

COATESVILLE AREA SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2014



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

COATESVILLE AREA SCHOOL DISTRICT

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COATESVILLE AREA SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Coatesville Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12, budgetary comparison information on pages 44 and 45 and postemployment benefits other than pension funding progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Coatesville Area School District's basic financial statements. The schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the Coatesville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Coatesville Area School District's internal control over financial reporting and compliance.

Maillie LLP

Oaks, Pennsylvania
March 6, 2015

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

The discussion and analysis of Coatesville Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review any notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013-14 are as follows:

The Net Change in the Fund Balance for Governmental Funds decreased by \$14,961,969. Total Governmental Funds revenues and other financing sources were \$176,652,569 compared to expenditures and other financing uses in the amount of \$191,614,538.

General Fund revenues were \$141,478,698 with other funds having total revenues of \$59,751. General Fund revenues consist of 67.9% local revenue, 28.9% state revenue, 3.2% federal revenues including grant funds. Other revenue funds consist of the Food Service Fund with revenues of \$3,091,712 and expenditures of \$3,161,598 resulting in a decrease in the net position of \$69,886.

The School District had \$137,172,325 in General Fund expenses that includes \$4,550,718 for expenses that were reimbursed to the district with federal grants. Debt service expenditures included within the General Fund were \$13,491,866 or 9.8% of the total expenses.

The District's prior year negative General Fund balance of \$1,381,816 did not meet the guidelines of Board Policy 623, which states the unassigned fund balance is not to be less than 5% of the General Fund budget expenditures nor more than 8%. If the unassigned portion of the fund balance falls below the threshold of five percent (5%), the Board will pursue variations of increasing revenues and decreasing expenditures, or a combination of both until five percent (5%) is attained. The good news is the District's General Fund ended with a positive fund balance of \$8,009,557.

OTHER POST-EMPLOYMENT BENEFITS

In accordance with the Governmental Accounting Standards Board Statement No. 45, the Coatesville Area School District employed Conrad Siegel to provide actuarial service to determine the district's liability for other post-employment benefits other than pension benefits. The District's post-employment liability as of June 30th is \$5,000,903 for the General Fund and \$82,632 for the Food Service Fund.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Coatesville Area School District as a financial whole, an entire operating entity.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

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

REPORTING THE SCHOOL DISTRICT AS A WHOLE - GOVERNMENT WIDE

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013-2014 fiscal year. These statements include all assets and liabilities, revenue and expenses of the District using the full accrual method of accounting.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

Capital Projects Fund - Accounts for financial resources to acquire or construct major capital facilities. All fund proceeds for Capital Projects should be accounted for in this fund. The sale of general obligation bonds is the most common source of revenue.

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

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

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS

Condensed Statements of Net Position
June 30, 2013 and 2014

	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
ASSETS AND DEFERRED OUTFLOWS						
Current and other assets	\$ 72,337,917	\$ 46,316,379	\$ 511,395	\$ 362,782	\$ 72,849,312	\$ 46,679,161
Capital assets	172,511,982	174,719,772	166,121	130,102	172,678,103	174,849,874
Deferred outflows of resources	1,001,915	946,253	-	-	1,001,915	946,253
TOTAL ASSETS AND DEFERRED OUTFLOWS	245,851,814	221,982,404	677,516	492,884	246,529,330	222,475,288
LIABILITIES						
Current liabilities	28,699,485	22,088,291	146,121	17,073	28,845,606	22,105,364
Long-term liabilities	215,597,184	192,823,354	178,574	192,876	215,775,758	193,016,230
TOTAL LIABILITIES	244,296,669	214,911,645	324,695	209,949	244,621,364	215,121,594
NET POSITION						
Net investment in capital assets	7,963,776	3,573,145	166,121	130,102	8,129,897	3,703,247
Restricted for capital projects	105,804	-	-	-	105,804	-
Unrestricted	(6,514,435)	3,497,614	186,700	152,833	(6,327,735)	3,650,447
TOTAL NET POSITION	\$ 1,555,145	\$ 7,070,759	\$ 352,821	\$ 282,935	\$ 1,907,966	\$ 7,353,694

