

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2008

COATESVILLE AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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January 13, 2009

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Coatesville Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2007 financial statements and, in our report dated January 9, 2008, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2009, on our consideration of Coatesville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Board of School Directors
Coatesville Area School District

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

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



BARBACANE, THORNTON & COMPANY

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED

JUNE 30, 2008

The discussion and analysis of the financial performance of Coatesville Area School District (the "District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers also should review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

The District's unrestricted net assets decreased by \$7.2 million, due primarily to the planned reduction of the District's General Fund balance which resulted in less cash on hand at year end. Program revenues accounted for \$27.9 million, or 21 percent of total revenues (\$132.9 million), and general revenues accounted for \$105 million, or 79 percent.

The general fund reported a fund balance of \$16.1 million, a decrease from the previous year, which reported a fund balance of \$20 million. The decrease in the General Fund balance was the result of its planned reduction, offset by a savings in healthcare expenditures and proceeds from collateralized borrowing. Details of the factors that caused the \$3.9 million decrease in the General Fund balance follows:

- A budget plan that held property tax mills at 25.70 for the District's taxpayers, allocating \$4.8 million of the District's fund balance to pay for increased expenditures.
- Healthcare expenditure savings of \$4.1 million as a result of the District's switch to a new third party administrator for employees' healthcare claims.
- Special education expenditures \$2.6 million more than anticipated.
- Real estate and transfer tax collections \$2.9 million less than anticipated as a result of the slowing economy.
- Earned income taxes \$900 thousand more than anticipated as a result of a one-time settlement. Without this settlement, earned income taxes also would have been less than anticipated as a result of the slowing economy.
- Decreased investment revenue down \$700 thousand from the previous year as a result of the slowing economy as well as fewer funds available for investment.
- Proceeds from collateralized borrowing \$1.3 million more than anticipated.
- Federal grant revenue \$500 thousand more than anticipated.
- Refunds from prior year expenditures \$400 thousand more than anticipated.
- Miscellaneous and Other Revenues \$100 thousand less than anticipated.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2008

As a result of its continued favorable ending fund balance of \$20 million from the previous 2006-2007 fiscal year, for the 2007-2008 fiscal year the District held its tax millage rate at 25.7. A mill represents the real estate tax generated from each \$1,000 in assessed real estate value. Even maintaining this millage rate, the District was able to achieve or maintain:

- The continued major renovation projects at its Coatesville Area High School campus.
- Continued review of options for North and South Brandywine Middle Schools;
- The start of construction for its new Rainbow Elementary School;
- The continued planning of another new elementary school;
- The addition of six world language teachers to serve students in the District's three middle schools;
- Tutoring programs;
- New comprehensive curricula programs;
- Increased staff development;
- Greater use of targeted differentiated instruction, deeper data analysis of academic performance assessments and increased monitoring of students' academic progress.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and Statement of Activities

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

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

ENTITY-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3.3 million at the close of the most recent fiscal year. In the prior year, assets exceeded liabilities by \$10.5 million.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

The largest portion of the District's total net assets is its negative investment in capital assets (\$12.4 million), net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A comparative analysis of fiscal year 2008 to 2007 follows:

NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$ 94,640,803	\$ 43,487,423	\$ 553,111	\$ 768,950	\$ 95,193,914	\$ 44,256,373
Capital assets	103,513,917	91,809,538	304,211	236,865	103,818,128	92,046,403
TOTAL ASSETS	<u>\$ 198,154,720</u>	<u>\$ 135,296,961</u>	<u>\$ 857,322</u>	<u>\$ 1,005,815</u>	<u>\$ 199,012,042</u>	<u>\$ 136,302,776</u>
Liabilities and Net Assets:						
Current liabilities	\$ 20,400,965	\$ 15,945,055	\$ 13,082	\$ -	\$ 20,414,047	\$ 15,945,055
Long-term liabilities	169,786,967	109,794,454	81,761	73,130	169,868,728	109,867,584
Total Liabilities	<u>190,187,932</u>	<u>125,739,509</u>	<u>94,843</u>	<u>73,130</u>	<u>190,282,775</u>	<u>125,812,639</u>
Net Assets:						
Invested in capital						
Assets, net of debt	(7,349,872)	(14,392,348)	304,211	236,865	(7,045,661)	(14,155,483)
Restricted	1,697,590	3,250,684	-	-	1,697,590	3,250,684
Unrestricted	13,619,070	20,699,116	458,268	695,820	14,077,338	21,394,936
Total Net Assets	<u>7,966,788</u>	<u>9,557,452</u>	<u>762,479</u>	<u>932,685</u>	<u>8,729,267</u>	<u>10,490,137</u>
TOTAL LIABILITIES						
AND NET ASSETS	<u>\$ 198,154,720</u>	<u>\$ 135,296,961</u>	<u>\$ 857,322</u>	<u>\$ 1,005,815</u>	<u>\$ 199,012,042</u>	<u>\$ 136,302,776</u>

While the District experienced a \$1.6 million decrease in its restricted net assets as a result of decreased capital reserve funds, it also experienced a \$7.3 million decrease in its unrestricted net assets as a result of the planned reduction of the District's General Fund balance which resulted in less cash on hand at year end, as well as an increase in accumulated depreciation for the District's depreciable assets. The District's investment in capital assets, net of related debt, increased by \$7.1 million as a result of the District paying off the debt used to acquire the capital assets faster than the capital assets are being depreciated, as well as those assets that were acquired without the issuance of debt.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2008

Governmental Activities

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

STATEMENT OF ACTIVITIES

	<u>Total Cost of Services 2008</u>	<u>Net Cost of Services 2008</u>	<u>Total Cost of Services 2007</u>	<u>Net Cost of Services 2007</u>
PROGRAM EXPENSES				
Governmental Activities:				
Instruction	\$ 83,394,882	\$ 65,057,876	\$ 80,176,767	\$ 64,048,012
Instructional staff support	10,274,531	9,836,431	9,949,654	9,512,922
Administration	10,333,742	10,022,731	9,618,699	9,343,564
Maintenance	10,422,082	9,947,502	11,028,679	10,708,892
Pupil transportation	8,546,026	4,071,155	7,973,764	3,848,163
Student activities	1,121,023	991,034	997,883	867,196
Community services	44,901	(32,528)	23,607	(46,081)
Interest and fiscal charges	<u>7,717,056</u>	<u>6,706,875</u>	<u>4,474,814</u>	<u>2,089,292</u>
TOTAL PROGRAM EXPENSES	<u><u>\$131,854,243</u></u>	<u><u>\$106,601,076</u></u>	<u><u>\$124,243,867</u></u>	<u><u>\$100,371,960</u></u>
Business-type Activities:				
Food service	<u>\$ 2,843,149</u>	<u>\$ 196,474</u>	<u>\$ 2,600,044</u>	<u>\$ 193,989</u>

The net cost of services for instruction increased from fiscal year 2007 to 2008 as a result of salary contractual obligations, increased special education costs as mandated, charter school payments, the District's commitment to remaining competitive when attracting and retaining excellent teachers, and the District's desire to continuously improve the education of its students through programs like after-school tutoring, summer school and improved curricula.

The net cost of services for instructional staff support and administration increased from fiscal year 2007 to 2008 as a result of salary contractual obligations.

The decrease in the net cost of services for maintenance was the result of decreases in repairs to buildings.

The increase in the net cost of pupil transportation was the result of rising gas prices and additional buses needed primarily for special education students.

The increase in the net cost of student activities was the result of increased supplies purchases as well as increased officiating charges at student athletic events.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

The increase in the net cost of services for interest and fiscal charges was the result of a decrease in rental/sinking fund subsidy revenue (\$1.4 million) combined with an increase in interest expense for debt (\$3.2 million).

