 reports to the Pennsylvania Department of Education require reporting based on expenditures, not encumbrances.
- Cause:** Ineffective internal controls placed in operation by District management.
- Effect:** The District's IDEA - ARRA 1512 Report was filed incorrectly.
- Recommendation:** We recommend that the District implement necessary procedures to ensure that all expenses are included on ARRA 1512 reports in the appropriate period.



**COATESVILLE AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS  
FOR THE YEAR ENDED JUNE 30, 2011**

| FEDERAL GRANTOR<br>PROJECT TITLE                                 | SOURCE<br>CODE | FEDERAL<br>CFDA<br>NUMBER | PASS-<br>THROUGH<br>GRANTOR'S<br>NUMBER | GRANT PERIOD<br>BEGINNING /<br>ENDING DATES | GRANT<br>AMOUNT | TOTAL<br>RECEIVED<br>FOR YEAR | ACCRUED<br>(DEFERRED)<br>REVENUE<br>07/01/2010 | REVENUE<br>RECOGNIZED | EXPENDITURES     | ACCRUED<br>(DEFERRED)<br>REVENUE<br>06/30/2011 |
|--|----------------|---------------------------|---|---|-----------------|-------------------------------|--|-----------------------|------------------|--|
| <u>U.S. Department of Education</u>                              |                |                           |   |   |                 |                               |  |                       |                  |  |
| <u>Passed through PA Department of Education</u>                 |                |                           |   |   |                 |                               |  |                       |                  |  |
| Title I  | I              | 84.010                    | 013-10-0089                             | 07/01/09 - 09/30/11                         | \$ 1,335,466    | \$ 704,245                    | \$ 353,397                                     | \$ 350,848            | \$ 350,848       | \$ -   |
| Title I  | I              | 84.010                    | 013-11-0089                             | 07/01/10 - 09/30/12                         | 1,362,889       | 894,734                       | -  | 1,362,889             | 1,362,889        | 468,155  |
| Title I - Delinquent   | I              | 84.010                    | 107-09-0089                             | 07/01/08 - 09/30/10                         | 28,311          | 10,246                        | 10,246   | -                     | -                | -  |
| Title I - Delinquent   | I              | 84.010                    | 107-10-0089                             | 07/01/09 - 09/30/11                         | 30,699          | 2,029                         | 2,029  | 235                   | 235              | 235  |
| Title I - Delinquent   | I              | 84.010                    | 107-11-0089                             | 07/01/10 - 09/30/12                         | 32,395          | 18,216                        | -  | 26,371                | 26,371           | 8,155  |
| Title I - Program Improvement                                    | I              | 84.010                    | 042-09-0089                             | 07/01/08 - 09/30/10                         | 85,000          | -                             | 3,001  | 1,362                 | 1,362            | 4,363  |
| Title I - Program Improvement                                    | I              | 84.010                    | 042-10-0089                             | 04/26/10 - 09/30/11                         | 147,912         | 106,826                       | (16,435)                                       | 147,912               | 147,912          | 24,651   |
| Title I - Academic Achievement Award                             | I              | 84.010                    | 077-09-0089                             | 07/01/08 - 09/30/09                         | 2,000           | 857                           | 857  | -                     | -                | -  |
| Title I - Academic Achievement Award                             | I              | 84.010                    | 077-11-0089                             | 07/01/10 - 09/30/11                         | 5,400           | -                             | -  | 1,800                 | 1,800            | 1,800  |
| Total CFDA# 84.010   |                |                           |   |   |                 | 1,737,153                     | 353,095  | 1,891,417             | 1,891,417        | 507,359  |
| ARRA - Title I   | I              | 84.389                    | 127-10-0089                             | 05/15/09 - 09/30/10                         | 757,360         | 135,421                       | (114,669)                                      | 285,203               | 285,203          | 35,113   |
