



*FINANCIAL STATEMENTS
AND SINGLE AUDIT SUPPLEMENT*

COATESVILLE AREA SCHOOL DISTRICT

Coatesville, Pennsylvania

June 30, 2007

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January 9, 2008

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

In planning and performing our audit of the basic financial statements of Coatesville Area School District for the year ended June 30, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters that provide opportunities for strengthening internal controls and operating efficiencies.

This letter does not affect our report dated January 9, 2008 on the basic financial statements of Coatesville Area School District, Coatesville, Pennsylvania. Our recommendations are summarized as follows:

STATUS OF PRIOR YEAR RECOMMENDATIONS

ESTABLISH A CODE OF CONDUCT AND CONFLICT-OF-INTERESTS POLICY

We noted that the District does not have a formal code of conduct or conflict-of-interests policy. We recommended that it is in management's best interests to establish a formal, written policy and procedures covering unethical conduct or transactions and relationships that may involve potential conflicts of interest. The recent spate of business scandals has focused attention on the importance of a well-developed and communicated code of conduct in promoting a culture of honesty and ethical behavior and deterring unethical business activity. To be effective, a code of conduct must be well communicated to, and understood by, those expected to adhere to it. Thus, we further recommended that the District hold one or more special sessions to present the upgraded code to District personnel and conduct periodic training sessions to ensure that they remain aware of the code and understand its applications for their behavior.

Some features that should be considered in establishing a code of conduct and conflict-of-interests policy include the following:

- (a) There should be an introductory section in which top management clearly expresses its commitment to ethical behavior, expectation that all personnel will adhere to the code and intention to hold accountable anyone who violates it. Expressing a proper "tone at the top," in words and by example, helps create and maintain a culture of honesty and acceptable behavior. This section might be signed by the superintendent and board members as an indication of their commitment to it.

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- (b) The code should include a means for employees to obtain advice before making decisions about matters that might be violations and confidentially report, anonymously if preferred, concerns about potential or suspected violations without fear or retribution. For example, employees could be advised to communicate with an official other than their supervisor or with a trusted individual the District designates as an "ethics" officer who is not part of the normal chain of command, yet has access to top management and the Board.
- (c) There should be training for new employees during which they can ask questions about provisions of the code. Periodically thereafter, there should be refresher training for existing employees. The training should be specific and relevant to the employees' levels and duties so that they will understand how the code applies to them. For example, the frequency and details of training might differ for supervisory versus nonsupervisory personnel and for accounting versus nonaccounting personnel. Employees could be presented with scenarios they might encounter on the job and could be counseled to ask themselves the following questions in deciding what to do in the face of the ethical dilemma:
- Is the action legal?
 - Does the action comply with the District's values?
 - Will doing the action make the employee feel uncomfortable?
 - How would the action look if it were reported in the newspaper?
- (d) New employees should be required to sign an acknowledgment of their responsibility to adhere to the code of conduct at the time of their employment. Existing employees (particularly those in sensitive positions such as management, financial reporting or purchasing) should periodically (preferably annually) reconfirm their understanding of, and responsibility to adhere to, the code; that they have complied with it; and they are not aware of any unreported violations.
- (e) The code should be explicit that dishonest or unethical behavior will not be tolerated, that suspected or alleged violations will be thoroughly investigated and that violators may be terminated or reported to appropriate authorities.
- (f) The code of conduct should be specific enough about required and prohibited behavior to provide a reasonable guide to employees in making appropriate decisions. Matters to cover include the following:
- Compliance with all laws and regulations.
 - Conflicts of interest with vendors, customers or others.
 - Acceptance or making of gifts, favors or kickbacks to or from customers or suppliers that creates a real or apparent conflict of interest or undue influence.
 - Accurate and complete reporting of production records, time and expense reports, and financial records or statements.
 - Improper use of District assets for personal use.
 - Confidentiality of District information.

The establishment and communication process will be more productive if it involves members from various areas of the District, such as representatives from the business office, the superintendent's office and each school. Employees who have an opportunity for input into the code of conduct are more likely to embrace it and comply with it.

Status

This recommendation is still applicable for the current year.

APPROVE JOURNAL ENTRIES

Our review of the general journal entries revealed that journal entries lack approval by a person in a management position responsible for financial reporting.

We recommended the adoption of a policy whereby all journal entries will be approved by a designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. We further noted that the explanations accompanying the entries were inadequate in many instances. All journal entries should be accompanied by reference to adequate supporting data.

Status

A review of current year journal entries showed that adequate explanations and supporting documentation were evident for all entries. However, approval of a designated member of management was not evident on the face of the entries.

We recommended that management discuss the cost-benefit of individual journal entry approval with the Audit/Finance Committee and the Board of Directors to determine whether other procedures (i.e., monthly general ledger review) mitigate any risks associated with not performing this process. This recommendation is still applicable for the current year.

PREPARE AND APPROVE PURCHASE ORDERS PRIOR TO RECEIPT

Our audit test of controls over the cash disbursement cycle indicated that purchase orders frequently are prepared after items or services are received. This practice may defeat the control that a purchase order system is intended to provide.

To help monitor the volume of purchases due to budget constraints and ensure that purchases are initiated with proper approval, we recommended that purchase orders be prepared and approved before goods or services are received or ordered by other means.

Status

Currently, the District policy is that an approved purchase order must be obtained before goods or services are received or ordered by other means. However, we continue to note instances where purchase orders are prepared after items or services are received. Considering that the number of after-the-fact purchase orders have diminished in comparison to the prior year, management should evaluate the nature of the current year exceptions and revisit the District's purchase order policy, accordingly.

POST-EMPLOYMENT BENEFITS

Government Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," requires all Phase I governments to recognize the cost of post-employment benefits (other than pensions) in the entity-wide financial statements. The District is not required to recognize these costs until the year ended June 30, 2008.

The new standard will cause the District to recognize the cost of providing other post-employment benefits over the working life of the employee rather than at the time the premiums are paid. In order to calculate such costs, the District will require an actuarial valuation of the obligation to provide other post-employment benefits, including an amortization of the past service cost. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the entity-wide statement of net assets.

We recommended that, to meet the specifications of this new standard, the District initiate an actuarial valuation a year prior to the implementation date. This will provide sufficient time for the valuation process and, if the District chooses to fund the ARC (essentially advancefunding the expense), time to work the numbers into the budget process.

Status

The District has contracted with an actuary to perform an actuarial valuation to meet the specifications of the new standard for the year ended June 30, 2008. This recommendation is no longer applicable.

SEGREGATION OF PAYROLL DUTIES

At present, there is a lack of segregation of duties between the payroll and Human Resources departments. The payroll department maintains the payroll master file, including adding new employees, making changes to it for pay rate adjustments and preparing the payroll.

We recommended that, to eliminate this lack of segregation of duties, the duties of adding new employees and making changes for pay rate adjustments be given to the Human Resources department. This will eliminate the possibility that the person who prepares the payroll may enter fictitious employees and/or make false pay rate adjustments to the District's payroll master file.

Status

Management has assessed the feasibility of the above recommendation and has determined that the cost outweighs the benefits of implementing the aforementioned segregation of duties. We recommended that management discuss the cost-benefit of implementing the recommendation with the Audit/Finance Committee and the Board of Directors to determine whether other procedures (i.e., continuous management monitoring of the payroll function) are sufficient to mitigate any associated risks. This recommendation is still applicable for the current year.

ESTABLISH A FUND BALANCE POLICY

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

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

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

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

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

Status

This recommendation is still applicable for the current year.

CURRENT YEAR RECOMMENDATIONS

None.

This report is intended solely for the information and use of the Board of School Directors, Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.


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January 9, 2008

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District as of and for the year ended June 30, 2007 which collectively comprise the District's basic financial statements and have issued our report thereon dated January 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 11, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Coatesville Area School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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.

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 grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Coatesville Area School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Coatesville Area School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Coatesville Area School District's compliance with those requirements.

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Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Coatesville Area School District are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Coatesville Area School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive accounting estimates affecting the financial statements were depreciation expense and accumulated depreciation, the self-insurance liability and compensated absences.