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

CHANGES IN NET ASSETS

	2008	2007	2008	2007	2008	2007
REVENUES						
Program Revenues:						
Charges for services	\$ 434,355	\$ 377,396	\$ 1,258,125	\$ 1,150,076	\$ 1,692,480	\$ 1,527,472
Operating grants	24,818,812	23,494,511	1,388,550	1,255,979	26,207,362	24,750,490
Total Program Revenues	<u>25,253,167</u>	<u>23,871,907</u>	<u>2,646,675</u>	<u>2,406,055</u>	<u>27,899,842</u>	<u>26,277,962</u>
General Revenues:						
Property taxes	71,409,532	70,141,114	-	-	71,409,532	70,141,114
Taxes levied for specific purposes	9,067,541	8,134,397	-	-	9,067,541	8,134,397
Grants and entitlements	19,694,050	19,342,422	-	-	19,694,050	19,342,422
Investment earnings	4,778,922	3,742,254	-	40,395	4,805,190	3,782,649
Miscellaneous	60,367	26,262	-	-	60,367	26,262
Total General Revenues	<u>105,010,412</u>	<u>101,386,449</u>	<u>26,268</u>	<u>40,395</u>	<u>105,036,680</u>	<u>101,426,844</u>
TOTAL REVENUES	<u>130,263,579</u>	<u>125,258,356</u>	<u>2,672,943</u>	<u>2,446,450</u>	<u>132,936,522</u>	<u>127,704,806</u>
EXPENSES						
Program Expenses:						
Instruction	83,394,882	80,176,767	-	-	83,394,882	80,176,767
Instructional staff support	10,274,531	9,949,654	-	-	10,274,531	9,949,654
Administration	10,333,742	9,618,699	-	-	10,333,742	9,618,699
Maintenance	10,422,082	11,028,679	-	-	10,422,082	11,028,679
Pupil transportation	8,546,026	7,973,764	-	-	8,546,026	7,973,764
Student activities	1,121,023	997,883	-	-	1,121,023	997,883
Community services	44,901	23,607	-	-	44,901	23,607
Interest and fiscal charges	7,717,056	4,474,814	-	-	7,717,056	4,474,814
Food service	-	-	2,843,149	2,600,044	2,843,149	2,600,044
TOTAL EXPENSES	<u>131,854,243</u>	<u>124,243,867</u>	<u>2,843,149</u>	<u>2,600,044</u>	<u>134,697,392</u>	<u>126,843,911</u>
Change in Net Assets	<u>\$ (1,590,664)</u>	<u>\$ 1,014,489</u>	<u>\$ (170,206)</u>	<u>\$ (153,594)</u>	<u>\$ (1,760,870)</u>	<u>\$ 860,895</u>

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual accounting method,

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

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

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

Fund Financial Statements

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

The District's governmental funds reported a combined fund balance of \$75.2 million, which is significantly more than last year's total of \$24.9 million. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2008 and 2007.

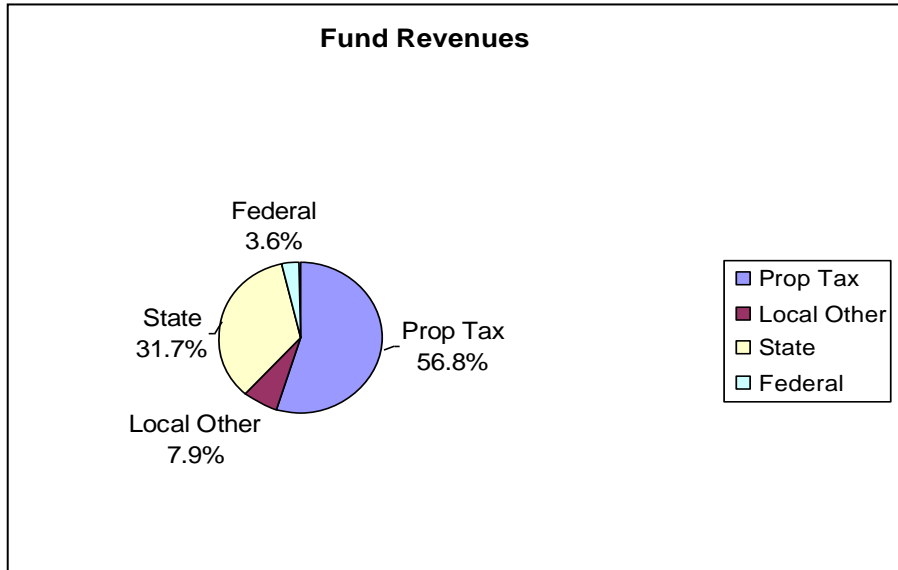
	Fund Balance June 30, 2008	Fund Balance June 30, 2007	Increase (Decrease)
General Fund	\$ 16,122,985	\$ 19,957,167	\$ (3,834,182)
Capital Reserve Fund	1,697,590	2,899,597	(1,202,007)
Capital Projects Fund	57,231,442	1,666,732	55,564,710
Other governmental funds	<u>103,257</u>	<u>351,087</u>	<u>(247,830)</u>
 Total	 <u>\$ 75,155,274</u>	 <u>\$ 24,874,583</u>	 <u>\$ 50,280,691</u>

The District's reliance upon tax revenues is demonstrated by the graph on the following page that indicates 56.8 percent of total revenues for government activities comes from property taxes.

**COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania**

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

JUNE 30, 2008



General Fund

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

Revenues	<u>2008 Amount</u>	<u>2007 Amount</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Taxes	\$ 75,901,478	\$ 73,855,391	\$ 2,046,087	2.77%
Investment earnings	2,227,950	2,760,724	(532,774)	-19.30%
Intergovernmental	44,297,709	42,943,749	1,353,960	3.15%
Proceeds from collateralized borrowing	5,102,098	3,922,157	1,179,941	30.08%
Other revenue	<u>1,053,074</u>	<u>273,714</u>	<u>779,360</u>	<u>284.74%</u>
Total	<u>\$128,582,309</u>	<u>\$123,755,735</u>	<u>\$ 4,826,574</u>	<u>3.90%</u>

Tax revenue increased by \$2 million for various reasons. As previously mentioned, the District received a one-time settlement for earned income taxes; the amount received comprised most of the \$1.4 million increase in earned income tax revenue from 2007 to 2008.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

In addition, the District's tax base increased by 2.7 percent, resulting in \$1.7 million in additional real estate tax revenues, while the District's property tax mills remained at 25.7. It should be noted that the District's tax base increased by 4.5 percent for the previous fiscal year ended 2007, and the decrease in growth from 2007 to 2008 can be attributed to slow growth in new housing construction.

Further, interim real estate tax revenue decreased by \$600 thousand and real estate transfer tax revenue decreased by \$400 thousand, both of which also are attributed to slow growth in new housing construction.

Investment earnings decreased by \$533 thousand, or 19 percent, as a result of lower interest rates brought about by the economy as well as fewer funds available for investment.

Intergovernmental revenue increased by \$1.4 million, or 3.2 percent, for the fiscal year due to increases in federal subsidies as well as state subsidies pertaining to expenditures for basic education, charter school tuition, retirement contributions and social security contributions.

Proceeds from collateralized borrowings increased by \$1.2 million, the result of increased delinquent taxes from which to borrow against.

Other revenue increased by \$779 thousand, largely the result of an increase in refunds of prior year expenditures.

Other Funds

The capital projects fund balance increased by \$55.6 million as a result of \$64 million in proceeds from the issuance of general obligation bonds, offset by expenditures for the continued renovation projects at the District's High School campus, expenditures for reviewing the options for the District's North and South Brandywine Middle Schools and expenditures for the District's new Rainbow Elementary School.

The capital reserve fund balance decreased by \$1.2 million as funds were spent down from the available fund balance.

Business-type Activities

Business-type activities include the food service program. This program had a decrease in net assets of \$170 thousand for the fiscal year. This decrease is attributed primarily to an increase in operating expenses of \$243 thousand, offset by increases in federal and state subsidies and food service sales revenues. It should be noted that food service meal sales increased by \$108 thousand for 2008. This is significant in that food service sales revenues decreased by \$48 thousand from 2006 to 2007 as vending revenue decreased as the result of the Child Nutrition and WIC Reauthorization Act of 2004, which promotes healthful food choices for students and eliminates unhealthful choices. Therefore, the increase in food service meal sales for 2008 is encouraging in that it confirms that students are making healthful food choices while supporting the District's food service program.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

GENERAL FUND BUDGET INFORMATION

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

During the year, the District's Board of Education and management review, approve and process budget transfers monthly. While some District expenditures were over their original budgets, the \$4.1 million savings in healthcare expenditures offset these overages. As a result, total general fund expenditures were \$1.5 million under budget.