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Statement of Activities

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

Condensed Statements of Activities
Years Ended June 30, 2013 and 2014

	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
REVENUES						
Program services						
Charges for services	\$ 977,293	\$ 508,609	\$ 851,344	\$ 777,228	\$ 1,828,637	\$ 1,285,837
Operating grants and contributions	22,467,236	22,111,360	2,194,529	2,314,460	24,661,765	24,425,820
General revenues						
Property taxes	82,068,864	85,347,199	-	-	82,068,864	85,347,199
Other taxes	8,075,719	7,716,257	-	-	8,075,719	7,716,257
Grants, subsidies and contributions not restricted	26,364,775	27,751,527	-	-	26,364,775	27,751,527
Investment earnings	144,913	95,594	9	24	144,922	95,618
Other revenues	84,130	65,399	-	-	84,130	65,399
TOTAL REVENUES	140,182,930	143,595,945	3,045,882	3,091,712	143,228,812	146,687,657
EXPENSES						
Instruction	86,462,512	85,968,100	-	-	86,462,512	85,968,100
Instructional student support	9,760,890	9,385,639	-	-	9,760,890	9,385,639
Administrative and financial support	10,240,859	11,524,340	-	-	10,240,859	11,524,340
Operation and maintenance of plant services	10,058,842	11,728,851	-	-	10,058,842	11,728,851
Pupil transportation	8,155,894	8,383,451	-	-	8,155,894	8,383,451
Student activities	1,368,509	1,251,533	-	-	1,368,509	1,251,533
Community service	33,793	51,553	-	-	33,793	51,553
Interest on long-term debt	8,454,705	9,786,864	-	-	8,454,705	9,786,864
Food services	-	-	3,019,604	3,161,598	3,019,604	3,161,598
TOTAL EXPENSES	134,536,004	138,080,331	3,019,604	3,161,598	137,555,608	141,241,929
CHANGE IN NET POSITION	\$ 5,646,926	\$ 5,515,614	\$ 26,278	\$ (69,886)	\$ 5,673,204	\$ 5,445,728

GENERAL BUDGET INFORMATION

When the need for additional operating funds became apparent, the Board placed a 1.0836 mill levy on real estate taxes. This levy had set the real estate taxes at 31.1926 mills of the assessed value. The levy was anticipated to raise \$2,786,589 in revenue during 2013-2014 fiscal year. In addition, the District refinanced the 2001 Note and General Obligation Bonds (GOB) issued in 2004, 2005 and 2006. The refinancing of the 2001 Note, 2004 and 2005 GOB was done to restructure the debt to recognize a short-term savings to improve the cash flow, but will cost the District more in debt payments when repaying the remaining debt.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

The school district is dependent upon property taxes and is hampered by a lack of revenue growth and will regularly need to increase local taxes or eliminate staff and programs. Local taxes and revenues made up 65.5 percent of revenues for the Coatesville Area School District in fiscal year 2013-2014. Revenues are provided from the following sources:

	<u>Amounts</u>	<u>Percentage</u>
Local revenues	\$ 96,008,706	65.5%
State revenues	40,919,274	27.9%
Federal revenues	4,550,718	3.1%
Other financing sources	<u>5,085,000</u>	3.5%
	<u>\$ 146,563,698</u>	

Expenses consisted of the following:

Salaries	34.2%
Benefits	17.5%
Contracted professional services	8.3%
Contracted property services	1.6%
Transportation/other services	23.9%
Supplies	1.7%
Equipment property	0.1%
Dues, fees and debt service interest	7.2%
Other/bond principal payments	5.5%

The above expenditures were used to support the following:

Instructional programs	\$ 83,705,788
Support services	38,676,756
Non-instructional services	1,297,915
Debt service/other	<u>13,491,866</u>
	<u>\$ 137,172,325</u>

The dependence upon local tax revenue is apparent. State subsidies accounted for 27.9% of the District's total revenue for the 2013-2014 school year. The community as a whole is by far the primary supporter for Coatesville Area School District students.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds is stated within the Independent Auditors' Report. These funds are accounted for using the modified accrual basis of accounting. The most significant change was General Fund Balance, which changed from a negative to a positive position balance of \$8,009,557. Although this is a significant change, the District needs to be cautious of the fact that the 2014 Bonds Series B is to fund part of the District retirement expenditures for the next two fiscal years and cannot be used for any other purpose.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

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

During the course of fiscal year 2013-2014, the School District had to amend its General Fund budget numerous times. Although the Board adopted a line item budget, the employee responsible to implement the budget failed to do so. This results in a large number of accounts to be overdrawn.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2014 the School District has \$174,849,874 invested in land, buildings and equipment, net of accumulated depreciation. Below is a summary of the capital assets.

