



**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2013

COATESVILLE AREA SCHOOL DISTRICT

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COATESVILLE AREA SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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February 26, 2014

Board of School Directors and Audit Committee
Coatesville Area School District
Coatesville, Pennsylvania

Report on the Financial Statements

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 ("the District"), Coatesville Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the Coatesville Area School District, Coatesville Pennsylvania, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 16 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's 2012 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated March 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

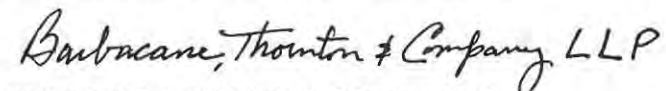
Other Information

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 schedule of expenditures of federal awards 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 Non-Profit Organizations," and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014, 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, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.


BARBACANE, THORNTON & COMPANY LLP

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

JUNE 30, 2013

The discussion and analysis of Coatesville Area School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review any notes to the financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2012-2013 are as follows:

The fund balance for Governmental Funds increased by \$1,851,369. Total Governmental Fund revenues and other financing sources were \$141,203,933 compared to expenditures in the amount of \$139,352,564.

General Fund revenues were \$136,877,676 with other funds having total revenues of \$108,941. General Fund revenues consist of 64.5 percent local revenue, 31.0 percent state revenue and 4.5 percent federal revenues including grant funds. Other revenue generating funds consist of the Food Service Fund with revenues of \$3,045,882 and expenses of \$3,019,604, resulting in an increase in the net position of \$26,278.

The District had \$137,573,974 in General Fund expenditures that includes \$6,089,210 for expenditures that were reimbursed to the District with federal grants. Debt service expenditures included within the General Fund were \$16,650,856, or 12.1 percent, of the total expenditures.

The District's negative General Fund balance of \$1,381,816 does not meet the guidelines of Board Policy 623 which states the unassigned fund balance is not to be less than five percent of the General Fund budget expenditures nor more than eight percent. If the unassigned portion of the fund balance falls below the threshold of five percent, the Board will pursue variations of increasing revenues and decreasing expenditures, or a combination of both until five percent is attained.

Other Post-employment Benefits

In accordance with the Governmental Accounting Standards Board Statement No. 45, the Coatesville Area School District employed Conrad Siegel to provide actuarial service to determine the District's liability for other post-employment benefits other than pension benefits. The District's post-employment liability as of June 30, 2013 is \$4,861,772.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Coatesville Area School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2013

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with other non-major funds. In the case of Coatesville Area School District, the General Fund is by far the most significant fund.

REPORTING THE DISTRICT AS A WHOLE

While this document contains all of the funds used by the District to provide programs and activities, the entity-wide financial statements views the District as a whole and asks the question, "How did we do financially during the 2012-2013 fiscal year?" These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting methods used by most private-sector companies.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The District uses many funds to account for a multitude of financial transactions. The District's major funds are the General Fund, Capital Reserve Fund and Capital Projects Funds.

General Fund – The General Fund accounts for all financial resources of the District except those that are specifically required by law to be accounted for in another fund. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The General Fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. The General Fund information will help you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Capital Reserve Fund – The Coatesville Area School District maintains a Capital Reserve Fund that is restricted to capital improvement expenditures.

Capital Projects Funds – The Capital Projects Funds account for financial resources to acquire or construct major capital facilities. All fund proceeds for capital projects should be accounted for in these funds. The sale of general obligation bonds is the most common source of revenue.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities. These funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the expenses of providing the goods or services are recovered through fees and user charges rather than taxes. The District's Food Service Fund is considered a proprietary fund and should operate as self-funded with no support from local taxpayers.

Fiduciary Funds – Fiduciary funds account for funds held by the District purely in a trustee capacity. The District also maintains several other scholarships funds. Student Activity Funds are controlled by various student organizations and funded by student fundraisers.

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2013

FINANCIAL STATEMENTS

The Statement of Activities shows the cost of program services, charges for services, and grants received 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 governmental activities.

**STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30**

	Governmental Activities	Business-type Activities	2013 Total	Governmental Activities	Business-type Activities	2012 Total
REVENUES						
Program Revenues:						
Charge for services	\$ 977,293	\$ 851,344	\$ 1,828,637	\$ 658,547	\$ 977,603	\$ 1,636,150
Operating grants and contributions	22,467,236	2,194,529	24,661,765	20,452,268	1,944,305	22,396,573
General Revenues:						
Property taxes	82,068,864	-	82,068,864	82,772,466	-	82,772,466
Other taxes	8,075,719	-	8,075,719	7,495,733	-	7,495,733
Grants	26,364,775	-	26,364,775	25,346,013	-	25,346,013
Investment earnings	144,913	9	144,922	164,047	106	164,153
Other	84,130	-	84,130	40,957	-	40,957
TOTAL REVENUES	140,182,930	3,045,882	143,228,812	136,930,031	2,922,014	139,852,045
EXPENSES						
Instructional	86,462,512	-	86,462,512	89,297,673	-	89,297,673
Instructional student support	9,760,890	-	9,760,890	10,250,520	-	10,250,520
Administration and financial support	10,240,859	-	10,240,859	10,464,474	-	10,464,474
Operation and maintenance of plant services	10,058,842	-	10,058,842	9,879,584	-	9,879,584
Pupil transportation	8,155,894	-	8,155,894	7,823,807	-	7,823,807
Student activities	1,368,509	-	1,368,509	1,162,165	-	1,162,165
Community services	33,793	-	33,793	26,868	-	26,868
Interest and financial charges	8,454,705	-	8,454,705	9,172,595	-	9,172,595
Food service	-	3,019,604	3,019,604	-	2,864,856	2,864,856
TOTAL EXPENSES	134,536,004	3,019,604	137,555,608	138,077,686	2,864,856	140,942,542
Change in Net Position	5,646,926	26,278	5,673,204	(1,147,655)	57,158	(1,090,497)
Net Position (Deficit) July 1, 2012	(4,091,781)	326,543	(3,765,238)	(2,944,126)	269,385	(2,674,741)
Net Position (Deficit) June 30, 2013	\$ 1,555,145	\$ 352,821	\$ 1,907,966	\$ (4,091,781)	\$ 326,543	\$ (3,765,238)

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2013

**STATEMENT OF NET POSITION
As of June 30**

	Governmental Activities	Business-type Activities	2013 Total	Governmental Activities	Business-type Activities	2012 Total
Current and other assets	\$ 72,337,917	\$ 511,395	\$ 72,849,312	\$ 62,841,583	\$ 108,632	\$ 62,950,215
Capital assets	172,511,982	166,121	172,678,103	175,842,709	202,242	176,044,951
Total Assets	244,849,899	677,516	245,527,415	238,684,292	310,874	238,995,166
Deferred Outflows of Resources	1,001,915	-	1,001,915	1,154,150	-	1,154,150
Current and other liabilities	28,699,485	146,121	28,845,606	20,397,548	(185,565)	20,211,983
Long-term liabilities	215,597,184	178,574	215,775,758	223,532,675	169,896	223,702,571
Total Liabilities	244,296,669	324,695	244,621,364	243,930,223	(15,669)	243,914,554
Net investment in capital assets	7,963,776	166,121	8,129,897	6,118,600	202,242	6,320,842
Restricted for capital projects	105,804	-	105,804	237,007	-	237,007
Unrestricted (Deficit)	(6,514,435)	186,700	(6,327,735)	(10,447,388)	124,301	(10,323,087)
Total Net Position (Deficit)	\$ 1,555,145	\$ 352,821	\$ 1,907,966	\$ (4,091,781)	\$ 326,543	\$ (3,765,238)

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2012-2013, the District had to amend its General Fund budget numerous times; however, none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

When the need for additional operating funds became apparent, the Board placed a .6190 mill levy increase on the real estate taxes rate. This levy set the real estate taxes at 30.1090 mills of the assessed value. The levy was anticipated to raise \$1,778,969 in revenue during 2012-2013 fiscal year.

THE DISTRICT'S FUNDS

Information about the District's major funds are stated within the notes to the financial statements. These funds are accounted for using the modified accrual basis of accounting. Although the General Fund balance remains negative the most significant net change is in the General Fund balance, which increased by \$3,521,018.