Spending Review

		Original Budget	Actual	Diff \$	Diff %
Instructional Services:					
Regular Programs	1100	\$ 48,417,302	\$ 50,603,081	\$ (2,185,779)	-4.50
Special Programs	1200	21,392,485	24,479,076	(3,086,591)	-14.40
Vocational Programs	1300	3,581,663	2,909,041	672,622	18.78
Other Instructional Programs	1400	6,288,337	3,024,028	3,264,309	51.91
Total Instructional Services		<u>79,679,787</u>	<u>81,015,226</u>	<u>(1,335,439)</u>	<u>-1.68</u>
Support Services:					
Pupil Personnel Services	2100	3,802,473	3,938,997	(136,524)	-3.59
Instructional Staff Services	2200	4,877,740	4,813,870	63,870	1.31
Administrative Services	2300	6,463,437	6,733,075	(269,638)	-4.17
Pupil Health	2400	1,015,881	1,018,805	(2,924)	-0.29
Business Services	2500	1,197,796	1,163,079	34,717	2.90
Operation and Maintenance of Plant	2600	12,746,265	10,568,463	1,677,802	13.16
Student Transportation Services	2700	8,465,154	8,542,573	(77,419)	-0.91
Central Services	2800	2,015,433	1,960,900	54,533	-2.70
Other Support Services	2900	48,426	49,742	(1,316)	-2.72
Total Support Services		<u>40,632,605</u>	<u>38,789,504</u>	<u>1,843,101</u>	<u>4.54</u>
Operation of Noninstructional Services:					
Student and Community Services	3300	-	44,901	(44,901)	-100.00
Total Operation of Noninstructional Services		<u>-</u>	<u>44,901</u>	<u>(44,901)</u>	<u>-100.00</u>
Debt Service, Transfers and Refunds:					
Debt Service	5110	11,813,641	11,794,786	18,855	0.16
Transfers and Budgetary Reserve		1,887,150	750,000	1,137,150	60.26
Refunds of Prior Year Receipts		-	22,074	(22,074)	-100.00
Total Debt Service, Transfers and Refunds		<u>13,700,791</u>	<u>12,566,860</u>	<u>1,133,931</u>	<u>8.28</u>
TOTAL EXPENDITURES		<u>\$134,013,183</u>	<u>\$132,416,491</u>	<u>\$ 1,596,692</u>	<u>1.19</u>

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

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

	Original Budget	Actual	Diff \$	Diff%
Regular Programs	\$ 48,417,302	\$ 50,603,081	\$ (2,185,779)	-4.51%
Special Programs	21,392,485	24,479,076	(3,086,591)	-14.40%
Vocational Programs	3,581,663	2,909,041	672,622	18.78%
Other Instructional Programs	6,288,337	3,024,028	3,264,309	51.91%
Operation and Maintenance of Plant	12,746,264	10,568,463	1,677,802	13.16%
Transfers and Budgetary Reserve	1,887,150	750,000	1,137,150	60.26%
Refunds of Prior Year Receipts	-	22,072	(22,072)	-100.00%

Regular programs expenditures were over original budget by \$2.2 million. This is because \$3.2 million in grant expenditures were budgeted in the other instructional programs category instead of the regular programs category as per the state's original instructions. These budgeted expenditures were later reclassified per the state's subsequent instructions. With the correction, regular programs expenditures would be \$1 million, or two percent under budget.

Expenditures to meet the needs of special education students are often difficult to forecast. Circumstances or needs can change quickly and so can their costs. It is for these reasons that special education expenditures exceeded their original budget by \$3.1 million.

Vocational programs expenditures were \$673 thousand less than anticipated because Vo-Tech expenditures were less than anticipated.

Other instructional programs expenditures were under original budget by \$3.3 million. Again, \$3.2 million in grant expenditures were budgeted in the other instructional programs category instead of the regular programs category as per the state's original instructions. These budgeted expenditures were later reclassified per the state's subsequent instructions. With the correction, other instructional programs expenditures would be \$64 thousand, or two percent over budget.

Operation and maintenance of plant expenditures were \$1.7 million less than anticipated due to prudent budget management of items such as energy, fuel and supplies.

Because of the savings in healthcare expenditures, the District did not have a need to use its budgetary reserve. Consequently, transfers and budgetary reserve has a favorable variance of \$1.1 million.

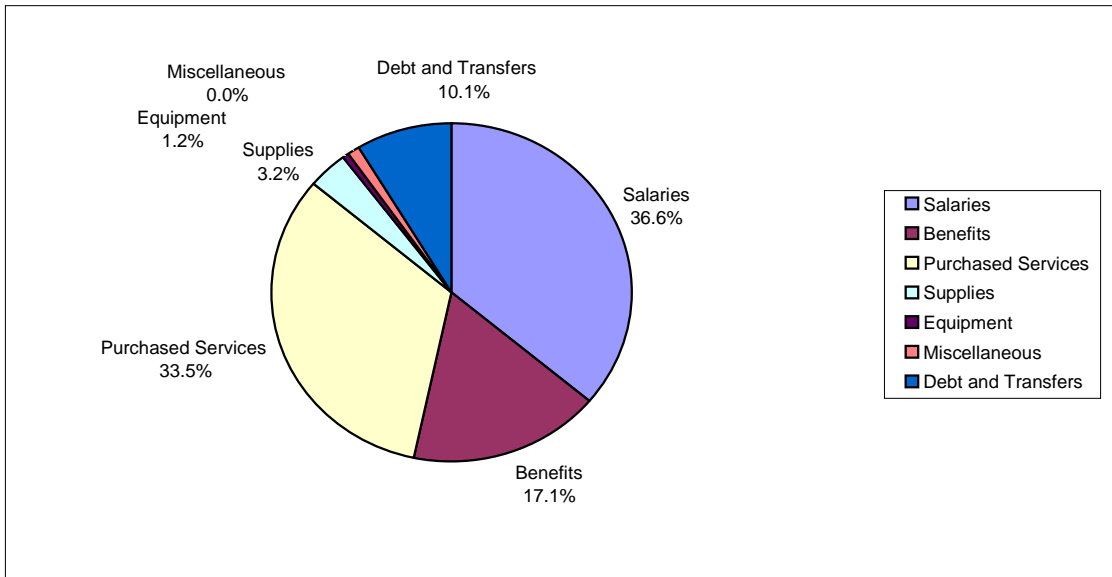
Refunds of prior year receipts were \$22 thousand more than anticipated. These amounts represent refunds to taxpayers for real estate taxes pertaining to prior years.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

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



Expenditures by Object	2008	2007	Change	Percent
Salaries	\$ 48,515,377	\$ 45,788,510	\$ 2,726,867	5.96%
Benefits	20,386,616	25,318,492	(4,931,876)	-19.48%
Purchased Services	44,300,601	40,072,368	4,228,233	10.55%
Supplies	4,209,068	4,013,280	195,788	4.88%
Equipment	1,598,482	1,016,769	581,713	57.21%
Miscellaneous	861,559	798,594	62,965	7.88%
Debt and Transfers	12,544,788	12,985,358	(440,570)	-3.39%
Total	\$132,416,491	\$129,993,371	\$ 2,423,120	1.86%

Expenditures were up \$2.4 million, or 1.9 percent, over the prior year.

The \$2.7 million increase in salaries was the result of collective bargaining agreements as well as the creation of additional positions sometimes to meet state mandates.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

The \$4.9 million decrease in benefits is attributed to savings achieved when the District contracted with a new third party for the administration of employees' healthcare claims.

Purchased services increased by \$4.2 million, the result of a \$2 million increase in mandated professional services for special education students and a \$2.2 million increase in charter school tuition.

Equipment expenditures increased by \$600 thousand, as grant funds allowed for the purchase of science equipment for each of the District's three middle schools as well as laptops for teachers.

Miscellaneous expenditures increased by \$63 thousand as a result of a legal settlement.

Debt and transfers decreased by \$400 thousand, the result of a \$2 million decrease in transfers to other funds offset by a \$1.6 million increase in debt service requirements from the issuance of general obligation bonds at the beginning of the year.

Expenditures exceeded revenues during the fiscal year resulting in a \$3.9 million decrease to the general fund balance. It should be noted that this was a planned reduction, as the District chose to hold property tax mills at 25.70, while using its existing fund balance as a source to help meet expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has \$103.8 million invested in capital assets net of depreciation, with \$103.5 million attributed to governmental activities. Acquisitions for governmental activities totaled \$15.9 million, and depreciation expense for the year was \$3.9 million. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

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

- Continued major building renovation projects at Coatesville Area High School campus
- Continued review of options for North and South Brandywine Middle Schools
- Start of construction for its new Rainbow Elementary School
- Continued planning of another new elementary school
- Replacement of the roof and chiller equipment of Kings Highway Elementary School
- Roof restorations of Friendship and Reeceville Elementary Schools
- Paving replacement and resurfacing at Coatesville Area High School campus

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2008

Debt

At June 30, 2008, the District had \$165.6 million in outstanding bonds and notes payable. During the year, the District increased its outstanding debt by \$57.7 million with the issuance of \$63.6 million in general obligation bonds, offset by principal payments of \$5.9 million. Detailed information regarding long-term debt and notes payable activity is included in the notes to the basic financial statements (Note 7).