- Management's estimate of depreciation expense and the related accumulated depreciation is based on the straight-line method of depreciation over the estimated useful lives of the assets.
- Management's estimate of compensated absences is based on estimates of the amounts owed by the District according to District policy.
- Management's estimate of the self-insurance liability is based on estimates of amounts owed for claims incurred and reported and claims incurred but not yet reported which have been estimated based on prior year trends as of June 30, 2007.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the respective results of operations and financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

During the current year, the District recorded adjustments to the beginning net assets of the entity-wide financial statements and the proprietary fund as of June 30, 2006. These adjustments were necessary to agree the District's capital asset records with a recent District-wide capital asset appraisal. As a result of the prior period adjustments, net assets in the governmental activities increased by \$2,654,228 and business-type activities and proprietary fund net assets increased by \$29,535.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the types of auditors' opinions that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as Coatesville Area School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties with management in performing and completing our audit.

This information is intended solely for the information and use of the Board of School Directors, Audit Committee and management of Coatesville Area School District, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



BARBACANE, THORNTON & COMPANY

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COATESVILLE AREA SCHOOL DISTRICT

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COATESVILLE AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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January 9, 2008

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, 2007, 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 2006 financial statements and, in our report dated January 23, 2007, 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, 2007, 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 9, 2008, on our consideration of Coatesville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of School Directors
Coatesville Area School District

The management's discussion and analysis on pages 3 through 14 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.

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COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2007

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, 2007. 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 net assets increased by \$1.0 million, due primarily to increased subsidies, the growth in property tax assessments, increased earnings on investments, and offset by an increase in expenditures primarily related to self-insured healthcare expenditures. Program revenues accounted for \$26.3 million, or 21 percent of total revenues (\$127.7 million), and general revenues accounted for \$101.4 million, or 79 percent.

The general fund reported a fund balance of \$20.0 million, a decrease from the previous year, which reported a fund balance of \$26.2 million. The decrease in the General Fund balance was prominently the result of the planned reduction in property taxes as well as an increase in self-insured healthcare expenditures. Details of the factors that caused the \$6.2 million decrease in the General Fund balance follows:

- Property tax revenue decreased as a result of the District decreasing its property tax mills from 27.45 to 25.70, a 1.75 mill, or 6.4 percent, decrease which resulted in a \$4.5 million decrease in tax revenue. This was offset by additional property tax revenue as a result of the District's tax base growing by 4.5 percent, amounting to \$2.7 million.
- Self-insured healthcare expenditures increased by \$4.8 million over the prior year.
- Fund transfers of \$2.0 million were transferred from the General Fund to the Capital Reserve Fund.
- State and federal subsidies for reimbursement of education-related expenses increased \$1.7 million.
- Investment revenue increased \$700 thousand, or 38 percent, from the previous year as a result of diligent investing and cash flow management.

As a result of its improved ending fund balance of \$26.2 million from the previous 2005-2006 fiscal year, the District decreased its property tax millage rate from 27.45 to 25.70, which was a 1.75 mill, or 6.4 percent, decrease in relation to 2006-2007. A mill represents the real estate tax generated from each \$1,000 in assessed real estate value. Even with this millage reduction, the District was able to achieve or maintain:

- The continuance of major renovation projects at its high school campus.
- The planning of scheduled renovations at two of its middle schools.
- The planning of two new elementary schools.
- Tutoring programs.
- New comprehensive curriculum programs.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2007

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 \$10.5 million at the close of the most recent fiscal year. In the prior year, liabilities exceeded assets by \$9.6 million.

The largest portion of the District's total net assets is its negative investment in capital assets (\$14.2 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 2007 to 2006 follows:

NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 43,487,423	\$ 69,155,362	\$ 768,950	\$ 961,893	\$ 44,256,373	\$ 70,117,255
Capital assets	91,809,538	65,609,271	236,865	198,908	92,046,403	65,808,179
Total Assets	\$135,296,961	\$134,764,633	\$1,005,815	\$1,160,801	\$136,302,776	\$135,925,434
Liabilities and Net Assets:						
Current liabilities	\$ 21,876,754	\$ 17,061,859	\$ -	\$ 15,035	\$ 21,876,754	\$ 17,076,894
Long-term liabilities	103,862,755	109,159,811	73,130	59,487	103,935,885	109,219,298
Total Liabilities	125,739,509	126,221,670	73,130	74,522	125,812,639	126,296,192

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2007

NET ASSETS (cont'd)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Net Assets:						
Invested in capital assets, net of related debt	(14,392,348)	(20,196,585)	236,865	198,908	(14,155,483)	(19,997,677)
Restricted	2,899,597	2,019,029	-	-	2,899,597	2,019,029
Unrestricted	21,050,203	26,720,519	695,820	887,371	21,746,023	27,607,890
Total Net Assets	9,557,452	8,542,963	932,685	1,086,279	10,490,137	9,629,242
Total Liabilities and Net Assets	\$135,296,961	\$134,764,633	\$1,005,815	\$1,160,801	\$136,302,776	\$135,925,434

While the District experienced an \$821 thousand increase in its restricted net assets as a result of the increased amount set aside for future capital needs, it also experienced a \$5.8 million decrease in its unrestricted net assets as a result of the decrease in the real estate tax mills and revenues, as well as increased healthcare costs. The District's investment in capital assets, net of related debt, increased by \$5.8 million as a result of the District paying off the debt used to acquire the capital assets faster than the capital assets are being depreciated, as well as those assets that were acquired without the issuance of debt.

Governmental Activities

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

STATEMENT OF ACTIVITIES

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
PROGRAM EXPENSES				
Governmental Activities:				
Instruction	\$ 80,176,767	\$ 64,048,012	\$ 70,984,305	\$ 56,226,624
Instructional staff support	9,949,654	9,512,922	9,086,877	8,731,554
Administration	9,618,699	9,343,564	8,688,325	8,487,177
Maintenance	11,028,679	10,708,892	9,943,323	9,713,120
Pupil transportation	7,973,764	3,848,163	7,844,258	3,773,723
Student activities	997,883	867,196	777,080	638,525
Community services	23,607	(46,081)	29,258	(50,359)
Interest and fiscal charges	4,474,814	2,089,292	4,767,750	2,130,449
TOTAL PROGRAM EXPENSES	\$124,243,867	\$100,371,960	\$112,121,176	\$ 89,650,813
Business-type Activities:				
Food service	\$ 2,600,044	\$ 193,989	\$ 2,520,565	\$ 160,106

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2007

The net cost of services for instruction increased from fiscal year 2006 to 2007 as a result of salary contractual obligations, increased healthcare costs for instructional staff, 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 an improved curriculum.

The net cost of services for instructional staff support and administration increased from fiscal year 2006 to 2007 as a result of salary contractual obligations and increased healthcare costs for staff.

The increase in the cost of services for maintenance was the result of rising energy costs, salary contractual obligations and increased healthcare costs for staff, net of increases for operating contributions.

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, the addition of security services at school sports events, and repairs and updates to automated external defibrillators and other sports equipment.

The decrease in the net cost of services for interest and fiscal charges was the result of a decrease in rental/sinking fund subsidy revenue (\$200 thousand) offset by a decrease in interest payments for debt (\$300 thousand).

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

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program Revenues:						
Charges for services	\$ 377,396	\$ 388,444	\$1,150,076	\$1,197,722	\$ 1,527,472	\$ 1,586,166
Operating grants	23,494,511	22,081,919	1,255,979	1,207,048	24,750,490	23,288,967
Total Program Revenues	23,871,907	22,470,363	2,406,055	2,404,770	26,277,962	24,875,133
General Revenues:						
Property taxes	70,141,114	72,537,058	-	-	70,141,114	72,537,058
Taxes levied for specific purposes	8,134,397	8,390,682	-	-	8,134,397	8,390,682
Grants and entitlements	19,342,422	18,600,712	-	-	19,342,422	18,600,712
Investment earnings	3,742,254	3,271,263	40,395	58,814	3,782,649	3,330,077
Miscellaneous	26,262	191,763	-	-	26,262	191,763
Total General Revenues	101,386,449	102,991,478	40,395	58,814	101,426,844	103,050,292
TOTAL REVENUES	125,258,356	125,461,841	2,446,450	2,463,584	127,704,806	127,925,425

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2007

CHANGES IN NET ASSETS (cont'd)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
EXPENSES						
Program Expenses:						
Instruction	80,176,767	70,984,305	-	-	80,176,767	70,984,305
Instructional staff support	9,949,654	9,086,877	-	-	9,949,654	9,086,877
Administration	9,618,699	8,688,325	-	-	9,618,699	8,688,325
Maintenance	11,028,679	9,943,323	-	-	11,028,679	9,943,323
Pupil transportation	7,973,764	7,844,258	-	-	7,973,764	7,844,258
Student activities	997,883	777,080	-	-	997,883	777,080
Community services	23,607	29,258	-	-	23,607	29,258
Interest and fiscal charges	4,474,814	4,767,750	-	-	4,474,814	4,767,750
Food service	-	-	2,600,044	2,564,876	2,600,044	2,564,876
TOTAL EXPENSES	124,243,867	112,121,176	2,600,044	2,564,876	126,843,911	114,686,052
Change in Net Assets	\$ 1,014,489	\$ 13,340,665	\$ (153,594)	\$ (101,292)	\$ 860,895	\$ 13,239,373

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

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

Fiduciary Funds - The District is the trustee, or fiduciary, for its scholarship program and other items listed as private-purpose trust. In addition, the District accounts for funds held on behalf of students of the District. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 25 and 26. The District excludes these activities from its other financial statements because the assets cannot be utilized by the District to finance its operations.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2007

Fund Financial Statements

The fund financial statements of the District's major funds begin on page 17 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 \$24.9 million, which is significantly less than last year's total of \$56.2 million. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2007 and 2006.