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2013

The school districts' dependence upon property taxes, hampered by a lack of revenue growth, will regularly force the need to increase local taxes or eliminate staff and programs. Local taxes and revenues made up 64.5 percent of revenues for Coatesville Area School District in fiscal year 2012-2013. Revenues are provided from the following sources:

Local revenues	\$ 88,302,138
State revenues	42,486,328
Federal revenues	6,089,210
Other financing sources	<u>4,217,316</u>
Total Revenues and Other Financing Sources	<u>\$ 141,094,992</u>

Expenses consisted of the following:

Salaries	34.3%
Benefits	17.5%
Contracted professional services	8.2%
Contracted property services	1.6%
Transportation/other services	23.9%
Supplies	1.7%
Equipment property	0.1%
Dues, fees and debt service interest	7.2%
Other/bond principal payments	5.5%

The above expenditures were used to support the following:

Instructional programs	\$ 82,701,958
Support services	36,880,447
Non-instructional services	1,340,713
Debt service/other	16,650,856

The dependence upon local tax revenue is apparent. State subsidies accounted for 31.0 percent of the District's total revenue for the 2012-2013 school year. The community as a whole is by far the primary supporter for Coatesville Area School District students.

The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2013 and 2012.

	<u>Fund Balance June 30, 2013</u>	<u>Fund Balance June 30, 2012</u>	<u>Increase (Decrease)</u>
General Fund (Deficit)	\$ (1,381,816)	\$ (4,902,834)	\$ 3,521,018
Capital Reserve Fund	105,804	237,007	(131,203)
Capital Projects Fund - 2007 GOB	219,860	365,508	(145,648)
Capital Projects Fund - 2009 GOB (Deficit)	(17,734)	7,794	(25,528)
Capital Projects Fund - 2010 GOB	<u>44,215,559</u>	<u>45,582,829</u>	<u>(1,367,270)</u>
TOTAL FUND BALANCES	<u>\$ 43,141,673</u>	<u>\$ 41,290,304</u>	<u>\$ 1,851,369</u>

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2013, the District had \$172,678,103 invested in land, buildings and equipment net of accumulated depreciation. Below is a summary of the capital assets.

**CAPITAL ASSETS AND DEPRECIATION
As of June 30**

	2013	2012
Land	\$ 2,812,500	\$ 2,812,500
Construction-in-progress	8,005,954	6,603,266
Land site improvements	7,076,167	7,076,167
Buildings and buildings improvements	203,949,317	203,579,394
Furniture and equipment	13,960,747	13,883,842
Total Capital Assets Being Depreciated	235,804,685	233,955,169
Accumulated depreciation	(63,126,582)	(57,910,218)
Total Capital Assets Net of Depreciation	\$ 172,678,103	\$ 176,044,951

Debt

As of June 30, 2013, the District had a total debt of \$217,155,000 in bonds and notes net of any interest. Below is a summary of debt for the District's outstanding bond issues and bank note:

GENERAL LONG-TERM DEBT - NET OF INTEREST

Bonds/Notes Issued	Maturing Date	Outstanding Principal
2001	11/25/17	\$ 10,940,000
2004	08/15/20	16,585,000
2005	08/15/20	9,050,000
2006	08/15/19	9,305,000
2007	08/15/26	63,530,000
2009	10/01/16	21,345,000
2009	08/15/26	21,985,000
2010	08/15/31	53,415,000
2013	07/01/13	11,000,000
Total Outstanding		\$ 217,155,000

COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA

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

JUNE 30, 2013

FOR THE FUTURE

Coatesville Area School District is currently facing future financial challenges. Although the General Fund balance has increased by \$3,521,018 for the period ended June 30, 2013, the ending fund balance remains negative at \$1,381,816. District Policy 623 states the District should maintain a minimum of five percent with the maximum not to exceed the eight percent Pennsylvania Department of Education limit. As the preceding information shows, the District heavily depends on its property taxpayers. With the passage of a .6190 mill-operating levy and collection beginning in July 2012, the District was able to continue its education programs. However, financially the future is not without a challenge.

While the District was successful in increasing its tax revenue base by \$1,778,969 annually, this increase is a one-time increase. Thus, management must diligently plan expenses, staying carefully within the District's financial plan. Additional revenues must not be treated as a windfall to expand programs but as an opportunity to reduce the time horizon to achieve reaching a positive five percent fund balance.

Coatesville Area School District has not anticipated any meaningful growth in State revenue. The concern is with \$64.50 of every \$100 paid in taxes for the District coming from local revenues could have a significant impact on the District's residential taxpayers. This will require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, Coatesville Area School District has committed itself to achieve financial excellence. The District's systems of budgeting and internal controls need to be strengthened to maintain accurate financial data that will be necessary to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances, and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ronald Kabonick, Business Administrator, Coatesville Area School District, 545 Lincoln Highway, Coatesville, PA 19320 or email kabonickr@coatesville.k12.pa.us.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013
(With Summarized Comparative Data for June 30, 2012)

	Governmental Activities	Business-type Activities	Totals	
			2013	2012
ASSETS				
Cash and cash equivalents	\$ 3,878,625	\$ 435,414	\$ 4,314,039	\$ 2,501,117
Investments	53,199,344	-	53,199,344	45,727,665
Interest receivable	24,504	-	24,504	92,854
Pledged taxes receivable	7,927,201	-	7,927,201	8,975,950
Due from other governments	3,535,821	48,882	3,584,703	2,179,879
Other receivables	477,855	7,846	485,701	505,480
Prepaid expenses	1,467,424	-	1,467,424	928,890
Inventories	-	19,253	19,253	27,337
Other assets	1,827,143	-	1,827,143	2,011,043
Land	2,812,500	-	2,812,500	2,812,500
Construction-in-progress	8,005,954	-	8,005,954	6,603,266
Land improvements	7,076,167	-	7,076,167	7,076,167
Buildings and improvements	203,949,317	-	203,949,317	203,579,394
Furniture and equipment	12,405,705	1,555,042	13,960,747	13,883,842
Accumulated depreciation	(61,737,661)	(1,388,921)	(63,126,582)	(57,910,218)
TOTAL ASSETS	244,849,899	677,516	245,527,415	238,995,166
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on refunding	1,001,915	-	1,001,915	1,154,150
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,001,915	-	1,001,915	1,154,150
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$245,851,814	\$ 677,516	\$246,529,330	\$240,149,316
LIABILITIES AND NET POSITION				
LIABILITIES:				
Accounts payable	\$ 4,229,123	\$ 80,152	\$ 4,309,275	\$ 5,542,851
Accrued salaries and benefits	4,734,001	-	4,734,001	5,011,928
Accrued interest	2,977,315	-	2,977,315	3,474,936
Internal balances	(65,969)	65,969	-	-
Collateralized borrowing	5,607,967	-	5,607,967	5,867,836
Unearned revenues	217,048	-	217,048	314,432
Tax revenue anticipation note payable	11,000,000	-	11,000,000	-
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable, net	5,349,235	-	5,349,235	5,880,765
Note payable	2,040,000	-	2,040,000	1,970,000
Accumulated compensated absences	-	-	-	148,748
Portion due or payable after one year:				
Bonds payable, net	192,694,390	-	192,694,390	198,043,625
Note payable	8,900,000	-	8,900,000	10,940,000
Other post-employment benefits	4,784,038	77,734	4,861,772	4,784,313
Accumulated compensated absences	1,829,521	100,840	1,930,361	1,935,120
TOTAL LIABILITIES	244,296,669	324,695	244,621,364	243,914,554
NET POSITION (DEFICIT):				
Net investment in capital assets	7,963,776	166,121	8,129,897	6,320,842
Restricted for capital projects	105,804	-	105,804	237,007
Unrestricted (Deficit)	(6,514,435)	186,700	(6,327,735)	(10,323,087)
TOTAL NET POSITION (DEFICIT)	1,555,145	352,821	1,907,966	(3,765,238)
TOTAL LIABILITIES AND NET POSITION	\$245,851,814	\$ 677,516	\$246,529,330	\$240,149,316