Under current state statutes, the District's general obligation bonded debt issues are subject to legal limitation based on 225 percent of the average revenues for the prior three years. At June 30, 2008, the District's gross borrowing capacity for debt was \$281.6 million; of this amount, \$165.6 million was outstanding as existing debt, leaving \$116 million remaining as the District's net borrowing capacity available for future debt issuances. During the 2007-2008 fiscal year, the District incurred new debt (the additional \$63.6 million from the 2007 General Obligation Bond issue) and had stayed within its remaining borrowing capacity.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

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

The District's property tax base is expected to continue to grow at 2.5 percent annually under current economic conditions.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the monies it receives. If you have questions about this report or wish to request additional financial information, please contact Ms. Karen DeShullo, Assistant Director of Business Administration, Coatesville Area School District, 545 East Lincoln Highway, Coatesville, Pennsylvania 19320-2447, (610) 466-2446.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008
(With Summarized Comparative Data for June 30, 2007)

	Governmental Activities	Business-type Activities	Totals	
			2008	2007
ASSETS				
Cash and cash equivalents	\$ 63,659,765	\$ 1,572,318	\$ 65,232,083	\$ 8,657,606
Investments	16,575,005	-	16,575,005	23,143,488
Internal balances	1,138,151	(1,138,151)	-	-
Interest receivable	222,467	-	222,467	251,563
Pledged taxes receivable	6,646,887	-	6,646,887	5,625,731
Due from other governments	2,015,060	73,410	2,088,470	2,276,850
Other receivables	539,730	4,210	543,940	304,097
Prepaid expenses	769,197	-	769,197	1,235,519
Inventories	-	41,324	41,324	25,733
Other assets	1,999,906	-	1,999,906	1,917,002
Issuance costs	1,074,635	-	1,074,635	818,784
Land	2,812,500	-	2,812,500	3,075,000
Construction-in-progress	35,944,619	-	35,944,619	22,812,051
Land improvements	7,054,922	-	7,054,922	6,917,555
Buildings and improvements	89,082,654	-	89,082,654	87,753,866
Furniture and equipment	10,770,689	1,586,460	12,357,149	11,676,749
Accumulated depreciation	(42,151,467)	(1,282,249)	(43,433,716)	(40,188,818)
TOTAL ASSETS	<u>\$ 198,154,720</u>	<u>\$ 857,322</u>	<u>\$ 199,012,042</u>	<u>\$ 136,302,776</u>
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable	\$ 7,513,535	\$ -	\$ 7,513,535	\$ 4,455,727
Accrued salaries and benefits	4,734,404	13,082	4,747,486	5,961,464
Accrued interest	2,655,694	-	2,655,694	865,673
Collateralized borrowing	5,497,332	-	5,497,332	4,662,191
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable	4,380,000	-	4,380,000	4,185,000
Add: Bond premiums	254,240	-	254,240	112,661
Less: Bond discounts	(6,310)	-	(6,310)	(6,310)
Less: Deferred amounts on refunding	(115,441)	-	(115,441)	(115,441)
Note payable	1,720,000	-	1,720,000	1,665,000
Capital leases payable	47,897	-	47,897	47,897
Accumulated compensated absences	42,892	-	42,892	42,892
Portion due or payable after one year:				
Bonds payable	141,065,000	-	141,065,000	81,890,000
Add: Bond premiums	3,657,906	-	3,657,906	1,351,927
Less: Bond discounts	(76,140)	-	(76,140)	(82,650)
Less: Deferred amounts on refunding	(1,304,817)	-	(1,304,817)	(1,420,259)
Note payable	18,425,000	-	18,425,000	20,145,000
Capital leases payable	47,896	-	47,896	95,793
Accumulated compensated absences	1,648,844	81,761	1,730,605	1,956,074
TOTAL LIABILITIES	<u>190,187,932</u>	<u>94,843</u>	<u>190,282,775</u>	<u>125,812,639</u>
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	(7,349,872)	304,211	(7,045,661)	(14,155,483)
Restricted for capital projects	1,697,590	-	1,697,590	2,899,597
Unrestricted	13,619,070	458,268	14,077,338	21,746,023
TOTAL NET ASSETS	<u>7,966,788</u>	<u>762,479</u>	<u>8,729,267</u>	<u>10,490,137</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 198,154,720</u>	<u>\$ 857,322</u>	<u>\$ 199,012,042</u>	<u>\$ 136,302,776</u>

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

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(With Summarized Comparative Data for the Year Ended June 30, 2007)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
							2008
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 83,394,882	\$ 260,537	\$ 18,076,469	\$ -	\$ (65,057,876)	\$ -	\$ (64,048,012)
Instructional student support	10,274,531	-	438,100	-	(9,836,431)	-	(9,512,922)
Administrative and financial support services	10,333,742	-	311,011	-	(10,022,731)	-	(9,343,564)
Operation and maintenance of plant services	10,422,082	-	474,580	-	(9,947,502)	-	(10,708,892)
Pupil transportation	8,546,026	-	4,474,871	-	(4,071,155)	-	(3,848,163)
Student activities	1,121,023	96,389	33,600	-	(991,034)	-	(867,196)
Community services	44,901	77,429	-	-	32,528	-	46,081
Interest on long-term debt	7,717,056	-	1,010,181	-	(6,706,875)	-	(2,089,292)
TOTAL GOVERNMENTAL ACTIVITIES	131,854,243	434,355	24,818,812	-	(106,601,076)	-	(100,371,960)
BUSINESS-TYPE ACTIVITIES							
Food service	2,843,149	1,258,125	1,388,550	-	(196,474)	(196,474)	(193,989)
TOTAL BUSINESS-TYPE ACTIVITIES	2,843,149	1,258,125	1,388,550	-	(196,474)	(196,474)	(193,989)
TOTAL PRIMARY GOVERNMENT	\$ 134,697,392	\$ 1,692,480	\$ 26,207,362	\$ -	(106,601,076)	(196,474)	(100,565,949)
GENERAL REVENUES							
Property taxes, levied for general purposes					71,409,532	-	70,141,114
Taxes levied for specific purposes					9,067,541	-	8,134,397
Grants and entitlements not restricted to specific programs					19,694,050	-	19,342,422
Investment earnings					4,778,922	26,268	3,782,649
Miscellaneous					60,367	-	26,262
TOTAL GENERAL REVENUES					105,010,412	26,268	101,426,844
CHANGE IN NET ASSETS					(1,590,664)	(170,206)	860,895
NET ASSETS, BEGINNING OF YEAR					9,557,452	932,685	9,629,242
NET ASSETS, END OF YEAR					\$ 7,966,788	\$ 762,479	\$ 10,490,137

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

**COATESVILLE AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008
(With Summarized Comparative Data for June 30, 2007)**

	Major Funds			Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund	Nonmajor Fund	
ASSETS					
Cash and cash equivalents	\$ 2,064,482	\$ 1,453,519	\$ 60,041,420	\$ 100,344	\$ 8,282,521
Investments	16,074,068	500,937	-	-	22,793,488
Interest receivable	220,435	2,032	-	-	248,104
Taxes receivable	6,646,887	-	-	-	6,646,887
Due from other funds	1,235,275	-	9,418	29,022	5,625,731
Due from other governments	2,015,060	-	-	-	144,733
Other receivables	535,093	-	4,637	-	2,247,263
Prepaid expenses	769,197	-	-	-	298,873
Other assets	1,999,906	-	-	-	1,235,519
TOTAL ASSETS	\$ 31,560,403	\$ 1,956,488	\$ 60,055,475	\$ 129,366	\$ 93,701,732
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Due to other funds	\$ 12,419	\$ 123,145	\$ -	\$ -	\$ 124,595
Accounts payable	4,527,640	135,753	2,824,033	26,109	4,455,727
Accrued salaries and benefits	3,244,690	-	-	-	5,961,464
Deferred revenues	7,609,777	-	-	-	7,333,973
Accumulated compensated absences	42,892	-	-	-	42,892
TOTAL LIABILITIES	15,437,418	258,898	2,824,033	26,109	17,918,651
FUND BALANCES					
Reserved for capital projects	-	1,697,590	57,231,442	-	4,566,329
Reserved for athletic purposes	-	-	-	103,257	351,087
Unreserved	16,122,985	-	-	-	19,957,167
TOTAL FUND BALANCES	16,122,985	1,697,590	57,231,442	103,257	24,874,583
TOTAL LIABILITIES AND FUND BALANCES	\$ 31,560,403	\$ 1,956,488	\$ 60,055,475	\$ 129,366	\$ 93,701,732