	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 19,957,167	\$ 26,194,803	\$ (6,237,636)
Capital Reserve	2,899,597	2,019,029	880,568
Capital Projects	1,666,732	27,602,378	(25,935,646)
Other Governmental	<u>351,087</u>	<u>410,286</u>	<u>(59,199)</u>
Total	<u>\$ 24,874,583</u>	<u>\$ 56,226,496</u>	<u>\$ (31,351,913)</u>

The District's reliance upon tax revenues is demonstrated by the graph on the following page that indicates 54.4 percent of total revenues for government activities comes from property taxes. Additionally, it should be noted that for the year 2006-2007, the District received \$3.9 million in proceeds from a collateralized borrowing agreement stemming from the District's delinquent taxes.

General Fund

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

Revenues	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Taxes	\$ 73,855,391	\$ 75,647,265	\$(1,791,874)	-2.4%
Investment earnings	2,760,724	1,999,670	761,054	38.1%
Intergovernmental	42,943,749	41,208,426	1,735,323	4.2%
Proceeds from collateralized borrowing	3,922,157	7,699,542	(3,777,385)	-49.1%
Other revenue	<u>273,714</u>	<u>919,937</u>	<u>(646,223)</u>	<u>-70.2%</u>
Total	<u>\$123,755,735</u>	<u>\$127,474,840</u>	<u>\$(3,719,105)</u>	<u>-2.9%</u>

Tax revenue is down \$1.8 million for various reasons. As previously mentioned, the District decreased its property tax mills from 27.45 to 25.70, a 1.75 mill, or 6.4 percent, decrease which resulted in a \$4.5 million decrease in tax revenue. However, the District's tax base increased by 4.5 percent, resulting in a \$2.7 million increase in tax revenues.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

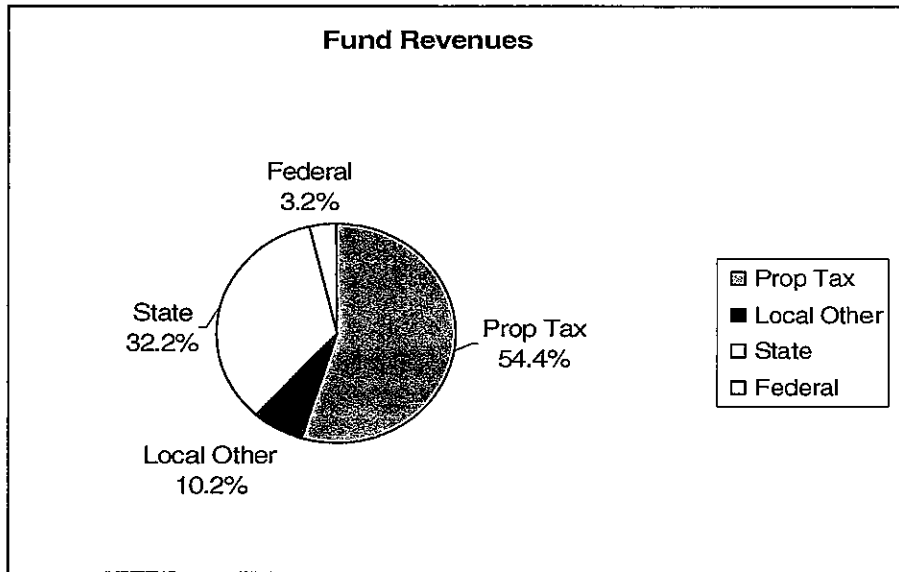
JUNE 30, 2007

Real estate transfer taxes decreased by \$520 thousand while earned income taxes increased by \$240 thousand.

Investment earnings increased by \$761 thousand, or 38 percent, as a result of management's diligent management of cash flow and investing activities, as well as higher interest rates.

Intergovernmental revenue increased by 1.7 million, or 4.2 percent, for the fiscal year due to increases in state subsidies pertaining to expenditures for basic education, charter school tuition expenditures and retirement contribution expenditures.

Proceeds from collateralized borrowings decreased because the prior year included revenues from the sale of taxes receivable for 2005-2006 and prior years, whereas the current year proceeds were for the sale of taxes receivable for 2006-2007 only.



Expenditures by Object	2007 Amount	2006 Amount	Dollar Change	Percent Change
Salaries	\$ 45,788,510	\$ 40,740,219	\$ 5,048,291	12.39%
Benefits	25,318,492	19,230,631	6,087,861	31.66%
Purchased Services	40,072,368	36,956,575	3,115,793	8.43%
Supplies	4,013,280	4,012,188	1,092	0.03%
Equipment	1,016,769	808,488	208,281	25.76%
Miscellaneous	798,594	881,772	(83,178)	-9.43%
Debt Service/Transfers	12,985,358	12,626,482	358,876	2.84%
Total	\$129,993,371	\$115,256,355	\$14,737,016	12.79%

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2007

Expenditures were up \$14.7 million, or 12.8 percent, over the prior year.

The \$5.0 million increase in salaries was the result of collective bargaining agreement provisions, as well as the creation of additional positions many times to meet state mandates.

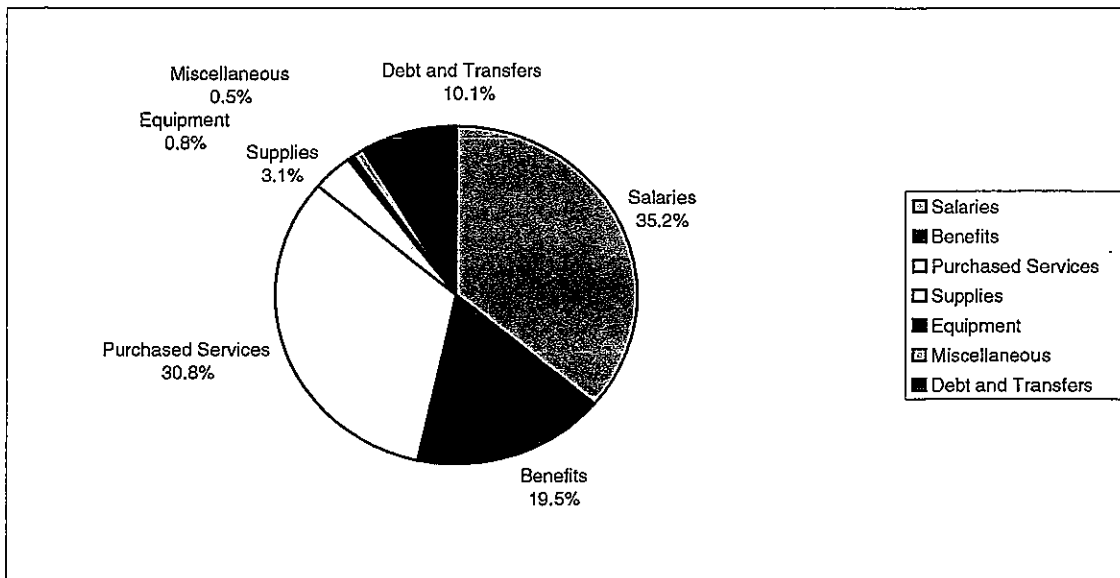
The \$6.1 million increase in benefits was attributed mostly to the District's self-insured health insurance plan, which experienced an unfavorable year with a \$4.8 million increase. Other increases included a \$1.0 million increase in state retirement plan contributions as a result of a mandated 37 percent contribution rate increase coupled with the required retirement contributions for additional positions that were filled, as well as a \$300 thousand increase in required social security expenditures for additional positions that were filled.