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(With Summarized Comparative Data for the Year Ended June 30, 2012)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 86,462,512	\$ 398,847	\$ 15,135,307	\$ -	\$ (70,928,358)	-	\$ (75,611,101)
Instructional student support	9,760,890	-	531,658	-	(9,229,232)	-	(9,777,591)
Administrative and financial support services	10,240,859	-	414,229	-	(9,826,630)	-	(10,126,880)
Operation and maintenance of plant services	10,058,842	-	406,866	-	(9,651,976)	-	(9,557,538)
Pupil transportation	8,155,894	-	5,143,357	-	(3,012,537)	-	(2,800,749)
Student activities	1,368,509	74,136	56,752	-	(1,237,621)	-	(1,049,210)
Community services	33,793	504,310	-	-	470,517	-	283,428
Interest on long-term debt	8,454,705	-	779,067	-	(7,675,638)	-	(8,327,230)
TOTAL GOVERNMENTAL ACTIVITIES	134,536,004	977,293	22,487,236	-	(111,091,475)	-	(116,966,871)
BUSINESS-TYPE ACTIVITIES							
Food service	3,019,604	851,344	2,194,529	-	-	26,269	57,052
TOTAL BUSINESS-TYPE ACTIVITIES	3,019,604	851,344	2,194,529	-	-	26,269	57,052
TOTAL PRIMARY GOVERNMENT	\$ 137,555,608	\$ 1,828,637	\$ 24,661,765	\$ -	(111,091,475)	26,269	(116,909,819)
GENERAL REVENUES							
Property taxes, levied for general purposes					82,068,864	-	82,068,864
Taxes levied for specific purposes					8,075,719	-	8,075,719
Grants and entitlements not restricted to specific programs					26,364,775	-	26,364,775
Investment earnings					144,913	9	144,922
Miscellaneous					84,130	-	84,130
TOTAL GENERAL REVENUES					116,738,401	9	116,738,410
CHANGE IN NET POSITION					5,646,926	26,278	(1,090,497)
NET POSITION (DEFICIT), BEGINNING OF YEAR					(4,091,781)	326,543	(2,674,741)
NET POSITION (DEFICIT), END OF YEAR					\$ 1,555,145	\$ 352,821	\$ (3,765,238)

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

**COATESVILLE AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

(With Summarized Comparative Data for June 30, 2012)

	Major Funds						Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund - 2007 GOB	Capital Projects Fund - 2009 GOB	Capital Projects Fund - 2010 GOB	2013	2012	
ASSETS								
Cash and cash equivalents	\$ 3,109,896	\$ 105,804	\$ 519,860	\$ 82,266	\$ 60,799	\$ 3,878,625	\$ 2,478,033	
Investments	9,100,000	-	-	-	44,099,344	53,199,344	45,727,665	
Interest receivable	1,550	-	-	-	22,954	24,504	92,854	
Taxes receivable	7,927,201	-	-	-	-	7,927,201	8,975,950	
Due from other funds	81,224	-	-	-	400,000	481,224	7,794	
Due from other governments	3,535,821	-	-	-	-	3,535,821	2,128,731	
Other receivables	462,600	-	-	-	-	462,600	498,417	
Prepaid expenditures	1,467,424	-	-	-	-	1,467,424	928,890	
Other assets	1,827,143	-	-	-	-	1,827,143	2,011,043	
TOTAL ASSETS	\$ 27,512,859	\$ 105,804	\$ 519,860	\$ 82,266	\$ 44,583,097	\$ 72,803,886	\$ 62,849,377	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
LIABILITIES:								
Due to other funds	\$ -	\$ -	\$ 300,000	\$ 100,000	\$ -	\$ 400,000	\$ 193,359	
Accounts payable	3,861,585	-	-	-	367,538	4,229,123	5,542,851	
Accrued salaries and benefits	4,734,001	-	-	-	-	4,734,001	5,011,928	
Unearned revenues	217,048	-	-	-	-	217,048	314,432	
Accumulated compensated absences	-	-	-	-	-	-	148,748	
Tax receivable anticipation note	11,000,000	-	-	-	-	11,000,000	-	
TOTAL LIABILITIES	19,812,634	-	300,000	100,000	367,538	20,580,172	11,211,318	
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - property taxes	3,474,074	-	-	-	-	3,474,074	4,479,919	
Unavailable revenue - collateralized borrowing	5,607,967	-	-	-	-	5,607,967	5,867,836	
TOTAL DEFERRED INFLOWS OF RESOURCES	9,082,041	-	-	-	-	9,082,041	10,347,755	
FUND BALANCES (DEFICIT)								
Nonspendable	1,467,424	-	-	-	-	1,467,424	928,890	
Restricted for capital projects	-	105,804	219,860	-	44,215,559	44,541,223	46,193,138	
Unassigned (Deficit)	(2,849,240)	-	-	(17,734)	-	(2,866,974)	(5,831,724)	
TOTAL FUND BALANCES (DEFICIT)	(1,381,816)	105,804	219,860	(17,734)	44,215,559	43,141,673	41,290,304	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 27,512,859	\$ 105,804	\$ 519,860	\$ 82,266	\$ 44,583,097	\$ 72,803,886	\$ 62,849,377	

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 POSITION
JUNE 30, 2013**

TOTAL GOVERNMENTAL FUND BALANCES \$ 43,141,673

Amounts reported for governmental activities in the statement of net position 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	8,005,954	
Land improvements	7,076,167	
Buildings and improvements	203,949,317	
Furniture and equipment	12,405,705	
Accumulated depreciation	<u>(61,737,661)</u>	172,511,982

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, net	(198,043,625)	
Notes payable	(10,940,000)	
Accumulated compensated absences	(1,829,521)	
Accrued interest	(2,977,315)	
Post-employment benefits	<u>(4,784,038)</u>	(218,574,499)

Refunded debt resulted in deferred outflows of resources which will be amortized over the life of new debt but do not represent current rights. 1,001,915

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 unavailable in the funds. 3,474,074

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,555,145

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, 2013
(With Summarized Comparative Data for the Year Ended June 30, 2012)

	Major Funds						Totals
	General Fund	Capital Reserve Fund	Capital Projects Fund - 2007 GOB	Capital Projects Fund - 2009 GOB	Capital Projects Fund - 2010 GOB	2013	
REVENUES							
Local sources	\$88,302,138	\$ 3	\$ -	\$ -	\$ 108,938	\$88,411,079	\$85,367,925
State sources	42,486,328	-	-	-	-	42,486,328	40,555,492
Federal sources	6,089,210	-	-	-	-	6,089,210	5,214,866
TOTAL REVENUES	<u>136,877,676</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>108,938</u>	<u>136,986,617</u>	<u>131,138,283</u>
EXPENDITURES							
Current:							
Instruction	82,701,958	-	-	-	-	82,701,958	85,574,178
Support services	36,880,447	-	-	-	-	36,880,447	37,178,141
Operation of noninstructional services	1,340,713	-	-	-	-	1,340,713	1,161,055
Capital outlays	-	131,206	145,648	25,528	1,476,208	1,778,590	2,702,104
Debt service	16,650,856	-	-	-	-	16,650,856	16,601,355
TOTAL EXPENDITURES	<u>137,573,974</u>	<u>131,206</u>	<u>145,648</u>	<u>25,528</u>	<u>1,476,208</u>	<u>139,352,564</u>	<u>143,216,833</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(696,298)</u>	<u>(131,203)</u>	<u>(145,648)</u>	<u>(25,528)</u>	<u>(1,367,270)</u>	<u>(2,365,947)</u>	<u>(12,078,550)</u>
OTHER FINANCING SOURCES							
Proceeds from collateralized borrowing	4,199,365	-	-	-	-	4,199,365	4,100,046
Proceeds from sale of capital assets	8,912	-	-	-	-	8,912	1,000
Refund of prior year expenditures	2,793	-	-	-	-	2,793	24,797
Insurance recoveries	6,246	-	-	-	-	6,246	-
TOTAL OTHER FINANCING SOURCES	<u>4,217,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,217,316</u>	<u>4,125,843</u>
NET CHANGE IN FUND BALANCES	3,521,018	(131,203)	(145,648)	(25,528)	(1,367,270)	1,851,369	(7,952,707)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(4,902,834)</u>	<u>237,007</u>	<u>365,508</u>	<u>7,794</u>	<u>45,582,829</u>	<u>41,290,304</u>	<u>49,243,011</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (1,381,816)</u>	<u>\$ 105,804</u>	<u>\$ 219,860</u>	<u>\$ (17,734)</u>	<u>\$ 44,215,559</u>	<u>\$ 43,141,673</u>	<u>\$ 41,290,304</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, 2013**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,851,369
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 depreciation (\$5,180,243) exceeded capital outlays (\$1,849,516).	(3,330,727)
Because some revenues 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 and are recorded as deferred inflows of resources. Unavailable revenues decreased by this amount this year.	(1,005,845)
Repayment of principal on long-term debt is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount of debt payments in the current period.	7,515,000
Governmental funds report bond discounts as other financing uses and deferred bond refunding option proceeds and bond premiums as other financing sources. However, these amounts are reported on the statement of net position as deferred charges and credits and are amortized over over the life of the debt.	335,765
Governmental funds report deferred bond refunding option proceeds as other financing sources. However, these amounts are reported on the statement of net position as deferred outflows of resources and amortized over the life of the refunding debt.	(152,235)
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).	(64,022)
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.	497,621
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 5,646,926</u>