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

**COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET ASSETS
JUNE 30, 2008**

TOTAL GOVERNMENTAL FUND BALANCES \$ 75,155,274

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

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

Land	\$ 2,812,500	
Construction-in-progress	35,944,619	
Land improvements	7,054,922	
Buildings and improvements	89,082,654	
Furniture and equipment	10,770,689	
Accumulated depreciation	<u>(42,151,467)</u>	103,513,917

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	(145,445,000)	
Notes payable	(20,145,000)	
Capital leases payable	(95,793)	
Accumulated compensated absences	(1,648,844)	
Accrued interest	(2,655,694)	
Collateralized borrowing	(5,497,332)	
Post-employment benefits	<u>(1,489,714)</u>	(176,977,377)

Debt issuance and refunded debt resulted in issuance costs and deferred charges and credits which will be amortized over the life of the new debt but do not represent current rights. (1,334,803)

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 7,609,777

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 7,966,788

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, 2008
(With Summarized Comparative Data for the Year Ended June 30, 2007)

	Major Funds				Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund	Nonmajor Fund	2008	2007
REVENUES						
Local sources	\$ 78,640,594	\$ 116,718	\$ 2,423,628	\$ 81,813	\$ 81,262,753	\$ 78,100,313
State sources	39,894,948	-	-	-	39,894,948	38,873,415
Federal sources	4,563,117	-	-	-	4,563,117	3,795,198
TOTAL REVENUES	<u>123,098,659</u>	<u>116,718</u>	<u>2,423,628</u>	<u>81,813</u>	<u>125,720,818</u>	<u>120,768,926</u>
EXPENDITURES						
Current:						
Instruction	81,015,226	-	-	-	81,015,226	78,562,683
Support services	38,789,504	-	358,589	-	39,148,093	38,319,114
Operation of noninstructional services	44,901	-	-	1,079,643	1,124,544	996,907
Capital outlay	-	1,318,725	12,795,176	-	14,113,901	27,987,871
Debt service	11,794,786	-	-	-	11,794,786	10,199,499
TOTAL EXPENDITURES	<u>131,644,417</u>	<u>1,318,725</u>	<u>13,153,765</u>	<u>1,079,643</u>	<u>147,196,550</u>	<u>156,066,074</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(8,545,758)</u>	<u>(1,202,007)</u>	<u>(10,730,137)</u>	<u>(997,830)</u>	<u>(21,475,732)</u>	<u>(35,297,148)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from collateralized borrowing	5,102,098	-	-	-	5,102,098	3,922,157
Refund of prior year expenditures	381,552	-	49,848	-	431,400	123,411
Refund of prior year receipts	(22,074)	-	-	-	(22,074)	(194,323)
Transfers in	-	-	-	750,000	750,000	2,785,859
Transfers out	(750,000)	-	-	-	(750,000)	(2,785,859)
Issuance of debt	-	-	63,555,000	-	63,555,000	9,715,000
Payment of debt - refunding	-	-	-	-	-	(9,556,132)
Bond premium	-	-	2,689,999	-	2,689,999	-
Bond discount	-	-	-	-	-	(64,878)
TOTAL OTHER FINANCING SOURCES	<u>4,711,576</u>	<u>-</u>	<u>66,294,847</u>	<u>750,000</u>	<u>71,756,423</u>	<u>3,945,235</u>
NET CHANGE IN FUND BALANCES	<u>(3,834,182)</u>	<u>(1,202,007)</u>	<u>55,564,710</u>	<u>(247,830)</u>	<u>50,280,691</u>	<u>(31,351,913)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>19,957,167</u>	<u>2,899,597</u>	<u>1,666,732</u>	<u>351,087</u>	<u>24,874,583</u>	<u>56,226,496</u>
FUND BALANCES, END OF YEAR	<u>\$ 16,122,985</u>	<u>\$ 1,697,590</u>	<u>\$ 57,231,442</u>	<u>\$ 103,257</u>	<u>\$ 75,155,274</u>	<u>\$ 24,874,583</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
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 50,280,691

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

Capital outlays are reported in governmental funds as expenditures, which are reported either as District-wide (capital outlay) or function-specific (i.e. instruction, pupil services.) However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$15,916,799) exceeded depreciation (\$3,901,532) and sale of land (\$262,500). 11,752,767

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (2,611,048)

Revenues in the statement of activities that provided current financial resources in the current year but recorded as income in the statement of activities in prior years. 2,051,711

The statement of activities reports a gain or loss on the disposal of capital assets based on the proceeds received and the net book value of the assets at the time of disposal. The loss on disposal is calculated as the excess of the cost of the assets disposed (\$267,062) over the accumulated depreciation of the assets disposed (\$232,092). (48,388)

Debt proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, incurring debt increases liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. This is the amount by which debt proceeds (\$63,555,000) exceeded (\$5,897,897) debt payments. (57,657,103)

Governmental funds report issuance costs, bond discounts and deferred amounts on refunding as other financing uses and bond premiums as other financing sources. However, these amounts are reported in the statement of net assets as deferred charges and credits and are amortized over the life of the debt. This is the amount by which current deferred charges (\$2,331,410) exceeded net amortization (\$17,751). (2,313,659)

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (1,255,614)

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. (1,790,021)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (1,590,664)

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, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Local sources	\$ 81,336,192	\$ 81,336,192	\$ 78,640,594	\$ (2,695,598)
State sources	39,927,374	39,927,374	39,894,948	(32,426)
Federal sources	4,109,798	4,109,798	4,563,117	453,319
TOTAL REVENUES	<u>125,373,364</u>	<u>125,373,364</u>	<u>123,098,659</u>	<u>(2,274,705)</u>
EXPENDITURES				
Instruction:				
Regular programs	48,417,302	51,378,531	50,603,081	775,450
Special programs	21,392,485	24,654,359	24,479,076	175,283
Vocational programs	3,581,663	2,939,760	2,909,041	30,719
Other instructional programs	6,288,337	3,058,826	3,024,028	34,798
Total Instruction	<u>79,679,787</u>	<u>82,031,476</u>	<u>81,015,226</u>	<u>1,016,250</u>
Support services:				
Pupil personnel services	3,802,473	4,019,033	3,938,997	80,036
Instructional staff services	4,877,740	4,889,007	4,813,870	75,137
Administrative services	6,463,437	6,847,856	6,733,075	114,781
Pupil health	1,015,881	1,040,410	1,018,805	21,605
Business services	1,197,796	1,181,569	1,163,079	18,490
Operation and maintenance of plant services	12,746,265	10,711,239	10,568,463	142,776
Student transportation services	8,465,154	8,546,026	8,542,573	3,453
Central and other support services	2,015,433	1,974,506	1,960,900	13,606
Other support services	48,426	49,742	49,742	-
Total Support Services	<u>40,632,605</u>	<u>39,259,388</u>	<u>38,789,504</u>	<u>469,884</u>
Operation of noninstructional services:				
Student activities	-	-	-	-
Community services	-	44,901	44,901	-
Total Operation of Noninstructional Services	<u>-</u>	<u>44,901</u>	<u>44,901</u>	<u>-</u>
Debt service	11,813,641	11,812,463	11,794,786	17,677
TOTAL EXPENDITURES	<u>132,126,033</u>	<u>133,148,228</u>	<u>131,644,417</u>	<u>1,503,811</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(6,752,669)</u>	<u>(7,774,864)</u>	<u>(8,545,758)</u>	<u>(770,894)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from collateralized borrowing	3,750,000	3,750,000	5,102,098	1,352,098
Refund of prior year expenditures	-	-	381,552	381,552
Refund of prior year receipts	-	-	(22,074)	(22,074)
Transfers out	(900,000)	(750,000)	(750,000)	-
Budgetary reserve	(987,150)	(114,955)	-	114,955
TOTAL OTHER FINANCING SOURCES	<u>1,862,850</u>	<u>2,885,045</u>	<u>4,711,576</u>	<u>1,826,531</u>
NET CHANGE IN FUND BALANCE	(4,889,819)	(4,889,819)	(3,834,182)	1,055,637
FUND BALANCE, BEGINNING OF YEAR	<u>19,957,167</u>	<u>19,957,167</u>	<u>19,957,167</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 15,067,348</u>	<u>\$ 15,067,348</u>	<u>\$ 16,122,985</u>	<u>\$ 1,055,637</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2008
(With Comparative Data for June 30, 2007)**