Purchased services increased by \$3.1 million, the result of a \$1.7 million increase in professional services needed in areas such as special education and psychological services to meet required mandates, a \$1.0 million increase in charter school tuition and a \$400 thousand increase for equipment leases and repairs.

Debt and transfers increased by \$400 thousand as a result of increased debt service requirements.

Expenditures exceeded revenues during the fiscal year resulting in a \$6.2 million decrease to the general fund balance. It should be noted that the District's decision to reduce its property tax mills from 27.45 to 25.70, or 1.75 mills, resulted in a \$4.5 million decrease to tax revenue.

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.



COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2007

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 exercised spending controls to effectively manage the District's expenses. However, the District is self-insured for its employees' healthcare expenditures; these expenditures exceeded budgeted amounts collectively and are evident in the overages for most of the areas below.

Spending Review

				Variance	
		Budget	Actual	Diff \$	Diff %
Instruction:					
Regular Programs	1100	\$ 46,638,509	\$ 48,346,402	\$(1,707,893)	-3.53
Special Programs	1200	20,465,635	20,983,530	(517,895)	-2.53
Vocational Programs	1300	3,342,612	3,419,980	(77,368)	-2.31
Other Instructional Programs	1400	6,360,302	5,812,771	547,531	9.41
Total Instruction		76,807,058	78,562,683	(1,755,625)	-2.29
Support Services:					
Pupil Personnel Services	2100	4,024,739	4,271,110	(246,371)	-6.12
Instructional Staff Services	2200	4,663,779	4,707,733	(43,954)	-0.94
Administrative Services	2300	6,569,113	6,780,851	(211,738)	-3.22
Pupil Health	2400	948,164	1,021,452	(73,288)	-7.73
Business Services	2500	1,301,898	1,249,327	52,571	4.04
Operation and Maintenance of Plant	2600	11,011,831	10,885,506	126,325	1.15
Student Transportation Services	2700	7,429,274	7,973,764	(544,490)	-7.33
Central Services	2800	1,251,694	1,286,955	(35,261)	-2.82
Other Support Services	2900	48,426	48,426	-	0.00
Total Support Services		37,248,918	38,225,124	(976,206)	-2.62
Operation of Noninstructional Services:					
Student Activities	3200	2,276	2,276	-	0.00
Community Services	3300	23,604	23,607	(3)	-0.01
Total Operation of Noninstructional Services		25,880	25,883	(3)	-0.01
Debt Service, Transfers and Refunds:					
Debt Service	5110	10,201,421	10,199,499	1,922	0.02
Fund Transfers		798,000	2,785,859	(1,987,859)	-249.11
Refunds of Prior Year Revenues		208,612	194,323	14,289	6.85
Total Debt Service, Transfers and Refunds		11,208,033	13,179,681	(1,971,648)	-17.59
TOTAL EXPENDITURES		\$125,289,889	\$129,993,371	\$(4,703,482)	-3.75

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2007

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:

	Budget	Actual	Diff \$	Diff%
Other Instructional Programs	\$ 6,360,302	\$ 5,812,771	\$ 547,531	9.41%
Pupil Personnel	4,024,739	4,271,110	(246,371)	-6.12%
Pupil Health	948,164	1,021,452	(73,288)	-7.73%
Student Transportation Services	7,429,274	7,973,763	(544,490)	-7.33%
Fund Transfers	798,000	2,785,859	(1,987,859)	-249.11%
Refunds of Prior Year Revenues	208,612	194,323	14,289	6.85%

Other instructional program expenditures were less than anticipated due to a decrease in federal program funding appropriated to the District.

Pupil personnel expenditures were higher than anticipated as a result of expenditures being properly classified to this area that were previously classified elsewhere.

Pupil health expenditures were higher than anticipated due to overall student needs as well as price increases.

Student transportation services expenditures were higher than anticipated due to rising gas prices and the addition of bus routes, particularly for special education.

Fund transfers were higher than anticipated as a result of a \$2.0 million transfer to the Capital Reserve Fund that was not originally budgeted.

Refunds of prior year revenues were less than anticipated as a result of state subsidy adjustments pertaining to prior years' revenues being less than anticipated.

Other Funds

The capital projects fund balance decreased by \$25.9 million as a result of expenditures for major renovation projects at the District's high school campus.

The capital reserve fund increased by \$880 thousand as a result of a transfer made from the General Fund exceeding current year expenditures.

Proprietary Fund

The proprietary fund includes the food service program. This program had a decrease in net assets of \$154 thousand for the fiscal year. The decrease is attributed primarily to an increase in operating expenses of \$80 thousand and a decrease in vending revenue of \$47 thousand. It should be noted that the decrease in vending revenue was the result of the Child Nutrition and WIC Reauthorization Act of 2004, which promotes healthful food choices for students and eliminates unhealthy choices. However, the District did receive an increase of \$48 thousand in federal subsidies as a result of students purchasing healthful regular school lunches in lieu of vending machine alternatives.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

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

JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has \$92.0 million invested in capital assets net of depreciation, with \$91.8 million attributed to governmental activities. Acquisitions for governmental activities totaled \$29.0 million, and depreciation expense for the year was \$2.7 million. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

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

- The continued renovation and heating, ventilation and air conditioning system replacement at the 9/10 Center.
- Upgrades to stadium and athletic fields at Coatesville Area Senior High School and the 9/10 Center.
- Various studies and planning regarding the possible additions and renovations at Coatesville Area Senior High, North Brandywine and South Brandywine Middle Schools, and the construction of the new Rainbow and Cain Elementary Schools.

Debt

At June 30, 2007, the District had \$107.9 million in outstanding bonds and notes payable. During the year, the District decreased its outstanding debt by \$4.6 million dollars - with principal payments of \$5.6 million, less \$1 million in additional debt as a result of the issuance of the 2006 General Obligation Bonds which advance refunded a portion of the 2005 General Obligation Bonds. Detailed information regarding long-term debt 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, 2007, the District had incurred new debt (the additional \$1 million from the 2006 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 approximately four and one half percent a year for the next four years, and then reduce to about three percent a year as residential vacant lots and commercial tracts are fully developed.

COATESVILLE AREA SCHOOL DISTRICT
Coatesville, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2007

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, Controller, 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, 2007
(With Summarized Comparative Data for June 30, 2006)

	Governmental Activities	Business-type Activities	Totals	
			2007	2006
ASSETS				
Cash and cash equivalents	\$ 8,282,521	\$ 375,085	\$ 8,657,606	\$ 2,253,514
Investments	22,793,488	350,000	23,143,488	56,976,296
Internal balances	20,138	(20,138)	-	-
Interest receivable	248,104	3,459	251,563	478,572
Pledged taxes receivable	5,625,731	-	5,625,731	5,932,298
Due from other governments	2,247,263	29,587	2,276,850	2,124,110
Other receivables	298,873	5,224	304,097	829,144
Prepaid expenses	1,235,519	-	1,235,519	497,966
Inventories	-	25,733	25,733	31,391
Other assets	1,917,002	-	1,917,002	183,732
Issuance costs	818,784	-	818,784	810,232
Land	3,075,000	-	3,075,000	3,075,000
Construction-in-progress	22,812,051	-	22,812,051	1,603,072
Land improvements	6,917,555	-	6,917,555	3,435,412
Buildings and improvements	87,753,866	-	87,753,866	84,661,389
Furniture and equipment	10,194,429	1,482,320	11,676,749	10,653,862
Accumulated depreciation	(38,943,363)	(1,245,455)	(40,188,818)	(37,620,556)
TOTAL ASSETS	\$ 135,296,961	\$ 1,005,815	\$ 136,302,776	\$ 135,925,434
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Bank overdraft	\$ -	\$ -	\$ -	\$ 13,479
Accounts payable	4,455,727	-	4,455,727	3,667,905
Accrued salaries and benefits	5,961,464	-	5,961,464	2,868,205
Accrued interest	865,673	-	865,673	1,284,410
Deferred revenue	-	-	-	8,550
Collateralized borrowing	4,662,191	-	4,662,191	3,480,524
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable	4,185,000	-	4,185,000	3,995,000
Add: Bond premiums	112,661	-	112,661	112,661
Less: Bond discounts	(6,310)	-	(6,310)	(2,185)
Less: Deferred amounts on refunding	(115,441)	-	(115,441)	(58,032)
Note payable	1,665,000	-	1,665,000	1,600,000
Capital leases payable	47,897	-	47,897	47,897
Accumulated compensated absences	42,892	-	42,892	58,480
Portion due or payable after one year:				
Bonds payable	81,890,000	-	81,890,000	85,055,000
Add: Bond premiums	1,351,927	-	1,351,927	1,464,588
Less: Bond discounts	(82,650)	-	(82,650)	(28,407)
Less: Deferred amounts on refunding	(1,420,259)	-	(1,420,259)	(731,978)
Note payable	20,145,000	-	20,145,000	21,810,000
Capital leases payable	95,793	-	95,793	143,690
Accumulated compensated absences	1,882,944	73,130	1,956,074	1,506,405
TOTAL LIABILITIES	125,739,509	73,130	125,812,639	126,296,192
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	(14,392,348)	236,865	(14,155,483)	(19,997,677)
Restricted for capital projects	2,899,597	-	2,899,597	2,019,029
Unrestricted	21,050,203	695,820	21,746,023	27,607,890
TOTAL NET ASSETS	9,557,452	932,685	10,490,137	9,629,242
TOTAL LIABILITIES AND NET ASSETS	\$ 135,296,961	\$ 1,005,815	\$ 136,302,776	\$ 135,925,434