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, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 86,328,370	\$ 86,328,370	\$ 88,302,138	\$ 1,973,768
State sources	41,626,631	41,626,631	42,486,328	859,697
Federal sources	6,150,576	6,150,576	6,089,210	(61,366)
TOTAL REVENUES	<u>134,105,577</u>	<u>134,105,577</u>	<u>136,877,676</u>	<u>2,772,099</u>
EXPENDITURES				
Instruction:				
Regular programs	52,837,777	52,837,777	53,592,674	(754,897)
Special programs	25,421,032	25,421,032	24,322,073	1,098,959
Vocational programs	3,701,180	3,701,180	3,576,300	124,880
Other instructional programs	1,702,980	1,702,980	1,210,911	492,069
Total Instruction	<u>83,662,969</u>	<u>83,662,969</u>	<u>82,701,958</u>	<u>961,011</u>
Support services:				
Pupil personnel services	4,495,767	4,495,767	4,937,012	(441,245)
Instructional staff services	3,477,149	3,477,149	3,394,475	82,674
Administrative services	6,847,557	6,847,557	7,437,959	(590,402)
Pupil health	1,024,535	1,024,535	995,582	28,953
Business services	1,313,032	1,313,032	1,021,578	291,454
Operation and maintenance of plant services	9,933,488	9,933,488	9,611,778	321,710
Student transportation services	7,757,980	7,757,980	8,155,894	(397,914)
Central support services	1,406,580	1,406,580	1,275,381	131,199
Other support services	51,461	51,461	50,788	673
Total Support Services	<u>36,307,549</u>	<u>36,307,549</u>	<u>36,880,447</u>	<u>(572,898)</u>
Operation of noninstructional services:				
Student Activities	1,143,064	1,143,064	1,306,920	(163,856)
Community services	-	-	33,793	(33,793)
Total Operation of Noninstructional Services	<u>1,143,064</u>	<u>1,143,064</u>	<u>1,340,713</u>	<u>(197,649)</u>
Debt service	16,691,599	16,691,599	16,650,856	40,743
TOTAL EXPENDITURES	<u>137,805,181</u>	<u>137,805,181</u>	<u>137,573,974</u>	<u>231,207</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(3,699,604)</u>	<u>(3,699,604)</u>	<u>(696,298)</u>	<u>3,003,306</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from collateralized borrowing	4,350,000	4,350,000	4,199,365	(150,635)
Proceeds from sale of capital assets	-	-	8,912	8,912
Refund of prior year expenditures	-	-	2,793	2,793
Proceeds from insurance recoveries	-	-	6,246	6,246
Budgetary reserve	(650,000)	(650,000)	-	650,000
TOTAL OTHER FINANCING SOURCES	<u>3,700,000</u>	<u>3,700,000</u>	<u>4,217,316</u>	<u>517,316</u>
NET CHANGE IN FUND BALANCE	396	396	3,521,018	3,520,622
FUND DEFICIT, BEGINNING OF YEAR	<u>(4,988,408)</u>	<u>(4,988,408)</u>	<u>(4,902,834)</u>	<u>85,574</u>
FUND DEFICIT, END OF YEAR	<u>\$ (4,988,012)</u>	<u>\$ (4,988,012)</u>	<u>\$ (1,381,816)</u>	<u>\$ 3,606,196</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2013 AND 2012**

	Major Fund	
	Food Service Fund	
	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 435,414	\$ 23,084
Other receivables	7,846	7,063
Due from other funds	-	185,565
Due from other governments	48,882	51,148
Inventories	19,253	27,337
Total Current Assets	<u>511,395</u>	<u>294,197</u>
CAPITAL ASSETS:		
Furniture and equipment	1,555,042	1,555,042
Accumulated depreciation	(1,388,921)	(1,352,800)
Capital Assets, Net	<u>166,121</u>	<u>202,242</u>
TOTAL ASSETS	<u>\$ 677,516</u>	<u>\$ 496,439</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Due to other funds	\$ 65,969	\$ -
Accounts payable	80,152	-
Total Current Liabilities	<u>146,121</u>	<u>-</u>
NONCURRENT LIABILITIES:		
Accumulated compensated absences	100,840	108,620
Other post-employment benefits	77,734	61,276
Total Noncurrent Liabilities	<u>178,574</u>	<u>169,896</u>
NET POSITION		
Net investment in capital assets	166,121	202,242
Unrestricted	186,700	124,301
Total Net Position	<u>352,821</u>	<u>326,543</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 677,516</u>	<u>\$ 496,439</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	Major Fund	
	Food Service Fund	
	2013	2012
OPERATING REVENUES		
Food service revenues	\$ 851,344	\$ 977,603
Total Operating Revenues	<u>851,344</u>	<u>977,603</u>
OPERATING EXPENSES		
Salaries	897,228	914,803
Employee benefits	377,053	293,476
Purchased professional and technical services	9,684	8,945
Purchased property services	144,452	154,040
Other purchased services	14,706	14,415
Supplies	1,539,538	1,441,620
Depreciation	36,121	35,828
Other operating expenses	822	1,729
Total Operating Expenses	<u>3,019,604</u>	<u>2,864,856</u>
OPERATING LOSS	<u>(2,168,260)</u>	<u>(1,887,253)</u>
NONOPERATING REVENUES		
Earnings on investments	9	106
Local sources	2,395	-
State sources	114,427	125,880
Federal sources	2,077,707	1,818,425
Total Nonoperating Revenues	<u>2,194,538</u>	<u>1,944,411</u>
CHANGE IN NET POSITION	26,278	57,158
NET POSITION, BEGINNING OF YEAR	<u>326,543</u>	<u>269,385</u>
NET POSITION, END OF YEAR	<u>\$ 352,821</u>	<u>\$ 326,543</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, 2013 AND 2012**

	Major Fund	
	Food Service Fund	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services and other operating revenues	\$ 850,561	\$ 975,089
Payments to suppliers	(1,030,421)	(1,521,258)
Payments for other operating expenses	(159,980)	170,184
Payments to employees	(1,275,287)	1,193,453
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,615,127)</u>	<u>(1,909,806)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Local sources	2,395	-
State sources	115,370	126,645
Federal sources	1,909,683	1,625,453
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,027,448</u>	<u>1,752,098</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	-	(10,198)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(10,198)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from earnings on investments	9	106
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>9</u>	<u>106</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	412,330	(167,800)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>23,084</u>	<u>190,884</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 435,414</u>	<u>\$ 23,084</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$(2,168,260)	\$(1,887,253)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	36,121	35,828
Donated commodities	169,347	199,844
(Increase) Decrease in:		
Other receivables	(783)	(2,514)
Due from other funds	185,565	(185,565)
Inventories	8,084	(15,144)
Increase (Decrease) in:		
Accounts payable	80,152	(1,089)
Other post-employment benefits	16,458	19,273
Due to other funds	65,969	(77,684)
Accumulated compensated absences	(7,780)	4,498
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(1,615,127)</u>	<u>\$(1,909,806)</u>
SUPPLEMENTAL DISCLOSURE:		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	<u>\$ 169,347</u>	<u>\$ 199,844</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2013**