	<u>2014</u>	<u>2013</u>
Land	\$ 2,812,500	\$ 2,812,500
Construction in progress	1,127,208	8,005,954
Land site improvements	7,076,167	7,076,167
Buildings and building improvements	218,108,876	203,949,317
Furniture and equipment	<u>14,510,537</u>	<u>13,960,747</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	243,635,288	235,804,685
Accumulated depreciation	<u>(68,785,414)</u>	<u>(63,126,582)</u>
TOTAL CAPITAL ASSETS, net	<u>\$ 174,849,874</u>	<u>\$ 172,678,103</u>

Debt

As of June 30, 2014, the School District had a total debt of \$188,713,703 in bonds, net of any interest. Below is a summary of debt for the District's outstanding bond issues:

<u>Bonds/Notes Issued</u>	<u>Maturing Date</u>	<u>Outstanding Principal</u>
2007	08/15/26	\$ 63,525,000
2009	10/01/16	15,840,000
2009A	08/15/26	21,980,000
2010	08/15/31	53,410,000
2013	08/15/20	20,123,703
2014A	08/15/19	8,750,000
2014B	08/15/17	<u>5,085,000</u>
		<u>\$ 188,713,703</u>

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

FOR THE FUTURE

Coatesville Area School District is currently facing future financial challenges. Although the General Fund unrestricted balance has increased by \$4,540,098 for the period ended June 30, 2014, the ending fund balance falls short of District Policy 623, which states the District should maintain a minimum of 5% with the maximum not to exceed the 8% Pennsylvania Department of Education limit. As the preceding information shows, the School District heavily depends on its property taxpayers. With the passage of a 1.0836 mill-operating levy and collection beginning in July 2013, the School District was able to continue its education programs. However, financially, the future is not without a challenge.

While the School District was successful in increasing its tax revenue base by \$2,786,589 annually, this increase is a one-time increase. Thus, management must diligently plan expenses, staying carefully within the School District's financial plan. Additional revenues must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon to achieve reaching a positive 5% fund balance.

Coatesville Area School District has not anticipated any meaningful growth in State revenue. The concern is with \$67.70 of every \$100 paid in taxes for the School District coming from local revenues could have a significant impact on the School District's residential taxpayers. This will require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors, and creditors with a general overview of the School District's finances, and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ronald Kabonick, Business Administrator, Coatesville Area School District, 3030 C. G. Zinn Road, Thorndale, PA 19372. Or send e-mails to Kabonickr@coatesville.k12.pa.us

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 34,481,260	\$ 192,220	\$ 34,673,480
Interest receivable	29,361	-	29,361
Pledged taxes receivable	6,821,621	-	6,821,621
Internal balances	(51,167)	51,167	-
Due from other governments	2,915,419	94,377	3,009,796
Other receivables	594,701	5,859	600,560
Prepaid expenses	1,233,699	-	1,233,699
Inventories	-	19,159	19,159
Other assets	291,485	-	291,485
Capital assets			
Land	2,812,500	-	2,812,500
Construction in progress	1,127,208	-	1,127,208
Land improvements	7,076,167	-	7,076,167
Buildings and building improvements	218,108,876	-	218,108,876
Furniture and equipment	12,955,495	1,555,042	14,510,537
Accumulated depreciation	<u>(67,360,474)</u>	<u>(1,424,940)</u>	<u>(68,785,414)</u>
TOTAL ASSETS	<u>221,036,151</u>	<u>492,884</u>	<u>221,529,035</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts on refunding	<u>946,253</u>	<u>-</u>	<u>946,253</u>
LIABILITIES			
Accounts payable and accrued expenses	5,045,224	569	5,045,793
Accrued salaries and benefits	6,363,231	-	6,363,231
Accrued interest	2,759,319	-	2,759,319
Collateralized borrowing	1,557,161	-	1,557,161
Unearned revenues	-	16,504	16,504
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	6,159,147	-	6,159,147
Compensated absences	204,209	-	204,209
Portion due or payable after one year			
Bonds payable, net	185,984,575	-	185,984,575
Other postemployment benefits	5,000,903	82,632	5,083,535
Compensated absences	1,837,876	110,244	1,948,120
TOTAL LIABILITIES	<u>214,911,645</u>	<u>209,949</u>	<u>215,121,594</u>
NET POSITION			
Net investment in capital assets	3,573,145	130,102	3,703,247
Unrestricted	<u>3,497,614</u>	<u>152,833</u>	<u>3,650,447</u>
TOTAL NET POSITION	<u>\$ 7,070,759</u>	<u>\$ 282,935</u>	<u>\$ 7,353,694</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 85,968,100	\$ 395,668	\$ 13,322,841	\$ -
Instructional student support	9,385,639	-	814,761	-
Administrative and financial support services	11,524,340	-	577,282	-
Operation and maintenance of plant services	11,728,851	-	724,151	-
Pupil transportation	8,383,451	-	5,509,006	-
Student activities	1,251,533	112,941	59,533	-
Community services	51,553	-	190	-
Interest on long-term debt	9,786,864	-	1,103,596	-
TOTAL GOVERNMENTAL ACTIVITIES	138,080,331	508,609	22,111,360	-
BUSINESS-TYPE ACTIVITIES				
Food service	3,161,598	777,228	2,314,460	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 141,241,929	\$ 1,285,837	\$ 24,425,820	\$ -