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

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(With Summarized Comparative Data for the Year Ended June 30, 2006)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 80,176,767	\$ 205,614	\$ 15,923,141	\$ -	\$ (64,048,012)	\$ -	\$ (56,226,624)
Instructional student support	9,949,654	-	436,732	-	(9,512,922)	-	(8,731,554)
Administrative and financial support services	9,618,699	-	275,135	-	(9,343,564)	-	(8,487,177)
Operation and maintenance of plant services	11,028,679	-	319,787	-	(10,708,892)	-	(9,713,120)
Pupil transportation	7,973,764	-	4,125,601	-	(3,848,163)	-	(3,773,723)
Student activities	997,883	102,094	28,593	-	(867,196)	-	(638,525)
Community services	23,607	69,688	-	-	46,081	-	50,369
Interest on long-term debt	4,474,814	-	2,385,522	-	(2,089,292)	-	(2,130,449)
TOTAL GOVERNMENTAL ACTIVITIES	124,243,867	377,396	23,494,511	-	(100,371,960)	-	(89,650,813)
BUSINESS-TYPE ACTIVITIES							
Food service	2,600,044	1,150,076	1,255,979	-	-	(193,989)	(160,106)
TOTAL BUSINESS-TYPE ACTIVITIES	2,600,044	1,150,076	1,255,979	-	-	(193,989)	(160,106)
TOTAL PRIMARY GOVERNMENT	\$126,843,911	\$ 1,527,472	\$ 24,750,490	\$ -	(100,371,960)	(193,989)	(89,810,919)
GENERAL REVENUES							
Property taxes, levied for general purposes					70,141,114	-	70,141,114
Taxes levied for specific purposes					8,134,397	-	8,134,397
Grants and entitlements not restricted to specific programs					19,342,422	-	19,342,422
Investment earnings					3,742,254	40,395	3,782,649
Miscellaneous					26,262	-	26,262
TOTAL GENERAL REVENUES					101,386,449	40,395	101,426,844
CHANGE IN NET ASSETS					1,014,489	(153,594)	13,239,373
NET ASSETS (DEFICIT), BEGINNING OF YEAR					8,542,963	1,086,279	(3,610,131)
NET ASSETS, END OF YEAR					\$ 9,557,452	\$ 932,685	\$ 10,490,137

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

COATESVILLE AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007
(With Summarized Comparative Data for June 30, 2006)

	Major Funds			Totals		
	General Fund	Capital Reserve Fund	Capital Projects Fund	Nonmajor Fund	2007	2006
ASSETS						
Cash and cash equivalents	\$ 2,080,483	\$ 3,215,127	\$ 2,940,873	\$ 46,038	\$ 8,282,521	\$ 2,872,934
Investments	22,447,140	902	61,528	283,918	22,793,488	55,976,296
Interest receivable	245,635	-	-	2,469	248,104	462,873
Taxes receivable	5,625,731	-	-	-	5,625,731	5,932,298
Due from other funds	115,622	-	4,587	24,524	144,733	261,939
Due from other governments	2,247,263	-	-	-	2,247,263	2,083,423
Other receivables	266,409	-	32,464	-	298,873	817,684
Prepaid expenses	1,235,519	-	-	-	1,235,519	497,966
Other assets	1,917,002	-	-	-	1,917,002	183,732
TOTAL ASSETS	\$ 36,180,804	\$ 3,216,029	\$ 3,039,452	\$ 356,949	\$ 42,793,234	\$ 69,089,145
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 619,420
Due to other funds	-	124,595	-	-	124,595	124,595
Accounts payable	2,885,308	191,837	1,372,720	5,862	4,455,727	3,666,349
Accrued salaries and benefits	5,961,464	-	-	-	5,961,464	2,868,205
Deferred revenues	7,333,973	-	-	-	7,333,973	5,525,600
Accumulated compensated absences	42,892	-	-	-	42,892	58,480
TOTAL LIABILITIES	16,223,637	316,432	1,372,720	5,862	17,918,651	12,862,649
FUND BALANCES						
Reserved for capital projects	-	2,899,597	1,666,732	-	4,566,329	29,621,407
Reserved for athletic purposes	-	-	-	351,087	351,087	410,286
Unreserved	19,957,167	-	-	-	19,957,167	26,194,803
TOTAL FUND BALANCES	19,957,167	2,899,597	1,666,732	351,087	24,874,583	56,226,496
TOTAL LIABILITIES AND FUND BALANCES	\$ 36,180,804	\$ 3,216,029	\$ 3,039,452	\$ 356,949	\$ 42,793,234	\$ 69,089,145

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, 2007**

TOTAL GOVERNMENTAL FUND BALANCES \$ 24,874,583

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	3,075,000
Construction-in-progress	22,812,051
Land improvements	6,917,555
Buildings and improvements	87,753,866
Furniture and equipment	10,194,429
Accumulated depreciation	(38,943,363)

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	(86,075,000)
Notes payable	(21,810,000)
Capital leases payable	(143,690)
Accumulated compensated absences	(1,882,944)
Accrued interest	(865,673)
Collateralized borrowing	(4,662,191)

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.

978,856

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.

7,333,973

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 9,557,452

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, 2007

(With Summarized Comparative Data for the Year Ended June 30, 2006)

	Major Funds			Nonmajor Fund	Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund		2007	2006
REVENUES						
Local sources	\$ 77,041,554	\$ 83,126	\$ 849,667	\$ 125,966	\$ 78,100,313	\$ 79,561,863
State sources	38,873,415	-	-	-	38,873,415	36,331,854
Federal sources	3,795,198	-	-	-	3,795,198	4,625,180
TOTAL REVENUES	<u>119,710,167</u>	<u>83,126</u>	<u>849,667</u>	<u>125,966</u>	<u>120,768,926</u>	<u>120,518,997</u>
EXPENDITURES						
Current:						
Instruction	78,562,683	-	-	-	78,562,683	68,058,858
Support services	38,225,124	-	93,990	-	38,319,114	34,698,886
Operation of noninstructional services	25,883	-	-	971,024	996,907	786,519
Capital outlay	-	1,202,558	26,785,313	-	27,987,871	4,034,777
Debt service	10,199,499	-	-	-	10,199,499	10,175,425
TOTAL EXPENDITURES	<u>127,013,189</u>	<u>1,202,558</u>	<u>26,879,303</u>	<u>971,024</u>	<u>156,066,074</u>	<u>117,744,465</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,303,022)</u>	<u>(1,119,432)</u>	<u>(26,029,636)</u>	<u>(845,058)</u>	<u>(35,297,148)</u>	<u>2,774,432</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from collateralized borrowing	3,922,157	-	-	-	3,922,157	7,699,542
Proceeds from extended term financing	-	-	-	-	-	239,484
Refund of prior year expenditures	123,411	-	-	-	123,411	375,003
Refund of prior year receipts	(194,323)	-	-	-	(194,323)	-
Transfers in	-	2,000,000	-	785,859	2,785,859	2,712,000
Transfers out	(2,785,859)	-	-	-	(2,785,859)	(2,712,000)
Issuance of debt - refunding	-	-	9,715,000	-	9,715,000	9,460,000
Payment of debt - refunding	-	-	(9,556,132)	-	(9,556,132)	(9,278,075)
Bond discount	-	-	(64,878)	-	(64,878)	(32,777)
TOTAL OTHER FINANCING SOURCES	<u>1,065,386</u>	<u>2,000,000</u>	<u>93,990</u>	<u>785,859</u>	<u>3,945,235</u>	<u>8,463,177</u>
NET CHANGE IN FUND BALANCES	<u>(6,237,636)</u>	<u>880,568</u>	<u>(25,935,646)</u>	<u>(59,199)</u>	<u>(31,351,913)</u>	<u>11,237,609</u>
FUND BALANCES, BEGINNING OF YEAR	<u>26,194,803</u>	<u>2,019,029</u>	<u>27,602,378</u>	<u>410,286</u>	<u>56,226,496</u>	<u>44,988,887</u>
FUND BALANCES, END 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>