	Private- Purpose Trust	Agency
ASSETS		
Cash	\$ 177,398	\$ 201,698
TOTAL ASSETS	\$ 177,398	\$ 201,698
 LIABILITIES AND NET POSITION		
LIABILITIES:		
Due to other funds	\$ 255	\$ 15,000
Accounts payable	220	186,698
TOTAL LIABILITIES	475	\$ 201,698
 NET POSITION:		
Reserved for trust	176,923	
TOTAL LIABILITIES AND NET POSITION	\$ 177,398	

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	Private-Purpose Trust	
	2013	2012
ADDITIONS		
Local contributions	\$ 72,275	\$ 50,275
Interest income	71	153
TOTAL ADDITIONS	72,346	50,428
DEDUCTIONS		
Fees paid and scholarships awarded	78,859	53,775
TOTAL DEDUCTIONS	78,859	53,775
CHANGE IN NET POSITION	(6,513)	(3,347)
NET POSITION, BEGINNING OF YEAR	183,436	186,783
NET POSITION, END OF YEAR	\$ 176,923	\$ 183,436

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 and GASB Statement No. 61, 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, 2013, the District's share of operating costs was \$2,388,490. 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 position 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 position in one of three components. Net investment in capital assets 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 position is reported as restricted when constraints placed on net position 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 position arising from special revenue and capital projects funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" 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.

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 unearned 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.

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 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 position 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 position.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 2012-2013 was 30.109 mills (\$30.109 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.

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 netted against outstanding principal balances amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amortized 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.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position and balance sheet - governmental funds will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The District currently has three types of items that qualify for reporting in this category. Delinquent taxes not collected within 60 days of year end and collateralized borrowings related to the sale of delinquent taxes, and therefore, are not available under modified accrual reporting, are reflected as deferred inflows of resources on the balance sheet - governmental funds and deferred amounts on bond refundings are reflected as deferred outflows of resources on the statement of net position.

Fund Equity

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.

Early Implementation of GASB Statements

During the current year, the School elected to early implement the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). See the restatement footnote disclosure for the restatement effects to these financial statements.

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.

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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

Deficit Fund Balances

The deficit in the General Fund as of June 30, 2013 was \$1,381,816. It is anticipated that this deficit will be eliminated through revenues exceeding expenditures in future years.

The deficit in the 2009 GOB Fund as of June 30, 2013 was \$17,734. It is anticipated that this deficit will be eliminated through transfers from other funds in future years.

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, 2013, the carrying amount of the District's deposits was \$4,693,135 and the bank balance was \$9,534,677. Of the bank balance, \$263,724 was covered by federal depository insurance and \$6,839,335 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. The remaining cash deposits in the amount of \$2,431,618 are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and the Pennsylvania Local Government Investment Trust ("PLGIT"). 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. As of June 30, 2013, PSDLAF and PLGIT were rated as AAAm by a nationally recognized statistical rating agency.

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"), the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and certificates of deposit secured by the assets of PSDLAF. The carrying value of the District's investments at June 30, 2013 was \$53,199,344, which includes \$24,000,000 in certificates of deposit in the name of the District.

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, 2013, the District's investments in certificates of deposit had maturity dates of less than one year.

Credit Risk

The District limits its investment choices to those with the highest credit ratings by a nationally recognized statistical rating organization. As of June 30, 2013, PSDLAF and PLGIT were rated as AAAM by a nationally recognized statistical rating organization.

NOTE 4 UNEARNED REVENUES

Governmental funds report unearned 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, unearned revenue reported in the General Fund resulted from summer school tuition pre-payments and grants and entitlements received but not earned.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,812,500	\$ -	\$ -	\$ 2,812,500
Construction-in-progress	6,603,266	1,647,383	244,695	8,005,954
Total Capital Assets Not Being Depreciated	<u>9,415,766</u>	<u>1,647,383</u>	<u>244,695</u>	<u>10,818,454</u>
Capital assets being depreciated:				
Land improvements	7,076,167	-	-	7,076,167
Buildings and improvements	203,579,394	369,923	-	203,949,317
Furniture and equipment	12,328,800	76,905	-	12,405,705
Total Capital Assets Being Depreciated	<u>222,984,361</u>	<u>446,828</u>	<u>-</u>	<u>223,431,189</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

(cont'd)	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	4,527,428	1,853,721	-	6,381,149
Buildings and improvements	41,580,091	2,589,777	-	44,169,868
Furniture and equipment	10,449,899	736,745	-	11,186,644
Total Accumulated Depreciation	<u>56,557,418</u>	<u>5,180,243</u>	<u>-</u>	<u>61,737,661</u>
Total Capital Assets Being Depreciated, Net	<u>166,426,943</u>	<u>(4,733,415)</u>	<u>-</u>	<u>161,693,528</u>
Governmental Activities Capital Assets, Net	<u>\$ 175,842,709</u>	<u>\$ (3,086,032)</u>	<u>\$ 244,695</u>	<u>\$ 172,511,982</u>
Business-type Activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,555,042	\$ -	\$ -	\$ 1,555,042
Less accumulated depreciation	<u>(1,352,800)</u>	<u>(36,121)</u>	<u>-</u>	<u>1,388,921</u>
Business-type Capital Assets, Net	<u>\$ 202,242</u>	<u>\$ (36,121)</u>	<u>\$ -</u>	<u>\$ 166,121</u>

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

Governmental activities:	
Instruction	\$ 3,799,120
Instructional student support	428,462
Administrative and financial support services	449,531
Operation and maintenance of plant services	441,541
Student activities	<u>61,589</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 5,180,243</u>
Depreciation Expense - Business-type Activities	<u>\$ 36,121</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013 is as follows:

Receivable To	Amount	Payable From	Amount
General Fund	\$ 65,969	Food Service	\$ 65,969
General Fund	15,255	Agency	15,000
Capital Projects - 2010 GOB	400,000	Student Activities	255
	<u>\$ 481,224</u>	Capital Projects - 2007 GOB	300,000
		Capital Projects - 2009 GOB	100,000
			<u>\$ 481,224</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, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Governmental Activities:				
Bonds payable	\$ 203,924,390	\$ -	\$ 5,880,765	\$ 198,043,625
Note payable	12,910,000	-	1,970,000	10,940,000
Tax revenue anticipation note payable	-	11,000,000	-	11,000,000
Accumulated compensated absences	1,975,248	-	145,727	1,829,521
Other post-employment benefits	4,723,037	61,001	-	4,784,038
Collateral borrowing	5,867,836	5,109,493	5,867,836	5,109,493
TOTALS	<u>\$ 229,400,511</u>	<u>\$ 16,170,494</u>	<u>\$ 13,864,328</u>	<u>\$ 231,706,677</u>
Business-type Activities:				
Accumulated compensated absences	\$ 108,620	\$ -	\$ 7,780	\$ 100,840
Other post-employment benefits	61,276	16,458	-	77,734
TOTALS	<u>\$ 169,896</u>	<u>\$ 16,458</u>	<u>\$ 7,780</u>	<u>\$ 178,574</u>

Bonds payable, net consists of the following:

Bonds payable, at face	\$ 195,215,000
Bond premiums	3,115,798
Bond discounts	(287,173)
Bonds payable, net	<u>\$ 198,043,625</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 2004, maturing through August 15, 2020 bearing interest ranging from 2.00% to 5.25%, interest payable semi-annually on February 15 and August 15. \$ 16,585,000

Series of 2005, maturing through August 15, 2020 bearing interest ranging from 3.10% to 4.125%, interest payable semi-annually on February 15 and August 15. 9,050,000