GENERAL REVENUES

Property taxes, levied for general purposes

Taxes levied for specific purposes

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
\$ (72,249,591)	\$ -	\$ (72,249,591)
(8,570,878)	-	(8,570,878)
(10,947,058)	-	(10,947,058)
(11,004,700)	-	(11,004,700)
(2,874,445)	-	(2,874,445)
(1,079,059)	-	(1,079,059)
(51,363)	-	(51,363)
<u>(8,683,268)</u>	<u>-</u>	<u>(8,683,268)</u>
<u>(115,460,362)</u>	<u>-</u>	<u>(115,460,362)</u>
-	(69,910)	(69,910)
<u>(115,460,362)</u>	<u>(69,910)</u>	<u>(115,530,272)</u>
85,347,199	-	85,347,199
7,716,257	-	7,716,257
27,751,527	-	27,751,527
95,594	24	95,618
65,399	-	65,399
<u>120,975,976</u>	<u>24</u>	<u>120,976,000</u>
5,515,614	(69,886)	5,445,728
<u>1,555,145</u>	<u>352,821</u>	<u>1,907,966</u>
<u>\$ 7,070,759</u>	<u>\$ 282,935</u>	<u>\$ 7,353,694</u>

COATESVILLE AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 14,335,610	\$ 94,808	\$ 20,050,842	\$ 34,481,260
Taxes receivable	6,821,621	-	-	6,821,621
Due from other governments	2,915,419	-	-	2,915,419
Other receivables	594,701	-	29,361	624,062
Prepaid items	1,233,699	-	-	1,233,699
Other assets	291,485	-	-	291,485
TOTAL ASSETS	<u>\$ 26,192,535</u>	<u>\$ 94,808</u>	<u>\$ 20,080,203</u>	<u>\$ 46,367,546</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 5,040,360	\$ -	\$ 4,864	\$ 5,045,224
Due to other funds	51,167	-	-	51,167
Accrued salaries and benefits	6,363,231	-	-	6,363,231
TOTAL LIABILITIES	<u>11,454,758</u>	<u>-</u>	<u>4,864</u>	<u>11,459,622</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Property taxes	5,171,059	-	-	5,171,059
Collateralized borrowing	1,557,161	-	-	1,557,161
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>6,728,220</u>	<u>-</u>	<u>-</u>	<u>6,728,220</u>
FUND BALANCES				
Nonspendable, prepaid expenses	1,233,699	-	-	1,233,699
Committed, future retirement liability	5,085,000	-	-	5,085,000
Restricted, capital projects	-	94,808	20,075,339	20,170,147
Unassigned	1,690,858	-	-	1,690,858
TOTAL FUND BALANCES	<u>8,009,557</u>	<u>94,808</u>	<u>20,075,339</u>	<u>28,179,704</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 26,192,535</u>	<u>\$ 94,808</u>	<u>\$ 20,080,203</u>	<u>\$ 46,367,546</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 28,179,704

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

Land	2,812,500
Construction in progress	1,127,208
Land improvements	7,076,167
Buildings and building improvements	218,108,876
Furniture and equipment	12,955,495
Accumulated depreciation	(67,360,474)

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

Deferred amounts on refunding	946,253
-------------------------------	---------

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

Accrued interest	(2,759,319)
Bonds payable	(192,143,722)
Compensated absences	(2,042,085)
Net OPEB obligation	(5,000,903)

Some of the School 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.