| ARRA - Title I - Delinquent                                      | I              | 84.389                    | 133-10-0089                             | 05/15/09 - 09/30/10                         | 22,016          | 16,611                        | 16,611   | 294                   | 294              | 294  |
| ARRA - Title I - Program Improvement                             | I              | 84.389                    | 134-10-0089                             | 04/27/10 - 09/30/11                         | 102,640         | 17,107                        | (5,702)  | 33,039                | 33,039           | 10,230   |
| Total CFDA# 84.389   |                |                           |   |   |                 | 169,139                       | (103,760)                                      | 318,536               | 318,536          | 45,637   |
| ARRA - State Fiscal Stabilization Fund                           | I              | 84.394                    | 126-10-0089                             | 07/01/09 - 06/30/10                         | 2,552,634       | 850,878                       | 850,878  | -                     | -                | -  |
| ARRA - State Fiscal Stabilization Fund                           | I              | 84.394                    | 126-11-0089                             | 07/01/10 - 06/30/11                         | 2,504,565       | 2,504,565                     | -  | 2,504,565             | 2,504,565        | -  |
| Total CFDA# 84.394   |                |                           |   |   |                 | 3,355,443                     | 850,878  | 2,504,565             | 2,504,565        | -  |
| ARRA - Education Jobs Fund                                       | I              | 84.410                    | 140-18-3138                             | 07/01/10 - 06/30/11                         | 1,483,286       | 1,483,286                     | -  | 1,483,286             | 1,483,286        | -  |
| Title II - Improving Teacher Quality                             | I              | 84.367                    | 020-10-0089                             | 07/01/09 - 09/30/10                         | 524,343         | 104,869                       | 49,293   | 55,576                | 55,576           | -  |
| Title II - Improving Teacher Quality                             | I              | 84.367                    | 020-11-0089                             | 07/01/10 - 09/30/11                         | 533,217         | 422,070                       | -  | 356,824               | 356,824          | (65,246)                                       |
| Total CFDA# 84.367   |                |                           |   |   |                 | 526,939                       | 49,293   | 412,400               | 412,400          | (65,246)                                       |
| Title III Language Instruction LEP/Immigrant Students            | I              | 84.365                    | 010-09-0089                             | 07/01/08 - 09/30/10                         | 163,065         | 75,261                        | (47,813)                                       | 123,074               | 123,074          | -  |
| Title III Language Instruction LEP/Immigrant Students            | I              | 84.365                    | 010-10-0089                             | 07/01/09 - 09/30/11                         | 87,270          | 34,908                        | -  | 63,846                | 63,846           | 28,938   |
| Title III Language Instruction LEP/Immigrant Students            | I              | 84.365                    | 010-11-0089                             | 07/01/10 - 09/30/12                         | 63,789          | 15,947                        | -  | -                     | -                | (15,947)                                       |
| Total CFDA# 84.365   |                |                           |   |   |                 | 126,116                       | (47,813)                                       | 186,920               | 186,920          | 12,991   |
| Drug-free Schools  | I              | 84.186                    | 100-10-0089                             | 07/01/09 - 09/30/10                         | 24,807          | 15,266                        | 15,266   | -                     | -                | -  |
| 21st Century Community Learning Centers                          | I              | 84.287                    | 410-04-3306                             | 17/01/09 - 09/30/10                         | 195,250         | 195,250                       | 195,250  | -                     | -                | -  |