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, 2007**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (31,351,913)

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 (\$29,008,213) exceeded depreciation (\$2,772,976). 26,235,237

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 increased by this amount this year. 565,946

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. 69,310

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). (34,970)

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 repayments (\$14,337,897) exceeded debt proceeds (\$9,715,000). 4,622,897

Governmental funds report issuance costs, bond discounts and deferred amounts on refunding as other financing uses and bond premiums as other financing sources. However, these amounts are reported in the statement of net assets as deferred charges and credits and are amortized over the life of the debt. This is the amount by which current deferred charges (\$1,020,000) exceeded net amortization (\$94,729). 925,271

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). (436,026)

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. 418,737

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,014,489

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, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Local sources	\$ 76,230,649	\$ 76,230,649	\$ 77,041,554	\$ 810,905
State sources	37,323,180	37,323,180	38,873,415	1,550,235
Federal sources	3,658,000	3,658,000	3,795,198	137,198
TOTAL REVENUES	<u>117,211,829</u>	<u>117,211,829</u>	<u>119,710,167</u>	<u>2,498,338</u>
EXPENDITURES				
Instruction:				
Regular programs	46,680,597	46,638,509	48,346,402	(1,707,893)
Special programs	19,618,701	20,465,635	20,983,530	(517,895)
Vocational programs	3,398,806	3,342,612	3,419,980	(77,368)
Other instructional programs	5,304,759	6,360,302	5,812,771	547,531
Total Instruction	<u>75,002,863</u>	<u>76,807,058</u>	<u>78,562,683</u>	<u>(1,755,625)</u>
Support services:				
Pupil personnel services	3,674,952	4,024,739	4,271,110	(246,371)
Instructional staff services	4,253,220	4,663,779	4,707,733	(43,954)
Administrative services	6,385,504	6,569,113	6,780,851	(211,738)
Pupil health	984,739	948,164	1,021,452	(73,288)
Business services	1,056,851	1,301,898	1,249,327	52,571
Operation and maintenance of plant services	11,613,679	11,011,831	10,885,506	126,325
Student transportation services	8,295,624	7,429,274	7,973,764	(544,490)
Central and other support services	1,962,035	1,251,694	1,286,955	(35,261)
Other support services	48,839	48,426	48,426	-
Total Support Services	<u>38,275,443</u>	<u>37,248,918</u>	<u>38,225,124</u>	<u>(976,206)</u>
Operation of noninstructional services:				
Student activities	-	2,276	2,276	-
Community services	-	23,604	23,607	(3)
Total Operation of Noninstructional Services	<u>-</u>	<u>25,880</u>	<u>25,883</u>	<u>(3)</u>
Debt service	10,226,433	10,201,421	10,199,499	1,922
TOTAL EXPENDITURES	<u>123,504,739</u>	<u>124,283,277</u>	<u>127,013,189</u>	<u>(2,729,912)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(6,292,910)</u>	<u>(7,071,448)</u>	<u>(7,303,022)</u>	<u>(231,574)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from collateralized borrowing	3,750,000	3,750,000	3,922,157	172,157
Refund of prior year expenditures	-	-	123,411	123,411
Refund of prior year receipts	-	(208,612)	(194,323)	14,289
Transfers out	(798,000)	(798,000)	(2,785,859)	(1,987,859)
Budgetary reserve	(987,150)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,964,850</u>	<u>2,743,388</u>	<u>1,065,386</u>	<u>(1,678,002)</u>
NET CHANGE IN FUND BALANCE	<u>(4,328,060)</u>	<u>(4,328,060)</u>	<u>(6,237,636)</u>	<u>(1,909,576)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>26,194,803</u>	<u>26,194,803</u>	<u>26,194,803</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 21,866,743</u>	<u>\$ 21,866,743</u>	<u>\$ 19,957,167</u>	<u>\$ (1,909,576)</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2007
(With Comparative Data for June 30, 2006)**

	Major Fund	
	Food Service Fund	
	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 375,085	\$ -
Investments	350,000	1,000,000
Interest receivable	3,459	15,699
Other receivables	5,224	11,460
Due from other governments	29,587	40,687
Inventories	25,733	31,391
Total Current Assets	<u>789,088</u>	<u>1,099,237</u>
CAPITAL ASSETS:		
Furniture and equipment	1,482,320	1,416,985
Accumulated depreciation	(1,245,455)	(1,218,077)
Capital Assets, Net	<u>236,865</u>	<u>198,908</u>
TOTAL ASSETS	<u><u>\$ 1,025,953</u></u>	<u><u>\$ 1,298,145</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Bank overdraft	\$ -	\$ 13,479
Due to other funds	20,138	137,344
Accounts payable	-	1,556
Total Current Liabilities	<u>20,138</u>	<u>152,379</u>
NONCURRENT LIABILITIES:		
Accumulated compensated absences	73,130	59,487
Total Liabilities	<u>93,268</u>	<u>211,866</u>
NET ASSETS		
Invested in capital assets, net of related debt	236,865	198,908
Unrestricted	695,820	887,371
Total Net Assets	<u>932,685</u>	<u>1,086,279</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,025,953</u></u>	<u><u>\$ 1,298,145</u></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, 2007
(With Comparative Data for the Year Ended June 30, 2006)

	Major Fund	
	Food Service Fund	
	2007	2006
OPERATING REVENUES		
Food service revenues	\$ 1,150,076	\$ 1,197,722
Total Operating Revenues	<u>1,150,076</u>	<u>1,197,722</u>
OPERATING EXPENSES		
Salaries	849,173	798,222
Employee benefits	320,520	354,767
Purchased professional and technical services	4,575	4,847
Purchased property services	25,731	34,209
Other purchased services	178,025	14,275
Supplies	1,188,355	1,269,349
Depreciation	27,378	22,282
Other operating expenses	6,285	22,614
Total Operating Expenses	<u>2,600,042</u>	<u>2,520,565</u>
OPERATING LOSS	<u>(1,449,966)</u>	<u>(1,322,843)</u>
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments	40,395	58,814
State sources	94,595	93,139
Federal sources	1,161,382	1,113,909
Loss on disposal of capital assets	-	(44,311)
Total Nonoperating Revenues	<u>1,296,372</u>	<u>1,221,551</u>
CHANGE IN NET ASSETS	(153,594)	(101,292)
NET ASSETS, BEGINNING OF YEAR	<u>1,086,279</u>	<u>1,187,571</u>
NET ASSETS, END OF YEAR	<u>\$ 932,685</u>	<u>\$ 1,086,279</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, 2007
(With Comparative Data for the Year Ended June 30, 2006)**

	Major Fund	
	Food Service Fund	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services and other operating revenues	\$ 1,156,312	\$ 1,192,258
Payments to suppliers	(1,068,300)	(1,167,241)
Payments for other operating expenses	(214,616)	(75,945)
Payments to employees	(1,273,257)	(1,044,106)
NET CASH USED BY OPERATING ACTIVITIES	(1,399,861)	(1,095,034)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State sources	95,643	98,778
Federal sources	1,055,482	1,067,709
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,151,125	1,166,487
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bank overdraft	-	13,479
Repayment of bank overdraft	(13,479)	-
Purchase of capital assets	(65,335)	(34,102)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(78,814)	(20,623)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from earnings on investments	52,635	43,117
Proceeds from sale of investments	650,000	-
Purchase of investments	-	(1,000,000)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	702,635	(956,883)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	375,085	(906,053)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	906,053
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 375,085	\$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$(1,449,966)	\$(1,322,843)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	27,378	22,282
Donated commodities	115,953	106,199
(Increase) decrease in:		
Other receivables	6,237	(5,464)
Inventories	5,659	1,670
Increase (decrease) in:		
Accounts payable	(1,556)	(5,761)
Due to other funds	(117,209)	109,303
Accumulated compensated absences	13,643	(420)
NET CASH USED BY OPERATING ACTIVITIES	\$(1,399,861)	\$(1,095,034)
SUPPLEMENTAL DISCLOSURE:		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	\$ 115,953	\$ 106,199