5,171,059

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 7,070,759

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local sources	\$ 96,008,706	\$ 3	\$ 59,748	\$ 96,068,457
State sources	40,919,274	-	-	40,919,274
Federal sources	4,550,718	-	-	4,550,718
TOTAL REVENUES	141,478,698	3	59,748	141,538,449
EXPENDITURES				
Instruction	83,705,788	-	-	83,705,788
Support services	38,676,756	-	-	38,676,756
Operation of non-instructional services	1,297,915	-	-	1,297,915
Facilities acquisition, construction and improvement services	-	10,999	6,150,396	6,161,395
Debt service	13,491,866	-	18,251,698	31,743,564
TOTAL EXPENDITURES	137,172,325	10,999	24,402,094	161,585,418
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,306,373	(10,996)	(24,342,346)	(20,046,969)
OTHER FINANCING SOURCES (USES)				
Bond issue proceeds	5,085,000	-	-	5,085,000
Proceeds from refunding bonds	-	-	29,225,960	29,225,960
Payment to refunded bond escrow agent	-	-	(30,029,120)	(30,029,120)
Bond premium	-	-	803,160	803,160
TOTAL OTHER FINANCING SOURCES (USES)	5,085,000	-	-	5,085,000
NET CHANGE IN FUND BALANCES	9,391,373	(10,996)	(24,342,346)	(14,961,969)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	(1,381,816)	105,804	44,417,685	43,141,673
FUND BALANCES AT END OF YEAR	\$ 8,009,557	\$ 94,808	\$ 20,075,339	\$ 28,179,704

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (14,961,969)

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. 2,207,790

Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. (55,662)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net position. Also, Governmental Funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items. (34,560,097)

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. 51,400,000

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:
 Accrued interest not reflected in Governmental Funds 217,996

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). (212,564)

The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements. (216,865)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year. 1,696,985

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 5,515,614

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014

	Enterprise Fund <u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 192,220
Due from other funds	51,167
Due from other governments	94,377
Other receivables	5,859
Inventories	<u>19,159</u>
TOTAL CURRENT ASSETS	<u>362,782</u>
CAPITAL ASSETS	
Furniture and equipment	1,555,042
Accumulated depreciation	<u>(1,424,940)</u>
TOTAL CAPITAL ASSETS	<u>130,102</u>
TOTAL ASSETS	<u>\$ 492,884</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 569
Unearned revenue	<u>16,504</u>
TOTAL CURRENT LIABILITIES	<u>17,073</u>
NONCURRENT LIABILITIES	
Compensated absences	110,244
Other postemployment benefits	<u>82,632</u>
TOTAL NONCURRENT LIABILITIES	<u>192,876</u>
TOTAL LIABILITIES	<u>209,949</u>
NET POSITION	
Net investment in capital assets	130,102
Unrestricted	<u>152,833</u>
TOTAL NET POSITION	<u>282,935</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 492,884</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014

	Enterprise Fund <u>Food Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ 757,955
Miscellaneous	<u>19,273</u>
TOTAL OPERATING REVENUES	<u>777,228</u>
OPERATING EXPENSES	
Salaries	934,773
Employee benefits	523,970
Purchased professional and technical services	9,645
Purchased property services	9,917
Other purchased services	194,172
Supplies	1,449,517
Depreciation	36,019
Other operating expenses	<u>3,585</u>
TOTAL OPERATING EXPENSES	<u>3,161,598</u>
OPERATING LOSS	<u>(2,384,370)</u>
NONOPERATING REVENUES	
Earnings on investments	24
Local sources	750
State sources	115,793
Federal sources	<u>2,197,917</u>
TOTAL NONOPERATING REVENUES	<u>2,314,484</u>
CHANGE IN NET POSITION	(69,886)
NET POSITION AT BEGINNING OF YEAR	<u>352,821</u>
NET POSITION AT END OF YEAR	<u>\$ 282,935</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014

	Enterprise Fund <u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 779,215
Payments to employees	(1,444,441)
Payments to suppliers	(1,863,461)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,528,687)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal sources	2,171,598
State sources	113,121
Local sources	750
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,285,469</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>24</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(243,194)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>435,414</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 192,220</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (2,384,370)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	36,019
(Increase) decrease in	
Other receivables	1,987
Inventories	94
Due from other funds	(51,167)
Increase (decrease) in	
Accounts payable	(79,583)
Due to other funds	(65,969)
Compensated absences	9,404
Other postemployment benefits	4,898
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (2,528,687)</u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated commodities	\$ 156,818