| 21st Century Community Learning Centers                          | I              | 84.287                    | 410-04-3306                             | 07/01/09 - 09/30/10                         | 169,504         | 169,504                       | 169,504  | -                     | -                | -  |
| 21st Century Community Learning Centers                          | I              | 84.287                    | 410-04-3306                             | 07/01/10 - 09/30/11                         | 97,625          | -                             | -  | 97,625                | 97,625           | 97,625   |
| 21st Century Community Learning Centers                          | I              | 84.287                    | 410-05-2385                             | 07/01/10 - 06/30/11                         | 420,000         | -                             | -  | 420,000               | 420,000          | 420,000  |
| Total CFDA# 84.287   |                |                           |   |   |                 | 364,754                       | 364,754  | 517,625               | 517,625          | 517,625  |
| Total Passed Through the Pennsylvania<br>Department of Education |                |                           |   |   |                 | 7,778,096                     | 1,481,713                                      | 7,314,749             | 7,314,749        | 1,018,366                                      |
| <u>Passed Through Chester County Intermediate Unit</u>           |                |                           |   |   |                 |                               |  |                       |                  |  |
| I.D.E.A.   | I              | 84.027                    | 062-09-0024                             | 07/01/09 - 09/30/10                         | 1,033,049       | 86,087                        | 86,087   | -                     | -                | -  |
| I.D.E.A.   | I              | 84.027                    | 062-10-0024                             | 07/01/10 - 09/30/11                         | 1,004,975       | 920,277                       | -  | 1,004,975             | 1,004,975        | 84,698   |
| Total CFDA# 84.027   |                |                           |   |   |                 | 1,006,364                     | 86,087   | 1,004,975             | 1,004,975        | 84,698   |
| ARRA - I.D.E.A.  | I              | 84.391                    | 128-10-0-024                            | 07/01/09 - 09/30/11                         | 1,463,991       | 559,564                       | 476,438  | 269,273               | 269,273          | 186,147  |
| Total Passed Through Chester County<br>Intermediate Unit         |                |                           |   |   |                 | 1,565,928                     | 562,525  | 1,274,248             | 1,274,248        | 270,845  |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>                        |                |                           |   |   |                 | <b>9,344,024</b>              | <b>2,044,238</b>                               | <b>8,588,997</b>      | <b>8,588,997</b> | <b>1,289,211</b>                               |
| <u>Department of Public Welfare</u>                              |                |                           |   |   |                 |                               |  |                       |                  |  |
| <u>Passed through Leader Services</u>                            |                |                           |   |   |                 |                               |  |                       |                  |  |
| Medical Assistance Reimbursement                                 | I              | 93.778                    | N/A                                     | 07/01/09 - 06/30/10                         | 244,394         | 41,841                        | 41,841   | -                     | -                | -  |
| Medical Assistance Reimbursement                                 | I              | 93.778                    | N/A                                     | 07/01/10 - 06/30/11                         | 166,578         | 86,979                        | -  | 166,578               | 166,578          | 79,599   |
| Total CFDA# 93.778   |                |                           |   |   |                 | 128,820                       | 41,841   | 166,578               | 166,578          | 79,599   |
| <b>TOTAL DEPARTMENT OF PUBLIC WELFARE</b>                        |                |                           |   |   |                 | <b>128,820</b>                | <b>41,841</b>                                  | <b>166,578</b>        | <b>166,578</b>   | <b>79,599</b>                                  |