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. 9,305,000

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.	63,530,000
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.	21,345,000
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.	21,985,000
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.	<u>53,415,000</u>
Total General Obligation Bonds	195,215,000
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.	<u>10,940,000</u>
Tax Revenue Anticipation Note Payable:	
Tax revenue anticipation note, due June 30, 2013 with interest at 0.85%. The note was paid off in full on July 1, 2013 (see Note 17).	<u>11,000,000</u>
TOTAL	<u>\$ 217,155,000</u>

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>
2014	\$ 18,725,000	\$ 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	8,565,000	8,354,130	16,919,130
2018	8,930,000	7,987,068	16,917,068
2019-2023	51,430,000	33,163,334	84,593,334
2024-2028	65,590,000	18,998,551	84,588,551
2029-2032	47,655,000	3,470,797	51,125,797
	<u>\$217,155,000</u>	<u>\$98,742,747</u>	<u>\$304,897,747</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OPERATING LEASES

The District currently is obligated under an operating lease agreement for office equipment. The following is a schedule by years of future minimum lease payments:

Year Ending June 30,

2014	\$ 229,152
2015	<u>38,192</u>
Total	<u>\$ 267,344</u>

Rental expense, including short-term rentals, for the year ended June 30, 2013 was \$389,001.

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, 2013, the rate of employer contribution was 8.65 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2011, 2012 and 2013 were \$3,153,886, \$4,294,854 and \$5,853,476, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District approximately 50 percent of its contribution each year.

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, 2013.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SELF-INSURANCE (cont'd)

Change in Aggregate Claims Liabilities

Year Ended June 30, 2013

Claims liability, beginning of year	\$ 2,238,273
Current year claims and changes in estimates	13,992,887
Claim payments by the District	<u>(14,417,590)</u>
Claims liability, end of year	<u>\$ 1,813,570</u>

The liability is included in accrual salaries and benefits in the financial statements. Self-insurance benefits also are offered to retired District employees according to the provisions set forth in each bargaining unit's ERIP agreement. Currently, 158 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$4,267,771 for the year ended June 30, 2013.

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, 2013, the District was in the process of several capital projects. Construction commitments completed to date are as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed as of 06/30/2013</u>	<u>Commitments</u>
North Brandywine Middle School - renovations	\$ 1,430,000	\$ 1,262,879	\$ 167,121
South Brandywine Middle School - renovations	3,108,000	2,216,324	891,676
District-wide Security improvements	<u>1,211,624</u>	<u>41,416</u>	<u>1,170,208</u>
Totals	<u>\$ 5,749,624</u>	<u>\$ 3,520,619</u>	<u>\$ 2,229,005</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 \$4,485,335 for projects that were not under a formal construction commitment as of June 30, 2013.

Tax Increment Financing Plan and Cooperation Agreement

On July 18, 2005, the Board of School Directors of the District adopted a Resolution approving a Tax Increment Financing ("TIF") Plan for the Hotel-Office Complex Project to construct a hotel and four office buildings at the intersection of Route 82 and the Route 30 Bypass in Coatesville, Pennsylvania. The TIF District is comprised of three tax parcels. A private developer, Oliver Tyrone Pulver Corporation, will construct a hotel and a 90,000 square foot office building. The Redevelopment Authority of the City of Coatesville (the "Authority") designed the TIF plan to finance the Project. The Tax Increment Financing Act (P.L. 465 July 11, 1990), as amended, grants this power to development authorities.

The TIF Plan calls for the developer to fund the project costs through a \$4,000,000 HUD loan, \$12,500,000 from governmental grants, \$3,800,000 from the proceeds of the TIF debt, and \$12,689,000 from the developer's equity.

The District's election to participate in the Plan shall not, in any way, pledge or obligate the credit or taxing power of the District, nor shall the District be liable for the payment of principal of, or interest on, any obligations issued by the Authority.

In addition, the Board of School Directors of the District authorized the execution of a Cooperation Agreement among the Authority, the District, the County and the City of Coatesville which sets forth and confirms the basic terms and conditions of the Tax Increment Financing Plan.

The Tax Increment District was created as of January 31, 2006. The Tax Increment District shall continue in existence until January 31, 2026. Commencing with the collection of the Tax Increment in calendar year 2006, the District will pay to the Issuer an amount equal to 100 percent of the Tax Increment received by the District during the term of the Tax Increment District.

The tax assessor for the County has determined the full aggregate market value of the taxable property in the Tax Increment District to be \$38,427. This shall be considered the base assessed value of the taxable property in the Tax Increment District, and the real estate tax calculated at the current millage will be the amount earned by the District. The difference between the base assessed value of the TIF District parcel and the reassessed value is the Tax Assessment Increment. In accordance with the cooperation agreement, 100 percent of the Tax Increment has to be paid to the Authority when the owners of the TIF parcels pay the annual school real estate tax bill.

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 of insurance coverages in the 2012-2013 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN

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.

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 2013, the District contributed \$25,657 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 2,778,933
Interest on net OPEB obligation	215,294
Adjustment to annual required contribution	<u>(604,637)</u>
Annual OPEB cost (expense)	2,389,590
Contributions made	<u>(2,312,129)</u>
Increase in net OPEB obligation	77,459
Net OPEB obligation - beginning of year	<u>4,784,313</u>
Net OPEB obligation - end of year	<u>\$ 4,861,772</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2011	\$ -	\$18,357,465	\$18,357,465	0.00%	\$44,917,748	40.87%
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.

In the June 30, 2011 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 2011, reduced by decrements to an ultimate rate of 5.5 percent in 2016. The UAAL is being amortized based on the level dollar, 15-year blended period. The remaining amortization period at June 30, 2011 was nine years.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following General Fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2013:

Instruction - regular programs	\$ 754,897
Support services - pupil personnel services	\$ 441,245
Support services - administrative services	\$ 590,402
Support services - student transportation services	\$ 397,914
Student activities	\$ 163,856
Community services	\$ 33,793

The excess of expenditures over appropriations were offset by savings in other areas.

NOTE 15 FUND BALANCES

As of June 30, 2013, 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	\$ 1,467,424	\$ -	\$ -	\$ -	\$ -	\$ 1,467,424
Restricted:						
Capital projects	-	105,804	219,860	-	44,215,559	44,541,223
Unassigned (Deficit)	(2,849,240)	-	-	(17,734)	-	(2,866,974)
Total Fund Balances	<u>\$ (1,381,816)</u>	<u>\$ 105,804</u>	<u>\$ 219,860</u>	<u>\$ (17,734)</u>	<u>\$ 44,215,559</u>	<u>\$ 43,141,673</u>

NOTE 16 RESTATEMENT OF NET POSITION

The District has decreased its July 1, 2011 governmental activities net position by \$2,658,330 due to the effects of implementing GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," which requires bond issuance costs to be expensed when incurred. In addition, amortization of bond issuance costs in the amount of \$267,444 has also been removed from the amounts reported in governmental activities for the year ended June 30, 2012. The total effect as a result of implementing GASB Statement No. 65 was a decrease to the net position in the amount of \$2,390,886 as of June 30, 2012.

NOTE 17 SUBSEQUENT EVENTS

On July 1, 2013, the District issued a Tax and Revenue Anticipation Note of \$12,512,000 for the purpose of repaying the District's outstanding Tax and Revenue Anticipation Note and to pay operating costs of the District.

The District has evaluated all subsequent events through February 26, 2014, the date the financial statements were available to be issued.

SINGLE AUDIT SUPPLEMENT

INDEPENDENT AUDITOR'S
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

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February 26, 2014

Board of School Directors and Audit Committee
Coatesville Area School District
Coatesville, Pennsylvania

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise Coatesville Area School District's basic financial statements and have issued our report thereon dated February 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Coatesville Area School District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Coatesville Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Coatesville Area School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 following deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses: #11-1, #12-1, #13-1, #13-2, #13-3, #13-4, #13-5, #13-6, #13-7, #13-8 and #13-9.