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ <u>177,216</u>	\$ <u>225,176</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ <u>1,235</u>	\$ <u>225,176</u>
NET POSITION		
Held in trust for benefits and other purposes	<u>175,981</u>	
TOTAL LIABILITIES AND NET POSITION	\$ <u>177,216</u>	

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions, local	\$ 120,846
Investment earnings	<u>57</u>
TOTAL ADDITIONS	120,903
DEDUCTIONS	
Scholarships	<u>121,845</u>
CHANGE IN NET POSITION	(942)
NET POSITION AT BEGINNING OF YEAR	<u>176,923</u>
NET POSITION AT END OF YEAR	<u><u>\$ 175,981</u></u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the District. In addition, component units can be other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading. This report presents the activities of Coatesville Area School District. The District is not a component unit of another reporting entity nor does it have any 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, 2014, the District's share of operating costs was \$2,566,989. 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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the primary financial activities of the District, except for Fiduciary Funds.

The government-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 Funds financial statements are prepared. Therefore, Governmental Funds financial statements include a reconciliation with brief explanations to better identify the relationship between the government-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 government-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from Special Revenue and Capital Projects Funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 unearned revenues until earned.

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

Expenditure Recognition - The measurement focus of Governmental Funds 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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Cash and Cash Equivalents

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

Receivables and Payables

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledged Taxes Receivable

The District has entered into an agreement with the Harrisburg Municipal Authority (the "Authority") under which the District relinquishes to the Authority delinquent property tax revenues. The District receives from the Authority an annual lump-sum payment in exchange for the rights to receive and retain future delinquent property tax revenues. This agreement qualifies as a collateralized borrowing in accordance with GASB Statement No. 48. Taxes receivable are considered as pledged for financial statement purposes. Proceeds received by the District are reported as a liability in the statement of net position and as 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 position.

Property Taxes

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

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

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 2013-2014 was 31.1926 mills (\$31.1926 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 government-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 government-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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

	<u>Years</u>
School buildings and improvements	20-50
Site improvements	15-20
Equipment	5-10
Vehicles	8-15
Library books	5-7

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 a long-term liability in the government-wide financial statements. The current portion of this liability 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 government-wide financial statements and Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are netted against outstanding principal balances amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amortized amounts are amortized using the straight-line method.

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position and Governmental Funds balance sheet will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. Delinquent taxes not collected within 60 days of year-end and collateralized borrowings related to the sale of delinquent taxes are not available under modified accrual reporting. They are reflected as deferred inflows of resources on the Governmental Funds balance sheet and deferred amounts on refunding are reflected as deferred outflows of resources on the statement of net position.

GASB Statement No. 54

As of June 30, 2011, the District has adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (resolution by the Board of School Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level of action to remove or change the constraint.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The details of the fund balances are included in the Governmental Funds balance sheet (page 15). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Budgetary Information

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE C - 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, 2014, the carrying amount of the District's deposits was \$35,075,872 and the bank balance was \$35,740,717. Of the bank balance, \$250,000 was covered by federal depository insurance and \$4,302,628 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name. The remaining cash deposits in the amount of \$31,188,089 are uninsured and uncollateralized, and are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2014, PSDLAF and PLGIT were rated as AAAM by a nationally recognized statistical rating agency.

Investments

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

All of the District's investments are in the PLGIT, the PSDLAF and certificates of deposit secured by the assets of PSDLAF. The carrying value of the District's investments at June 30, 2014, was \$29,859,471, which includes \$28,500,000 in certificates of deposit in the name of the District.

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, 2014, the District's investments in certificates of deposit had maturity dates of less than one year.