	Major Fund	
	Food Service Fund	
	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,572,318	\$ 375,085
Investments	-	350,000
Interest receivable	-	3,459
Other receivables	4,210	5,224
Due from other governments	73,410	29,587
Inventories	41,324	25,733
Total Current Assets	<u>1,691,262</u>	<u>789,088</u>
CAPITAL ASSETS:		
Furniture and equipment	1,586,460	1,482,320
Accumulated depreciation	(1,282,249)	(1,245,455)
Capital Assets, Net	<u>304,211</u>	<u>236,865</u>
TOTAL ASSETS	<u>\$ 1,995,473</u>	<u>\$ 1,025,953</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Due to other funds	\$ 1,138,151	\$ 20,138
Accrued salaries and benefits	13,082	-
Total Current Liabilities	<u>1,151,233</u>	<u>20,138</u>
NONCURRENT LIABILITIES:		
Accumulated compensated absences	81,761	73,130
Total Liabilities	<u>1,232,994</u>	<u>93,268</u>
NET ASSETS		
Invested in capital assets, net of related debt	304,211	236,865
Unrestricted	458,268	695,820
Total Net Assets	<u>762,479</u>	<u>932,685</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,995,473</u>	<u>\$ 1,025,953</u>

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

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008
(With Comparative Data for the Year Ended June 30, 2007)

	Major Fund	
	Food Service Fund	
	2008	2007
OPERATING REVENUES		
Food service revenues	\$ 1,258,125	\$ 1,150,076
Total Operating Revenues	<u>1,258,125</u>	<u>1,150,076</u>
OPERATING EXPENSES		
Salaries	842,943	849,173
Employee benefits	409,755	320,520
Purchased professional and technical services	8,774	4,575
Purchased property services	65,458	25,731
Other purchased services	162,415	178,025
Supplies	1,315,009	1,188,355
Depreciation	36,794	27,378
Other operating expenses	2,001	6,285
Total Operating Expenses	<u>2,843,149</u>	<u>2,600,042</u>
OPERATING LOSS	<u>(1,585,024)</u>	<u>(1,449,966)</u>
NONOPERATING REVENUES		
Earnings on investments	26,268	40,395
State sources	113,064	94,595
Federal sources	1,275,486	1,161,382
Total Nonoperating Revenues	<u>1,414,818</u>	<u>1,296,372</u>
CHANGE IN NET ASSETS	(170,206)	(153,594)
NET ASSETS, BEGINNING OF YEAR	<u>932,685</u>	<u>1,086,279</u>
NET ASSETS, END OF YEAR	<u>\$ 762,479</u>	<u>\$ 932,685</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008
(With Comparative Data for the Year Ended June 30, 2007)**

	Major Fund	
	Food Service Fund	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services and other operating revenues	\$ 1,259,139	\$ 1,156,312
Payments to suppliers	(58,017)	(1,068,300)
Payments for other operating expenses	(229,874)	(214,616)
Payments to employees	(1,239,759)	(1,273,257)
NET CASH USED BY OPERATING ACTIVITIES	(268,511)	(1,399,861)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State sources	108,787	95,643
Federal sources	1,081,370	1,055,482
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,190,157	1,151,125
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Repayment of bank overdraft	-	(13,479)
Purchase of capital assets	(104,140)	(65,335)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(104,140)	(78,814)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from earnings on investments	29,727	52,635
Proceeds from sale of investments	350,000	650,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	379,727	702,635
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,197,233	375,085
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	375,085	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,572,318	\$ 375,085
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$(1,585,024)	\$ (1,449,966)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	36,794	27,378
Donated commodities	154,570	115,953
(Increase) decrease in:		
Other receivables	1,014	6,237
Inventories	(15,591)	5,659
Increase (decrease) in:		
Accounts payable	-	(1,556)
Accrued salary	13,082	-
Due to other funds	1,118,013	(117,209)
Accumulated compensated absences	8,631	13,643
NET CASH USED BY OPERATING ACTIVITIES	\$ (268,511)	\$ (1,399,861)
SUPPLEMENTAL DISCLOSURE:		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	\$ 154,570	\$ 115,953

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2008**

	<u>Private - Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash	\$ 173,799	\$ 208,439
Investments	13,927	10
Due from other fund	<u>-</u>	<u>32,006</u>
TOTAL ASSETS	<u>\$ 187,726</u>	<u>\$ 240,455</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ -	<u>\$ 240,455</u>
Due to other fund	<u>32,006</u>	
NET ASSETS:		
Reserved for trust	<u>155,720</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 187,726</u>	

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(With Comparative Data for the Year Ended June 30, 2007)**

	Private-Purpose Trust	
	<u>2008</u>	<u>2007</u>
ADDITIONS		
Local contributions	\$ 25,000	\$ 47,860
Interest income	8,604	-
TOTAL ADDITIONS	<u>33,604</u>	<u>47,860</u>
DEDUCTIONS		
Fees paid and scholarships awarded	<u>66,838</u>	<u>44,944</u>
TOTAL DEDUCTIONS	<u>66,838</u>	<u>44,944</u>
CHANGE IN NET ASSETS	(33,234)	2,916
NET ASSETS, BEGINNING OF YEAR	<u>188,954</u>	<u>186,038</u>
NET ASSETS, END OF YEAR	<u><u>\$ 155,720</u></u>	<u><u>\$ 188,954</u></u>

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Joint Ventures

The District is a participating member of the Center for Arts and Technology (the Vo-Tech). The Vo-Tech is run by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of the debt and operating costs of the Vo-Tech based on the number of students from each district. For fiscal year ended June 30, 2008, the District's share of operating costs was \$1,712,825. The Vo-Tech prepares financial statements which are available to the public. The financial statements of the Vo-Tech are available from the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

Basis of Presentation

Entity-wide Financial Statements

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

Fund Financial Statements

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

Revenue Recognition

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

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

Expenditure Recognition

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

Proprietary Funds

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's enterprise fund include payroll, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organization 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 that are 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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." Taxes receivable are considered as pledged for financial statement purposes. Proceeds received by the District are reported as a liability in the statement of net assets and as an other financing source in the fund financial statements. Subsequent collections of the pledged receivables that are paid to the Authority reduce the liability on the District's statement of net assets.

Property Taxes

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

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

Assessed valuations of property are determined by the Chester County Board of Assessments. The District's taxes are billed and collected by a third-party administrator. The tax on real estate for public school purposes for fiscal 2007-2008 was 25.70 mills (\$25.70 for \$1,000 of assessed valuation) for the entire District.

Prepaid Items and Inventories

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

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

Capital Assets

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

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

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

Compensated Absences

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

Long-Term Obligations

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

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

Fund Equity

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Use of Estimates in the Preparation of Financial Statements

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

GASB Statement No. 45

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

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

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

NOTE 3 DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2008, the carrying amount of the District's deposits was \$65,614,321 and the bank balance was \$70,924,094. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$70,824,094 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

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

As of June 30, 2008, the District had the following investments:

Certificates of deposit due within one year - collateral held by pledging bank's agent in the District's name	\$ 12,620,000
Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT)	<u>3,955,005</u>
TOTAL	<u>\$ 16,575,005</u>

Investments classified as U.S. agencies are securities of agencies of the U.S. government that have an implied but not explicit guarantee.

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

Interest Rate Risk

The District's investment policy limits investment maturities to securities with maturity dates under one year as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2008, the District's investments in certificates of deposit and securities of U.S. agencies 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, 2008, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating organization.