Continued on next page.

**COATESVILLE AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS  
FOR THE YEAR ENDED JUNE 30, 2011**

| FEDERAL GRANTOR<br>PROJECT TITLE                     | SOURCE<br>CODE | FEDERAL<br>CFDA<br>NUMBER | PASS-<br>THROUGH<br>GRANTOR'S<br>NUMBER | GRANT PERIOD<br>BEGINNING /<br>ENDING DATES | GRANT<br>AMOUNT | TOTAL<br>RECEIVED<br>FOR YEAR | ACCRUED<br>(DEFERRED)<br>REVENUE<br>07/01/2010 | REVENUE<br>RECOGNIZED | EXPENDITURES         | ACCRUED<br>(DEFERRED)<br>REVENUE<br>06/30/2011 |
|--|----------------|---------------------------|---|---|-----------------|-------------------------------|--|-----------------------|----------------------|--|
| <b>U.S. Department of Agriculture</b>                |                |                           |   |   |                 |                               |  |                       |                      |  |
| <b>Passed through PA Department of Agriculture</b>   |                |                           |   |   |                 |                               |  |                       |                      |  |
| Value of USDA Donated Commodities                    | I              | 10.555                    | N/A                                     | 07/01/08 - 06/30/09                         | N/A             | 136,650                       | (8,084)  | 136,650               | 136,650              | (8,084)  |
| <b>Passed through PA Department of Education</b>     |                |                           |   |   |                 |                               |  |                       |                      |  |
| Breakfast Program                                    | I              | 10.553                    | N/A                                     | 07/01/09 - 06/30/10                         | N/A             | 14,684                        | 14,684   | -                     | -                    | -  |
| Breakfast Program                                    | I              | 10.553                    | N/A                                     | 07/01/10 - 06/30/11                         | N/A             | 251,426                       | -  | 263,146               | 263,146              | 11,720   |
| Total CFDA# 10.553                                   |                |                           |   |   |                 | 266,110                       | 14,684   | 263,146               | 263,146              | 11,720   |
| National School Lunch Program                        | I              | 10.555                    | N/A                                     | 07/01/09 - 06/30/10                         | N/A             | 57,185                        | 57,185   | -                     | -                    | -  |
| National School Lunch Program                        | I              | 10.555                    | N/A                                     | 07/01/10 - 06/30/11                         | N/A             | 1,108,038                     | -  | 1,150,755             | 1,150,755            | 42,717   |
| Total CFDA# 10.555                                   |                |                           |   |   |                 | 1,165,223                     | 57,185   | 1,150,755             | 1,150,755            | 42,717   |
| State Matching Share                                 | S              | N/A                       | N/A                                     | 07/01/09 - 06/30/10                         | N/A             | 6,145                         | 6,145  | -                     | -                    | -  |
| State Matching Share                                 | S              | N/A                       | N/A                                     | 07/01/10 - 06/30/11                         | N/A             | 112,708                       | -  | 117,056               | 117,056              | 4,348  |
| Total State Matching Share                           |                |                           |   |   |                 | 118,853                       | 6,145  | 117,056               | 117,056              | 4,348  |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>          |                |                           |   |   |                 | <b>1,686,836</b>              | <b>69,930</b>                                  | <b>1,667,607</b>      | <b>1,667,607</b>     | <b>50,701</b>                                  |
| <b>TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS</b> |                |                           |   |   |                 | <b>\$ 11,159,680</b>          | <b>\$ 2,156,009</b>                            | <b>\$ 10,423,182</b>  | <b>\$ 10,423,182</b> | <b>\$ 1,419,511</b>                            |
| <b>TOTAL FEDERAL AWARDS</b>                          |                |                           |   |   |                 | <b>\$ 11,040,827</b>          | <b>\$ 2,149,864</b>                            | <b>\$ 10,306,126</b>  | <b>\$ 10,306,126</b> | <b>\$ 1,415,163</b>                            |
| <b>TOTAL STATE GRANTS</b>                            |                |                           |   |   |                 | <b>118,853</b>                | <b>6,145</b>                                   | <b>117,056</b>        | <b>117,056</b>       | <b>4,348</b>                                   |
| <b>TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS</b> |                |                           |   |   |                 | <b>\$ 11,159,680</b>          | <b>\$ 2,156,009</b>                            | <b>\$ 10,423,182</b>  | <b>\$ 10,423,182</b> | <b>\$ 1,419,511</b>                            |
| <b>TITLE I PART A CLUSTER</b>                        |                |                           |   |   |                 | <b>\$ 1,906,292</b>           | <b>\$ 249,335</b>                              | <b>\$ 2,209,953</b>   | <b>\$ 2,209,953</b>  | <b>\$ 552,996</b>                              |
| <b>SPECIAL EDUCATION CLUSTER (IDEA)</b>              |                |                           |   |   |                 | <b>\$ 1,565,928</b>           | <b>\$ 562,525</b>                              | <b>\$ 1,274,248</b>   | <b>\$ 1,274,248</b>  | <b>\$ 270,845</b>                              |
| <b>CHILD NUTRITION CLUSTER</b>                       |                |                           |   |   |                 | <b>\$ 1,431,333</b>           | <b>\$ 71,869</b>                               | <b>\$ 1,413,901</b>   | <b>\$ 1,413,901</b>  | <b>\$ 54,437</b>                               |

Source Codes

I - Indirect Funding

S - State Share

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 value of USDA Donated Commodities represent surplus food consumed by the District during the 2010-2011 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, 2011 was \$1,374,578.