Board of School Directors and Audit Committee
Coatesville Area School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Coatesville Area School District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

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February 26, 2014

Board of School Directors and Audit Committee
Coatesville Area School District
Coatesville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Coatesville Area School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have direct and material effect on each of Coatesville Area School District's major federal programs for the year ended June 30, 2013. Coatesville Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Coatesville Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Non-Profit 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Coatesville Area School District's compliance.

Board of School Directors and Audit Committee
Coatesville Area School District

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Coatesville Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Coatesville Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Coatesville Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 over compliance 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. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse or disclaimer*]:

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse or disclaimer*]:

Unmodified

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 Numbers

Name of Federal Program or Cluster

10.553, 10.555
84.010
84.371C

Child Nutrition Cluster
Title I
Striving Readers Comprehensive Literacy Grant

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

\$ 300,000

Auditee qualified as low-risk auditee?

 Yes X No

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

11-1 GENERAL FUND BUDGET

During the prior 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 2011-2012 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 recommended 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.

Status

During the current year, we noted that the District under-expended the General Fund budget by approximately \$231,000. This included significant decreases in expenditures during the year in response to the growing general fund deficit, and a review of account activity designed to better budget in future years. Until the results of these new steps can be tested, this recommendation remains applicable for the current year.

12-1 GENERAL FUND DEFICIT

During recent years, the District's general fund has been suffering consistent net losses, which has created a significant deficit balance in the general fund. During the prior year, the General Fund had a net decrease in fund balance of \$4.2 million, which had grown the fund balance deficit to \$4.9 million as of June 30, 2012. The General Fund had suffered losses of at least \$3.5 million in each of the last five years and the continuation of this trend is not sustainable for the District.

We recommended the District develop a plan to stop annual deficits in the General Fund and eliminate the current deficit.

Status

During the current year, we noted that the General Fund had a current year surplus but remains in a deficit position of \$1.4 million. Therefore, this finding remains applicable for the current year.

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

13-1 ESTABLISH A FUND BALANCE POLICY

Fund balance typically is the most discussed single item in a local government's financial statements. Governments seek to maintain adequate levels of fund balance to mitigate current and future risks and to ensure stable tax rates. Fund balance also is a crucial consideration in long-term financial planning. Additionally, credit rating agencies carefully monitor levels of fund balance and unassigned fund balance in a government's General Fund to evaluate a government's creditworthiness. Rating agencies favor higher levels of fund balance, although unions, taxpayers and citizens' groups can consider high levels excessive.

At the close of the year ended June 30, 2006, the District had a General Fund balance of approximately \$26.2 million. At this point, we recommended that the District establish a formal policy on its unassigned fund balance. An adequate fund balance policy would include specific plans for increasing or decreasing the level of unassigned fund balance should it fall outside the parameters established by the policy. It also would specify the appropriate period during which any such adjustment would occur.

There is no single "right" level of unassigned fund balance in the General Fund. All the same, it is possible to identify certain minimum levels that should be maintained in the absence of special circumstances. A variety of factors may affect the amount of unassigned fund balance a government maintains in its General Fund. For example, higher levels of unassigned fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile.

Likewise, the availability of resources in other funds may reduce the amount of unassigned fund balance needed in the General Fund, just as deficits in other funds may require that a higher level of unassigned fund balance be maintained in the General Fund. Similarly, governments may wish to maintain higher levels of unassigned fund balance committed for a specific purpose.

The policy should emphasize the assessment of the adequacy of unassigned fund balance in the context of long-term forecasting to avoid placing too much emphasis on the level of unassigned fund balance in the General Fund at any one time. In addition, the District will need to be in compliance with any applicable legal and regulatory requirements when developing a fund balance policy.

13-2 CAPITAL ASSET PROCEDURES

The District utilizes a third party to account for capital asset additions, deletions and to calculate and maintain depreciation records. An appraisal is performed each year by the third party, and detailed capital asset reports are provided to the District based on this appraisal. However, the cost of the capital assets is determined through valuation techniques rather than the actual historical cost paid by the District. Although we did not note any significant differences between the appraisal report and the actual costs incurred, we believe that significant differences could occur in future periods if the current capital asset procedures are continued.

We recommend that the District evaluate and implement procedures whereby the capital asset additions and deletions for each year are determined by management based on a review of accounting records. This information should then be provided to the third party to update and maintain depreciation records. Doing so will ensure that all capital assets are properly recorded at the historical cost incurred by the District.

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

13-3 USE OF BOND PROCEEDS

In accordance with the Official Statement of the District's Series of 2010 General Obligation Bond, the bond proceeds are restricted to "be used 1) for and toward the completion of new construction of the North and South Brandywine Middle Schools; 2) to capitalize interest on the Bonds to August 15, 2011; and 3) to pay certain costs and expenses related to the issuance of the Bonds." During our prior year testing, we noted approximately \$131,000 in additions to construction-in-progress for the North and South Brandywine Middle Schools but noted approximately \$2,087,000 in capital outlays paid from these funds.

We recommended that the District determine the amount of funds which have been spent from the bond proceeds for purposes not outlined in the Official Statement and develop a plan to reimburse the capital projects fund which holds the proceeds of this bond.

During our current year audit, we noted that the District reviewed the disbursements from the Series of 2010 General Obligation Bond and determined which disbursements will be reimbursed from other funds. However, these transfers were not completed as of June 30, 2013. We recommend the District make these repayments.

13-4 SICK BANK

The District maintains a sick bank for employees who voluntarily contribute annually from individual sick leave benefits. Individuals who participate in the sick bank are eligible to receive sick leave benefits over and above what they have individually accrued. We determined that even though the hours contributed and used are being tracked, there is no calculation of the dollar amount in the pool. Furthermore, the financial balance is not recorded on the books and records of the District. Therefore, when an employee utilizes the benefits of the pool, the related payroll expense is recorded against that individual's budgeted expense line item rather than as a charge to the accumulated pool. This method not only overstates current expenses by department, but does not track adequate funding of the sick bank pool and the management of the benefit from a funding/oversight perspective.

We recommend that the District develop financial procedures to effectively measure and record the value of the sick bank pool and the contributions/utilization of the resources accumulated.

13-5 VERIFICATION OF WIRE TRANSFERS

During our current year audit, we noted that the District suspended an internal control procedure surrounding wire transfers due to staffing vacancies. The procedure, in which the bank called a District official other than the person who initiated the transfer to verify its propriety, is an important control in ensuring that District's funds are handled properly. Because wire transfers are not subject to the same level of oversight as payments by check, this control is a key control in ensuring that wire transfers are appropriate and being performed properly.

We recommend that the District reimplement the wire transfer verification process.

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

13-6 APPROVAL OF JOURNAL ENTRIES

During our current year audit, we noted that, due to staff turnover and vacancies, journal entries for which there was no signed management approval were entered into the accounting system. We inspected 25 journal entries and their supporting documentation and did not note any inappropriate or improper journal entries. However, the lack of management oversight of journal entries could lead to improper journal entries (whether malicious or unintentional) being recorded and not identified in the normal course of business.

We recommend that the District review its procedures to ensure that all journal entries are approved by an individual other than the journal entry preparer prior to entry into the accounting system, and that this approval is documented and maintained with other supporting documentation which substantiates the journal entry.

13-7 APPROVAL OF BANK RECONCILIATIONS

During our current year audit, we noted that, following business office personnel changes in the middle of the year, bank reconciliations were not being reviewed in a timely manner. We noted that the bank reconciliations for April, May and June 2013 had been prepared, but had not been reviewed and approved by a second individual. Independent review of monthly bank reconciliations is a key tool to ensuring that any irregularities in bank account transactions are identified by the District's internal controls in a timely manner.

We recommend that the District immediately reinstate procedures by which bank reconciliations are reviewed and approved by an individual other than the bank reconciliation preparer. The reviewer should sign or initial the reconciliation to physically indicate that they have performed this review.

13-8 UPDATES TO ACCOUNTING SOFTWARE

During our current year audit, we noted that as one of their many cost-saving measures, the District has delayed certain upgrades to their accounting software package. Any delays in upgrades to the system create an increased risk that an outsider could take advantage of software vulnerability.

We recommend that the District review its accounting software upgrade procedures to ensure upgrades are performed on a regular basis.