NOTE 4 DEFERRED REVENUES

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

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 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	\$ 3,075,000	\$ -	\$ 262,500	\$ 2,812,500
Construction-in-progress	<u>22,812,051</u>	<u>13,132,568</u>	-	<u>35,944,619</u>
Total Capital Assets Not Being Depreciated	<u>25,887,051</u>	<u>13,132,568</u>	<u>262,500</u>	<u>38,757,119</u>
Capital assets being depreciated:				
Land improvements	6,917,555	137,367	-	7,054,922
Buildings and improvements	87,753,866	1,328,788	-	89,082,654
Furniture and equipment	<u>10,194,429</u>	<u>1,318,076</u>	<u>741,816</u>	<u>10,770,689</u>
Total Capital Assets Being Depreciated	<u>104,865,850</u>	<u>2,784,231</u>	<u>741,816</u>	<u>106,908,265</u>
Less accumulated depreciation for:				
Land improvements	2,202,707	321,071	-	2,523,778
Buildings and improvements	30,528,462	1,623,309	-	32,151,771
Furniture and equipment	<u>6,212,194</u>	<u>1,957,152</u>	<u>693,428</u>	<u>7,475,918</u>
Total Accumulated Depreciation	<u>38,943,363</u>	<u>3,901,532</u>	<u>693,428</u>	<u>42,151,467</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total Capital Assets Being Depreciated, Net	<u>65,922,487</u>	<u>(1,117,301)</u>	<u>48,388</u>	<u>64,756,798</u>
Governmental Activities Capital Assets, Net	<u>\$ 91,809,538</u>	<u>\$12,015,267</u>	<u>\$ 310,888</u>	<u>\$103,513,917</u>
Business-type Activities: Capital assets being depreciated:				
Furniture and equipment	\$ 1,482,320	\$ 104,140	\$ -	\$ 1,586,460
Less accumulated depreciation	<u>1,245,455</u>	<u>36,794</u>	<u>-</u>	<u>1,282,249</u>
Business-type Capital Assets, Net	<u>\$ 236,865</u>	<u>\$ 67,346</u>	<u>\$ -</u>	<u>\$ 304,211</u>

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

Governmental activities:

Instruction	\$ 2,862,590
Instructional student support	310,857
Administrative and financial support services	316,503
Operation and maintenance of plant services	373,782
Student activities	<u>37,800</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,901,532</u>
Depreciation Expense - Business-type Activities	<u>\$ 36,794</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

<u>Receivable From</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 1,138,151	Food Service Fund	\$ 1,138,151
Nonmajor Fund	29,022	General Fund	29,022
Capital Projects Fund	9,418	General Fund	9,418
General Fund	123,145	Capital Reserve Fund	123,145
Agency Fund	<u>32,006</u>	Trust Fund	<u>32,006</u>
	<u>\$ 1,331,742</u>		<u>\$ 1,331,742</u>

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Interfund transfers for the year ended June 30, 2008 are as follows:

Transfer In:	Transfer Out:		
Nonmajor Fund	General Fund	\$	750,000
Scholarship Fund	Student Activity Fund	\$	32,006

Transfers represent funds set aside for certain student scholarships and to subsidize athletic activities.

NOTE 7 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental and business-type activities for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Governmental Activities:				
Bonds payable	\$ 86,075,000	\$ 63,555,000	\$ 4,185,000	\$ 145,445,000
Bond premiums	1,464,588	2,689,999	242,441	3,912,146
Bond discounts	(88,960)	-	(6,510)	(82,450)
Deferred amount on Refunding	(1,535,700)	-	(115,442)	(1,420,258)
Note payable	21,810,000	-	1,665,000	20,145,000
Capital lease payable	143,690	-	47,897	95,793
Accumulated compensated absences	1,925,836	-	234,100	1,691,736
Collateral borrowing	4,662,191	5,937,239	5,102,098	5,497,332
TOTALS	<u>\$ 114,456,645</u>	<u>\$ 72,182,238</u>	<u>\$ 11,354,584</u>	<u>\$ 175,284,299</u>
Business-type Activities:				
Accumulated compensated absences	\$ 73,130	\$ 8,631	\$ -	\$ 81,761

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 1999, maturing through October 1, 2016 bearing interest ranging from 3.30% to 4.75%, interest payable semi-annually on April 1 and October 1.

\$ 37,610,000

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Series of 2003, maturing through November 15, 2011 bearing interest ranging from 2.00% to 3.25%, interest payable semi-annually on May 15 and November 15.	8,590,000
Series of 2004, maturing through August 15, 2020 bearing interest ranging from 2.00% to 5.25%, interest payable semi-annually on February 15 and August 15.	16,610,000
Series of 2005, maturing through August 15, 2020 bearing interest ranging from 3.10% to 4.15%, interest payable semi-annually on February 15 and August 15.	9,385,000
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. The Series of 2006 provided funds to advance refund a portion of the Series of 2004 and to pay expenses related to the issuance of such bonds.	9,695,000
Series of 2007, maturing through August 15, 2026 bearing interest ranging from 4.25% to 5.00%, interest payable semi-annually on February 1 and August 1.	<u>63,555,000</u>
Total General Obligation Bonds	<u>145,445,000</u>
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>20,145,000</u>
TOTAL	<u>\$165,590,000</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>
2009	\$ 6,100,000	\$ 7,341,977	\$ 13,441,977
2010	6,315,000	7,128,786	13,443,786
2011	6,545,000	6,897,708	13,442,708
2012	9,125,000	6,596,644	15,721,644
2013	7,195,000	6,261,545	13,456,545
2014-2018	40,975,000	26,256,037	67,231,037
2019-2023	51,355,000	14,335,125	65,690,125
2024-2027	37,980,000	2,963,742	40,943,742
	<u>\$165,590,000</u>	<u>\$77,781,564</u>	<u>\$243,371,564</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Advance Refunding

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

	<u>Final Maturity</u>	<u>Interest</u>	<u>Principal Outstanding</u>
General Obligation Bond Series of 2004	08/15/2014	4.31%	<u>\$ 17,140,000</u>

NOTE 8 CAPITAL LEASES - LESSEE

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

The assets acquired through the capital leases are as follows:

Furniture and equipment	\$ 239,484
Less: Accumulated depreciation	<u>(93,125)</u>
Total	<u>\$ 146,359</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008 were as follows:

Year Ending June 30,

2009	\$ 54,399
2010	54,398
Total minimum lease payments	108,797
Less: Amount representing interest	<u>(13,004)</u>
Less: Amount representing interest	<u>\$ 95,793</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 OPERATING LEASES

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

Year Ending June 30.

2009	\$ 691,978
2010	419,615
2011	95,201
2012	<u>13,229</u>
Total	<u>\$ 1,220,023</u>

Rental expense, including short-term rentals, for the year ended June 30, 2008 was \$728,108.

NOTE 10 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System (PSERS), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and their beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125 or by accessing its website at <http://www.pasers.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, 2008, the rate of employer contribution was 7.13 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2006, 2007 and 2008 were \$1,971,078, \$2,913,795 and \$3,424,477 respectively, equal to the required contribution for each year.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 SELF-INSURANCE

The District administers a self-insurance program to provide for the medical care for eligible employees and their dependents. Benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a liability for claims incurred through June 30, 2008.

Change in Aggregate Claim Liabilities

Year Ending June 30, 2008

Claims Liability, beginning of year	\$ 4,166,393
Current year claims and changes in estimates	15,344,674
Claim payments by the District	<u>(18,575,159)</u>
Claims Liability, end of year	<u>\$ 935,908</u>

Self-insurance benefits also are offered to retired District employees according to the provisions set forth in each bargaining unit's ERIP agreement. Currently, 146 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$2,532,975 for the year ended June 30, 2008.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

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

Litigation

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

Capital Improvement Commitments

As of June 30, 2008, the District was in the process of several capital projects. Construction commitments completed to date are as follows:

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 COMMITMENTS AND CONTINGENCIES (cont'd)

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to 06/30/2008</u>	<u>Commitments</u>
Coatesville Intermediate High School - renovations	\$ 23,180,756	\$22,938,748	\$ 242,008
North Brandywine Middle School - renovations	1,474,487	623,677	850,810
South Brandywine Middle School - renovations	1,594,909	586,858	1,008,051
Coatesville High School - renovations	54,542,771	11,003,174	43,539,597
New Rainbow Elementary School	<u>28,876,064</u>	<u>792,162</u>	<u>26,797,552</u>
	<u>\$109,668,987</u>	<u>\$35,944,619</u>	<u>\$ 72,438,018</u>

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverages of the 2007-2008 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 14 POST-EMPLOYMENT HEALTH CARE BENEFITS

Effective for the 2007-08 fiscal year, the District has implemented Governmental Accounting standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, for certain post-employment health care benefits and life insurance benefits provided by the District. The requirements of this Statement are being implemented prospectively, with the actuarially accrued liability for benefits of \$13,745,156 at June 30, 2008, date of transition amortized based on level dollar, blended period (15 years/10.7395 factor for active liability, and 4 years/3.5876 factor for retiree liability). Accordingly, for financial reporting purposes, no liability is reported for the post-employment health care benefits liability at the date of transition.