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2007**

	Private - Purpose Trust	Agency
ASSETS		
Cash	\$ 175,673	\$ 188,636
Investments	13,281	-
TOTAL ASSETS	\$ 188,954	\$ 188,636
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ -	\$ 188,636
NET ASSETS		
Reserved for trust	188,954	
TOTAL LIABILITIES AND NET ASSETS	\$ 188,954	

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, 2007
(With Comparative Data for the Year Ended June 30, 2006)**

	Private-Purpose Trust	
	<u>2007</u>	<u>2006</u>
ADDITIONS		
Local contributions	<u>\$ 47,860</u>	<u>\$ 7,192</u>
TOTAL ADDITIONS	<u>47,860</u>	<u>7,192</u>
DEDUCTIONS		
Fees paid and scholarships awarded	<u>44,944</u>	<u>6,589</u>
TOTAL DEDUCTIONS	<u>44,944</u>	<u>6,589</u>
CHANGE IN NET ASSETS	2,916	603
NET ASSETS, BEGINNING OF YEAR	<u>186,038</u>	<u>185,435</u>
NET ASSETS, END OF YEAR	<u><u>\$ 188,954</u></u>	<u><u>\$ 186,038</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 seven elementary schools, three middle schools and one senior high school 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, 2007, the District's share of operating costs was \$1,837,148. 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 2006-2007 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)

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the financial statements for the year ended June 30, 2006, from which the summarized information was derived.

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 must be implemented by the District for the fiscal year ending June 30, 2008.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings 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.

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.

Excess of Expenditures Over Appropriations

General fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2007:

Regular programs	\$ 1,707,893
Special programs	\$ 517,895
Vocational programs	\$ 77,368
Pupil personnel services	\$ 246,371
Instructional staff services	\$ 43,954
Administrative services	\$ 211,738
Pupil health	\$ 73,288
Student transportation services	\$ 544,490
Central and other support services	\$ 35,261
Transfers out	\$ 1,987,859

The excess of expenditures over appropriations was financed with current year revenue sources exceeding budgeted amounts and planned use of fund balance.

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, 2007, the carrying amount of the District's deposits was \$9,021,915 and the bank balance was \$15,837,393. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$15,737,393 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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

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, 2007, 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	\$ 6,982,465
Money market mutual funds	95,446
Pennsylvania School District Liquid Asset Fund (PSDLAF)	13,593,182
Pennsylvania Local Government Investment Trust (PLGIT)	1,976,370
U.S. agencies:	
Federal National Mortgage Association (FNMA)	<u>509,306</u>
TOTAL	<u>\$ 23,156,769</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.

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, 2007, 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, 2007, PSDLAF, PLGIT and FNMA 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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 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	\$ -	\$ -	\$ 3,075,000
Construction-in-progress	<u>1,603,072</u>	<u>27,322,358</u>	<u>6,113,379</u>	<u>22,812,051</u>
Total Capital Assets Not Being Depreciated	<u>4,678,072</u>	<u>27,322,358</u>	<u>6,113,379</u>	<u>25,887,051</u>
Capital assets being depreciated:				
Land Improvements	3,435,412	3,482,143	-	6,917,555
Buildings and improvements	84,661,389	3,092,477	-	87,753,866
Furniture and equipment	<u>9,236,877</u>	<u>1,224,614</u>	<u>267,062</u>	<u>10,194,429</u>
Total Capital Assets Being Depreciated	<u>97,333,678</u>	<u>7,799,234</u>	<u>267,062</u>	<u>104,865,850</u>
Less accumulated depreciation for:				
Land Improvements	1,972,123	230,584	-	2,202,707
Buildings and improvements	28,873,526	1,654,936	-	30,528,462
Furniture and equipment	<u>5,556,830</u>	<u>887,456</u>	<u>232,092</u>	<u>6,212,194</u>
Total Accumulated Depreciation	<u>36,402,479</u>	<u>2,772,976</u>	<u>232,092</u>	<u>38,943,363</u>
Total Capital Assets Being Depreciated, Net	<u>60,931,199</u>	<u>5,026,258</u>	<u>34,970</u>	<u>65,922,487</u>
Governmental Activities Capital Assets, Net	<u>\$ 65,609,271</u>	<u>\$32,348,616</u>	<u>\$6,148,349</u>	<u>\$ 91,809,538</u>
Business-type Activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,416,985	\$ 65,335	\$ -	\$ 1,482,320
Less accumulated depreciation	<u>1,218,077</u>	<u>27,378</u>	<u>-</u>	<u>1,245,455</u>
Business-type Capital Assets, Net	<u>\$ 198,908</u>	<u>\$ 37,957</u>	<u>\$ -</u>	<u>\$ 236,865</u>

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

Governmental activities:	
Instruction	\$ 1,984,314
Instructional student support	252,584
Administrative and financial support services	236,552
Operation and maintenance of plant services	274,943
Student activities	<u>24,583</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,772,976</u>
Depreciation Expense - Business-type Activities	<u>\$ 27,378</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

<u>Receivable From</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 20,138	Food Service Fund	\$ 20,138
Nonmajor Fund	24,524	General Fund	24,524
Capital Projects Fund	4,587	General Fund	4,587
General Fund	<u>124,595</u>	Capital Reserve Fund	<u>124,595</u>
	<u>\$ 173,844</u>		<u>\$ 173,844</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.

Interfund transfers for the year ended June 30, 2007 are as follows:

Transfer In:	Transfer Out:	
Nonmajor Fund	General Fund	\$ 785,859
Capital Reserve Fund	General Fund	\$ 2,000,000

Transfers represent funds set aside for future capital needs 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, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>
Governmental Activities:				
Bonds payable	\$ 89,050,000	\$ 9,715,000	\$12,690,000	\$ 86,075,000
Bond premiums	1,577,249	-	112,661	1,464,588
Bond discounts	(30,592)	(64,878)	(6,510)	(88,960)
Deferred amount on refunding	(790,010)	(861,132)	(115,442)	(1,535,700)
Note payable	23,410,000	-	1,600,000	21,810,000
Capital lease payable	191,587	-	47,897	143,690
Accumulated compensated absences	<u>1,505,398</u>	<u>420,438</u>	<u>-</u>	<u>1,925,836</u>
TOTALS	<u>\$114,913,632</u>	<u>\$ 9,209,428</u>	<u>\$14,328,606</u>	<u>\$109,794,494</u>
Business-type Activities:				
Accumulated compensated absences	<u>\$ 59,487</u>	<u>\$ 13,643</u>	<u>\$ -</u>	<u>\$ 73,130</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.	\$ 38,920,000
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Series of 2001, maturing through September 15, 2007 bearing interest ranging from 3.40% to 5.25%, interest payable semi-annually on March 15 and September 15.	765,000
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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.	10,615,000
--	------------

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.	16,615,000
---	------------

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.	9,445,000
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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. The advance refunding resulted in an economic gain of \$230,788 and a reduction of \$240,843 in future debt service payments.	<u>9,715,000</u>
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Total General Obligation Bonds	86,075,000
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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>21,810,000</u>
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TOTAL	<u>\$107,885,000</u>
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COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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>
2008	\$ 5,850,000	\$ 4,363,078	\$ 10,213,078
2009	6,095,000	4,167,057	10,262,057
2010	6,310,000	3,954,078	10,264,078
2011	6,540,000	3,723,213	10,263,213
2012	9,120,000	3,422,362	12,542,362
2013-2017	39,230,000	12,126,588	51,356,588
2018-2021	<u>34,740,000</u>	<u>2,864,664</u>	<u>37,604,664</u>
	<u>\$107,885,000</u>	<u>\$34,621,040</u>	<u>\$142,506,040</u>

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>(45,228)</u>
Total	<u>\$ 194,256</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CAPITAL LEASES - LESSEE (cont'd)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007 were as follows:

Year Ending June 30,

2008	\$ 54,399
2009	54,399
2010	<u>54,399</u>
Total minimum lease payments	163,197
Less: Amount representing interest	<u>(19,507)</u>
Present value of minimum lease payments	\$ <u>143,690</u>

NOTE 9 OPERATING LEASES

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

Year Ending June 30,

2008	\$ 728,108
2009	691,978
2010	419,615
2011	95,201
2012	<u>13,229</u>
Total	\$ <u>1,948,131</u>

Rental expense, including short-term rentals, for the year ended June 30, 2007 was \$714,879.