Credit Risk

The District limits its investment choices to those with the highest credit ratings by a nationally recognized statistical rating organization. As of June 30, 2014, PSDLAF and PLGIT were rated as AAAM by a nationally recognized statistical rating organization.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 2,812,500	\$ -	\$ -	\$ 2,812,500
Construction in progress	8,005,954	1,127,208	(8,005,954)	1,127,208
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	10,818,454	1,127,208	(8,005,954)	3,939,708
Capital assets being depreciated				
Land improvements	7,076,167	-	-	7,076,167
Buildings and building improvements	203,949,317	14,159,559	-	218,108,876
Furniture and equipment	12,405,705	549,790	-	12,955,495
TOTAL CAPITAL ASSETS BEING DEPRECIATED	223,431,189	14,709,349	-	238,140,538
Accumulated depreciation				
Land improvements	(6,381,149)	(1,853,644)	-	(8,234,793)
Buildings and building improvements	(44,169,868)	(2,977,190)	-	(47,147,058)
Furniture and equipment	(11,186,644)	(791,979)	-	(11,978,623)
TOTAL ACCUMULATED DEPRECIATION	(61,737,661)	(5,622,813)	-	(67,360,474)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	161,693,528	9,086,536	-	170,780,064
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	172,511,982	10,213,744	(8,005,954)	174,719,772
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,555,042	-	-	1,555,042
Accumulated depreciation	(1,388,921)	(36,019)	-	(1,424,940)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	166,121	(36,019)	-	130,102
CAPITAL ASSETS, net	\$ 172,678,103	\$ 10,177,725	\$ (8,005,954)	\$ 174,849,874

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

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 1,967,987
Operation and maintenance of plant service	112,456
Student transportation services	562,281
Central and other support services	112,456
Facilities and construction	2,867,633
TOTAL DEPRECIATION EXPENSE, GOVERNMENTAL ACTIVITIES	\$ 5,622,813
BUSINESS-TYPE ACTIVITIES	\$ 36,019

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE E - INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 51,167
Food Service Fund	<u>51,167</u>	<u>-</u>
	<u>\$ 51,167</u>	<u>\$ 51,167</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.

NOTE F - 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, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions</u>
GOVERNMENTAL ACTIVITIES		
Bonds payable	\$ 198,043,625	\$ 33,958,703
Notes payable	10,940,000	-
Tax revenue anticipation note	11,000,000	-
Accumulated compensated absences	1,829,521	212,564
Other postemployment benefits	<u>4,784,038</u>	<u>216,865</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 226,597,184</u>	<u>\$ 34,388,132</u>
BUSINESS-TYPE ACTIVITIES		
Accumulated compensated absences	\$ 100,840	\$ 9,404
Other postemployment benefits	<u>77,734</u>	<u>4,898</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 178,574</u>	<u>\$ 14,302</u>

<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
\$ (39,858,606)	\$ 192,143,722	\$ 6,159,147
(10,940,000)	-	-
(11,000,000)	-	-
-	2,042,085	204,209
-	<u>5,000,903</u>	-
<u>\$ (61,798,606)</u>	<u>\$ 199,186,710</u>	<u>\$ 6,363,356</u>
\$ -	\$ 110,244	\$ -
-	<u>82,632</u>	-
<u>\$ -</u>	<u>\$ 192,876</u>	<u>\$ -</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE F - GENERAL LONG-TERM DEBT (Continued)

Bonds payable, net, consists of the following:

Bonds payable, at face	\$ 188,713,703
Bond premiums	3,701,238
Bond discounts	<u>(271,219)</u>
 TOTAL BONDS PAYABLE, net	 \$ <u><u>192,143,722</u></u>

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

General Obligation Bonds

The District issues General Obligation Bonds to provide funds for acquisition and construction of major capital facilities or to refund prior year bond issues. On July 10, 2013, the District issued General Obligation Bonds, Series of 2013, totaling \$20,123,703. The bonds were issued to fully refund the District's General Obligation Bonds, Series of 2004, and to currently refund the District's General Obligation Bonds, Series of 2005, and pay the related issue costs. The new issue will reduce debt service payments for the District by \$1,193,665, with an economic gain of \$222,508.

On May 28, 2014, the District issued General Obligation Bonds, Series A of 2014, totaling \$8,750,000. The bonds were issued to currently refund the School District's General Obligation Bonds, Series of 2006, and pay the related issue costs. The new issue will reduce debt service payments for the District by \$646,047, with an economic gain of \$624,673.