13-9 STORAGE OF SERVER BACKUP DRIVES

During our current year audit, we noted that the District has a procedure in place by which backups of the network servers are maintained off site. However, we noted that the off-site locations where certain backups are stored are the personal residences of District employees. Best practices dictate that off-site storage should not be at a personal residence, both for the safety of the District and the employee storing the backups.

We recommend that all backup files are maintained at an off-site location independent of employees of the District.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
CURRENT YEAR FINDINGS AND RECOMMENDATIONS

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

12-2 VERIFICATION OF ELIGIBILITY FOR REDUCED PRICE MEALS (CFDA #10.553 and #10.555)

Condition: The District used the Commonwealth of Pennsylvania's COMPASS system to determine that three applications for reduced lunches were proper. However, the terms of the grant agreement state that COMPASS may only be used to determine if an applicant qualifies for free lunches.

Criteria: The Pennsylvania Department of Education allows Districts to use the state COMPASS system to determine if a student is eligible for free, but not reduced, lunches.

Effect: Three applications were not tested in accordance with the grant agreement.

Cause: Improper application of grant guidelines by District management.

Recommendation: We recommended that the District implement necessary procedures to ensure that all free and reduced lunch applications are tested in accordance with the grant agreement.

Management's Response: At the time, management used the COMPASS system to corroborate data provided by student's parents. Management's decision resulted from parent-reported income qualifying for reduced rather than free lunch. Coatesville Area School District no longer uses COMPASS as a verification method of student eligibility for reduced or free lunches. Currently, a verification notification letter requiring proof of income is sent to all households selected from a random sample.

Status: During our current year audit, we again tested the verification of eligibility testing performed by the District. We noted no exceptions during our current year testing. Therefore, this finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 07/01/2012	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2013
U.S. Department of Education										
Passed through PA Department of Education										
Title I	I	84.010	013-12-0089	07/01/11 - 09/30/13	\$ 1,313,994	\$ 97,094	\$ 97,094	\$ -	\$ -	\$ -
Title I	I	84.010	013-13-0089	07/01/12 - 09/30/14	1,669,343	1,720,773	-	1,622,359	1,622,359	(98,414)
Title I - Delinquent	I	84.010	107-11-0089	07/01/10 - 09/30/12	32,395	7,089	7,089	-	-	-
Title I - Delinquent	I	84.010	107-12-0089	07/01/11 - 09/30/13	47,078	7,945	2,139	5,806	5,806	-
Title I - Delinquent	I	84.010	107-13-0089	07/01/12 - 09/30/14	43,465	40,040	-	43,465	43,465	3,425
Title I - Program Improvement	I	84.010	042-11-0090	04/26/11 - 09/30/12	132,360	-	(11,867)	11,867	11,867	-
Title I - Program Improvement	I	84.010	042-12-0090	04/10/13 - 09/30/14	161,209	96,872	-	4,058	4,058	(92,814)
Total CFDA #84.010					1,969,813	1,969,813	94,455	1,687,555	1,687,555	(187,803)
Title II - Improving Teacher Quality	I	84.367	020-12-0089	07/01/11 - 09/30/13	472,646	195,974	(230,949)	426,923	426,923	-
Title II - Improving Teacher Quality	I	84.367	020-13-0089	07/01/12 - 09/30/14	472,053	189,476	-	368,308	368,308	178,832
Total CFDA #84.367					385,450	385,450	(230,949)	795,231	795,231	178,832
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-11-0089	07/01/10 - 09/30/12	63,789	42,526	42,526	-	-	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-12-0089	07/01/11 - 09/30/13	72,810	49,176	(23,634)	72,810	72,810	15,788
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-13-0089	07/01/12 - 09/30/14	59,206	43,418	-	59,206	59,206	15,788
Total CFDA #84.365					195,805	135,120	18,892	132,016	132,016	31,574
21st Century Community Learning Centers	I	84.287	410-05-3306	07/01/11 - 06/30/12	420,000	212,017	212,017	-	-	-
21st Century Community Learning Centers	I	84.287	410-05-2385	07/01/12 - 06/30/13	400,000	201,228	-	400,000	400,000	198,772
21st Century Community Learning Centers	I	84.287	410-06-2385	07/01/12 - 06/30/13	252,793	-	-	252,793	252,793	252,793
Total CFDA #84.287					1,072,793	413,245	212,017	652,793	652,793	451,565
Striving Readers Comprehensive Literacy Grant	I	84.371C	143-12-0089	07/01/12 - 09/30/13	1,000,000	833,333	-	1,000,000	1,000,000	166,667
ARRA - Education Jobs Fund	I	84.410	140-12-9376	07/01/11 - 09/30/12	22,999	22,999	-	22,999	22,999	-
Total Passed Through the Pennsylvania Department of Education					3,759,960	3,759,960	94,415	4,290,594	4,290,594	625,049
Passed Through Chester County Intermediate Unit										
I.D.E.A.	I	84.027	062-12-0024	07/01/11 - 09/30/12	984,090	163,995	163,995	-	-	-
I.D.E.A.	I	84.027	062-13-0024	07/01/12 - 09/30/13	1,086,709	-	-	1,086,709	1,086,709	1,086,709
Total CFDA #84.027					2,070,799	163,995	163,995	1,086,709	1,086,709	1,086,709
I.D.E.A. 619	I	84.173	062-13-0024	07/01/12 - 09/30/13	4,545	-	-	4,545	4,545	4,545
Total Passed Through Chester County Intermediate Unit					2,075,344	163,995	163,995	1,091,254	1,091,254	1,091,254
TOTAL U.S. DEPARTMENT OF EDUCATION					5,835,304	3,923,955	258,410	5,381,848	5,381,848	1,716,303
Department of Public Welfare										
Passed through Leader Services										
Medical Assistance Reimbursement	I	93.778	N/A	07/01/11 - 06/30/12	140,598	26,661	26,661	-	-	-
Medical Assistance Reimbursement	I	93.778	N/A	07/01/12 - 06/30/13	86,572	63,100	-	86,572	86,572	23,472
Total CFDA #93.778					227,170	89,761	26,661	86,572	86,572	23,472
TOTAL DEPARTMENT OF PUBLIC WELFARE					227,170	89,761	26,661	86,572	86,572	23,472

Continued on next page.

**COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING / ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 07/01/2012	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2013
U.S. Department of Agriculture	I	10.555	N/A	07/01/12 - 06/30/13	N/A	169,347	-	169,347	169,347	-
Passed through PA Department of Agriculture Value of USDA Donated Commodities										
Passed through PA Department of Education										
National School Lunch Program	I	10.555	N/A	07/01/10 - 06/30/11	N/A	37,895	37,895	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/11 - 06/30/12	N/A	1,489,435	-	1,534,696	1,534,696	45,261
After School Snacks	I	10.555	N/A	07/01/11 - 06/30/12	N/A	172	-	172	172	-
Total CFDA #10.555						1,696,849	37,895	1,704,215	1,704,215	45,261
Breakfast Program	I	10.553	N/A	07/01/11 - 06/30/12	N/A	9,670	9,670	-	-	-
Breakfast Program	I	10.553	N/A	07/01/12 - 06/30/13	N/A	372,511	-	373,492	373,492	981
Total CFDA #10.553						382,181	9,670	373,492	373,492	981
TOTAL U.S. DEPARTMENT OF AGRICULTURE						2,079,030	47,565	2,077,707	2,077,707	46,242
TOTAL FEDERAL AWARDS						\$ 6,092,746	\$ 332,636	\$ 7,546,127	\$ 7,546,127	\$ 1,786,017
SPECIAL EDUCATION CLUSTER (IDEA)						\$ 163,995	\$ 163,995	\$ 1,091,254	\$ 1,091,254	\$ 1,091,254
CHILD NUTRITION CLUSTER						\$ 2,079,030	\$ 47,565	\$ 2,077,707	\$ 2,077,707	\$ 46,242

Source Codes
I - Indirect Funding

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

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 under CFDA #10.555 value of USDA Donated Commodities represent surplus food consumed by the District during the 2012-2013 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, 2013 was \$620,790.