NOTE 10 PENSION PLAN

Plan Description

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PENSION PLAN (cont'd)

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, 2007, the rate of employer contribution was 6.46 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2005, 2006 and 2007 were \$1,719,251, \$1,971,078 and \$2,913,795, respectively, equal to the required contribution for each year.

NOTE 11 SELF-INSURANCE

The District administers a self-insurance program to provide for the medical care for eligible employees and their dependents. Benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a liability for claims incurred through June 30, 2007.

Change in Aggregate Claim Liabilities

Year Ending June 30, 2007

Claims Liability, beginning of year	\$ 2,012,303
Current year claims and changes in estimates	15,344,674
Claim payments by the District	<u>(13,190,584)</u>
Claims Liability, end of year	<u>\$ 4,166,393</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, 2007.

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.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 COMMITMENTS AND CONTINGENCIES (cont'd)

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, 2007, the District was in the process of several capital projects. Construction commitments completed to date are as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to 06/30/2007</u>	<u>Commitments</u>
Coatesville Intermediate High School - renovations	\$23,116,193	\$19,157,148	\$ 3,959,045
North Brandywine Middle School - renovations	1,464,237	543,551	920,686
South Brandywine Middle School - renovations	1,460,501	539,815	920,686
Coatesville High School - renovations	3,073,164	1,779,374	1,293,790
New Rainbow Elementary School	<u>2,589,198</u>	<u>792,162</u>	<u>1,797,036</u>
	<u>\$31,703,293</u>	<u>\$22,812,051</u>	<u>\$ 8,891,242</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 2006-2007 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

Completion of an appraisal of the District's capital assets resulted in a restatement of net assets in the entity-wide financial statements and the proprietary fund as of June 30, 2006. As a result of the prior period adjustments, net assets in the governmental activities increased by \$2,654,228 and business-type activities and proprietary fund net assets increased by \$29,535.

In addition, the District has restated prior year comparative information as of June 30, 2006 to reflect changes based on the capital asset appraisal.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 SUBSEQUENT EVENT

In August 2007, the District issued General Obligation Bonds, Series of 2007. The Series of 2007 in the amount of \$63,555,000 is to be used for planning, design, purchase, acquisition and construction relating to: (a) expansion and renovation of the existing Coatesville Area Senior High School; (b) expansion and renovation of two existing middle schools; and (c) construction of a new elementary school and the planning and design of two additional elementary schools.

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

January 9, 2008

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, 2007 and have issued our report thereon dated January 9, 2008.

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 9, 2008.

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.


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

January 9, 2008

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 its major federal programs for the year ended June 30, 2007. Coatesville Area School District's major federal program is 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 its major federal program 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 its major federal program for the year ended June 30, 2007.

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 I	84.010

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, 2007**

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 AT 07/01/2006	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT 06/30/2007
U.S. Department of Education										
Passed through the PA Department of Education										
Title I	I	84.010	013-05-0089	07/01/04 - 09/30/06	\$ 1,724,194	\$ -	\$ (71,399)	\$ 71,399	\$ 71,399	\$ -
Title I	I	84.010	013-06-0089	07/01/05 - 09/30/07	1,683,520	670,281	255,103	334,912	334,912	(80,266)
Title I	I	84.010	013-07-0089	07/01/06 - 09/30/08	1,700,870	906,927	-	1,267,774	1,267,774	360,847
Title I - Academic Achievement	I	84.010	077-05-0089	07/01/05 - 09/30/06	5,994	4,662	666	3,996	3,996	-
Title I - Delinquent	I	84.010	107-06-0089	07/01/05 - 09/30/06	36,542	12,181	7,451	4,730	4,730	-
Title I - Delinquent	I	84.010	107-07-0089	07/01/06 - 09/30/07	28,949	28,949	-	28,949	28,949	-
Title I - Program Improvement	I	84.010	042-06-0089	07/01/05 - 09/30/06	34,559	27,976	16,213	11,763	11,763	-
Title I - Program Improvement	I	84.010	042-07-0089	07/01/06 - 09/30/07	33,000	-	-	33,000	33,000	33,000
Comprehensive School Reform Program	I	84.332	021-06-0089	07/01/05 - 09/30/06	150,000	80,770	33,592	17,014	17,014	(30,164)
Title V	I	84.298	011-06-0089	07/01/05 - 09/30/06	22,143	8,857	(6,786)	15,643	15,643	-
Title V	I	84.298	011-07-0089	07/01/06 - 09/30/07	10,911	10,911	-	10,911	10,911	-
Title II - Improving Teacher Quality	I	84.367	020-06-0089	07/01/05 - 09/30/06	541,671	108,334	103,935	4,399	4,399	-
Title II - Improving Teacher Quality	I	84.367	020-07-0089	07/01/06 - 09/30/07	541,061	396,783	-	381,018	381,018	(15,765)
Title II - Education Technology	I	84.378	055-06-0089	07/01/05 - 09/30/07	26,238	1,883	1,883	-	-	900
Title III - Language Instruction LEP/Immigrant Students	I	84.365	010-05-0089	07/01/03 - 09/30/05	59,054	23,646	(27,176)	50,822	50,822	-
Title III - Language Instruction LEP/Immigrant Students	I	84.365	010-06-0089	07/01/05 - 09/30/06	55,175	18,178	-	7,058	7,058	(11,120)
Title III - Language Instruction LEP/Immigrant Students	I	84.365	010-07-0089	07/01/06 - 09/30/07	61,940	18,178	-	35,911	35,911	-
Drug Free Schools	I	84.186	100-07-0089	07/01/06 - 09/30/07	35,911	69,333	-	5,821	5,821	-
21st Century Community Learning Centers	I	84.287	410-01-1498	10/01/05 - 09/30/06	201,353	83,126	63,512	81,500	81,500	81,500
21st Century Community Learning Centers	I	84.287	410-01-1498	10/01/06 - 09/30/07	99,632	5,231	-	57,793	57,793	-
21st Century Community Learning Centers	I	84.287	410-02-7658	10/01/05 - 09/30/06	165,946	5,231	35,333	31,385	31,385	26,154
Public Library Services - LSTA Grant	I	45.310	202-60-9043	05/01/06 - 05/31/07	34,000	4,455	-	4,455	4,455	-
Hurricane Relief	I	84.938	N/A		4,455					
Passed Through Chester County Intermediate Unit										
I.D.E.A.	I	84.027	062-06-0024	07/01/05 - 06/30/06	981,315	163,553	163,553	873,850	873,850	145,642
I.D.E.A.	I	84.027	062-07-0024	07/01/06 - 06/30/07	873,850	728,208	576,780	3,334,103	3,334,103	510,728
TOTAL U.S. DEPARTMENT OF EDUCATION										
U.S. Department of Agriculture										
Passed Through the Pennsylvania Department of Education										
Breakfast Program	I	10.553	N/A	07/01/05 - 06/30/06	N/A	6,761	6,761	-	-	-
Breakfast Program	I	10.553	N/A	07/01/06 - 06/30/07	N/A	174,440	-	179,307	179,307	4,867
National School Lunch Program	I	10.555	N/A	07/01/05 - 06/30/06	N/A	30,475	30,475	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/06 - 06/30/07	N/A	839,390	-	861,706	861,706	22,316
After School Snacks	I	10.555	N/A	07/01/06 - 06/30/07	N/A	4,416	-	4,416	4,416	-
Project PA Nutrition - 21st Century Community Learning Centers	I	10.574	N/A	07/01/06 - 09/30/07	6,000	6,000	-	2,996	2,996	(3,004)
Project PA Nutrition - USDA	I	10.574	N/A	07/01/06 - 09/30/07	25,000	25,000	-	24,000	24,000	(1,000)
State Matching Share	S	N/A	N/A	07/01/05 - 06/30/06	N/A	3,452	3,452	-	-	-
State Matching Share	S	N/A	N/A	07/01/06 - 06/30/07	N/A	92,191	-	94,595	94,595	2,404
Passed Through the Pennsylvania Department of Agriculture										
Value of USDA Donated Commodities	I	10.550	N/A	07/01/06-06/30/07	N/A	110,120 a)	(12,692) b)	115,953 c)	115,953	(6,859) d)
TOTAL U.S. DEPARTMENT OF AGRICULTURE										
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS										
						\$ 4,692,400	\$ 604,776	\$ 4,617,076	\$ 4,617,076	\$ 529,452

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

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 2006-2007 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, 2007 was \$434,099.