Funded Status and Funding Progress – As of June 30, 2008, the actuarial accrued liability for benefits was \$13,745,156 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$13,745,156. The covered payroll (annual payroll of active participating employees) was \$43,220,618 for the 2007-2008 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 31.80 percent.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POST-EMPLOYMENT HEALTH CARE BENEFITS (cont'd)

Actuarial Methods and Assumptions – 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 and termination, mortality and the 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's initial OPEB actuarial valuations as of July 1, 2007, used the entry age normal actuarial cost method to estimate both the unfunded actuarial liability as of June 30, 2008 and to estimate the District's 2007-2008 fiscal year annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. The actuarial assumptions include a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also include a payroll growth composed of a three percent cost-of-living adjustment; one percent real wage growth; for teachers and administrators, a merit increase which varies by age (from 3% to .25%); and an annual healthcare cost trend rate of 9.0 percent initially for the 2007-2008 fiscal year, reduced by .5 percent per year, to an ultimate rate of 5.0 percent after seven years. The unfunded actuarial accrued liability is being amortized based on a level dollar, blended period, as described above.

SINGLE AUDIT

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

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January 13, 2009

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania as of and for the year ended June 30, 2008 and have issued our report thereon dated January 13, 2009.

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

Internal Control Over Financial Reporting

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

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

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

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

Board of School Directors
Coatesville Area School District

control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting which we have reported to management of Coatesville Area School District in a separate letter dated January 13, 2009.

Compliance and Other Matters

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

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

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



BARBACANE, THORNTON & COMPANY

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

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January 13, 2009

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Compliance

We have audited the compliance of Coatesville Area School District, Coatesville, Pennsylvania, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Coatesville Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Coatesville Area School District's management. Our responsibility is to express an opinion on Coatesville Area School District's compliance based on our audit.

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

In our opinion, Coatesville Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

To the Board of School Directors
Coatesville Area School District

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

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

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

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

The management of Coatesville Area School District, Coatesville, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Coatesville Area School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


BARBACANE, THORNTON & COMPANY

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITORS' RESULTS

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

<u>Program Name</u>	<u>CFDA #</u>
Title II	84.367
I.D.E.A.	84.027
National School Lunch Program	10.555

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 07/01/2007	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2008
U.S. Department of Education										
Passed through PA Department of Education										
Title I	I	84.010	013-06-0089	07/01/05 - 09/30/07	\$ 1,683,520	\$ -	\$ (80,266)	\$ 80,266	\$ 80,266	\$ -
Title I	I	84.010	013-07-0089	07/01/06 - 09/30/08	1,700,870	793,943	360,847	433,096	433,096	-
Title I	I	84.010	013-08-0089	07/01/07 - 09/30/09	1,676,357	1,005,825	-	1,461,494	1,461,494	455,669
Title I - Delinquent	I	84.010	107-07-0089	07/01/07 - 09/30/08	29,622	29,622	-	26,365	26,365	(3,257)
Title I - Program Improvement	I	84.010	042-07-0089	07/01/06 - 09/30/08	33,000	14,143	33,000	(7,904)	(7,904)	10,953
Title I - Academic Achievement Award	I	84.010	077-070089	07/01/06 - 09/30/08	2,076	2,076	-	2,076	2,076	-
Comprehensive School Reform Program	I	84.332	021-06-0089	08/24/05 - 09/30/07	150,000	-	(30,164)	30,164	30,164	-
Title V	I	84.298	011-08-0089	07/01/07 - 09/30/08	10,569	10,569	-	10,569	10,569	-
Title II - Improving Teacher Quality	I	84.367	020-07-0089	07/01/06 - 09/30/08	541,061	144,278	(15,765)	160,043	160,043	-
Title II - Improving Teacher Quality	I	84.367	020-08-0089	07/01/07 - 09/30/09	544,910	290,618	-	399,097	399,097	108,479
Title II - Educational Technology	I	84.318	055-07-0089	07/01/06 - 09/30/08	120,000	120,000	-	90,700	90,700	(29,300)
Title II - Educational Technology	I	84.318	055-08-0089	07/01/07 - 09/30/09	162,200	64,880	-	70,459	70,459	5,579
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-05-0089	11/23/05 - 09/30/05	59,054	-	900	(900)	(900)	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-07-0089	07/01/06 - 09/30/08	61,940	21,881	(11,120)	54,882	54,882	21,881
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-08-0089	07/01/07 - 09/30/09	59,614	34,065	-	4,912	4,912	(29,153)
Drug Free Schools	I	84.186	100-08-0089	07/01/07 - 09/30/09	35,363	35,363	-	35,363	35,363	-
21st Century Community Learning Centers	I	84.287	410-01-1498	10/01/06 - 09/30/07	99,632	99,632	81,500	18,132	18,132	-
21st Century Community Learning Centers	I	84.287	410-02-7658	10/01/07 - 09/30/08	82,500	82,500	-	82,500	82,500	-
21st Century Community Learning Centers	I	84.287	410-04-3306	01/01/07 - 06/30/08	195,250	179,932	-	138,257	138,257	(41,675)
Public Library Services - LSTA Grant	I	45.310	202-60-9043	05/01/06 - 05/31/07	34,000	26,154	26,154	-	-	-
Passed Through Chester County Intermediate Unit										
I.D.E.A.	I	84.027	062-07-0024	07/01/06 - 06/30/07	873,850	145,642	145,642	-	-	-
I.D.E.A.	I	84.027	062-08-0024	07/01/07 - 06/30/08	999,848	916,527	-	999,848	999,848	83,321
TOTAL U.S. DEPARTMENT OF EDUCATION										
						4,017,650	510,728	4,089,419	4,089,419	582,497
U.S. Department of Agriculture										
Passed through PA Department of Agriculture										
Value of USDA Donated Commodities	I	10.550	N/A	07/01/07 - 06/30/08	N/A	152,861	(6,859)	154,570	154,570	(5,150)
Passed through PA Department of Education										
Breakfast Program	I	10.553	N/A	07/01/06 - 06/30/07	N/A	4,867	4,867	-	-	-
Breakfast Program	I	10.553	N/A	07/01/07 - 06/30/08	N/A	184,681	-	197,022	197,022	12,341
National School Lunch Program	I	10.555	N/A	07/01/06 - 06/30/07	N/A	22,316	22,316	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/07 - 06/30/08	N/A	868,041	-	922,429	922,429	54,388
After School Snacks	I	10.555	N/A	07/01/07 - 06/30/08	N/A	1,465	1,465	1,465	1,465	-
State Matching Share	S	N/A	N/A	07/01/06 - 06/30/07	N/A	2,404	2,404	-	-	-
State Matching Share	S	N/A	N/A	07/01/06 - 06/30/07	N/A	106,384	-	113,065	113,065	6,681
Passed through Penn State University										
Project PA Nutrition - 21st Century Comm Learning Ctrs	I	10.574	N/A	07/01/06 - 09/30/07	6,000	-	(3,004)	3,004	3,004	-
Project PA Nutrition - USDA	I	10.574	N/A	07/01/06 - 09/30/07	25,000	-	(1,000)	1,000	1,000	-
Project PA Nutrition - USDA	I	10.574	N/A	07/01/07 - 06/30/08	1,000	1,000	-	1,000	1,000	-
						1,344,019	18,724	1,393,555	1,393,555	68,260
TOTAL U.S. DEPARTMENT OF AGRICULTURE										
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS						\$5,361,669	\$ 529,452	\$ 5,482,974	\$ 5,482,974	\$ 650,757

Source Codes

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

Footnotes:

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

COATESVILLE AREA SCHOOL DISTRICT

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

NOTE A SCOPE OF THIS SCHEDULE

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.550 Value of USDA Donated Commodities represent surplus food consumed by the District during the 2007-2008 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, 2008 was \$468,693.