On May 28, 2014, the District issued General Obligation Bonds, Series B of 2014, totaling \$5,085,000. The bonds were issued to fund a portion of an unfunded actuarial accrued liability and pay the related issue costs.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE F - GENERAL LONG-TERM DEBT (Continued)

General Obligation Bonds are as follows:

Series of 2007, maturing August 15, 2026, bearing interest ranging from 4.25% to 5.00%, interest payable semiannually on February 1 and August 1	\$ 63,525,000
Series of 2009, maturing October 1, 2016, bearing interest ranging from 4.00% to 5.00%, interest payable semiannually on February 15 and August 15	15,840,000
Series A of 2009, maturing August 15, 2026, bearing interest ranging from 4.00% to 5.00%, interest payable semiannually on February 15 and August 15	21,980,000
Series of 2010, maturing August 2031, bearing interest ranging from 2.25% to 5.00%, interest payable semiannually on February 15 and August 15	53,410,000
Series of 2013, maturing August 2020, bearing interest ranging from 1.33% to 4.13%, interest payable semiannually on February 15 and August 15	20,123,703
Series A of 2014, maturing August 2019, bearing interest ranging from 1.00% to 4.00%, interest payable semiannually on February 15 and August 15	8,750,000
Series B of 2014, maturing August 2017, bearing interest ranging from 1.32% to 2.30%, interest payable semiannually on February 15 and August 15	<u>5,085,000</u>
TOTAL GENERAL OBLIGATION BONDS	\$ <u>188,713,703</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE F - GENERAL LONG-TERM DEBT (Continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 5,957,380	\$ 7,402,082	\$ 13,359,462
2016	7,798,115	7,351,509	15,149,624
2017	7,950,334	7,203,627	15,153,961
2018	7,437,064	7,716,315	15,153,379
2019	7,556,705	8,223,664	15,780,369
2020 to 2024	50,624,105	31,912,284	82,536,389
2025 to 2029	68,805,000	15,786,544	84,591,544
2030 to 2032	<u>32,585,000</u>	<u>1,621,453</u>	<u>34,206,453</u>
	<u>\$ 188,713,703</u>	<u>\$ 87,217,478</u>	<u>\$ 275,931,181</u>

NOTE G - OPERATING LEASES

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

<u>Year Ending June 30,</u>	
2015	\$ 161,348
2016	161,348
2017	161,348
2018	<u>161,348</u>
	<u>\$ 645,392</u>

Rental expense, including short-term rentals, for the year ended June 30, 2014, was \$271,466.

NOTE H - PENSIONS

School districts in the Commonwealth of Pennsylvania participate in a state administered pension program. Under the program, contributions are made by each of three parties--the District, the state and the employee. All full-time employees of the District and part-time employees who meet certain minimum employment requirements participate in the program.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE H - PENSIONS (Continued)

Plan Description

Name of Plan: Public School Employees' Retirement System (the "System").

Type of Plan: Governmental cost-sharing multiple-employer defined benefit plan.

Benefits: Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-9102).

Annual Financial Report: The System issues a *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 North 5th Street, Harrisburg, PA 17101-1905 or by emailing Beth at bgirman@pa.gov. The *CAFR* is also available on the publications page of the PSERS website, www.psers.state.pa.us.

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth.

Contribution Rates

Member Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE H - PENSIONS (Continued)

- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at a 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and 0.93% for healthcare insurance premium assistance.

The District's contribution to PSERS for the years ended June 30, 2014, 2013 and 2012, was \$8,011,305, \$5,853,476 and \$4,294,854, respectively, equal to the required contribution for each year.

NOTE I - 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, 2014.

Change in Aggregate Claims Liabilities

Change in aggregate claims liabilities for the year ended June 30, 2014, consisted of the following:

CLAIMS LIABILITY, BEGINNING OF YEAR	\$ 1,163,586
Current year claims and changes in estimates	14,076,608
Claim payments by the District	<u>(14,200,251)</u>
CLAIMS LIABILITY, END OF YEAR	<u>\$ 1,039,943</u>

The liability is included in accrual salaries and benefits in the financial statements. Self-Insurance benefits also are offered to retired District employees according to the provisions set forth in each bargaining unit's ERIP agreement. Currently, 114 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$3,382,227 for the year ended June 30, 2014.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE J - COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

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

Litigation

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

Tax Increment Financing Plan and Cooperation Agreement

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

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

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

NOTE K - RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions of insurance coverages in the 2013-2014 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE L - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2014, the District contributed \$27,549 to the plan for current premiums.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE L - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan are as follows:

Normal cost	\$ 3,378,280
Interest on net OPEB obligation	218,780
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>3,597,060</u>
Adjustment to ARC	(825,050)
ANNUAL OPEB EXPENSE	<u>2,772,010</u>
Net OPEB contributions during the year	<u>(2,550,247)</u>
INCREASE IN NET OPEB OBLIGATION	221,763
Net OPEB obligation at beginning of year	<u>4,861,772</u>
NET OPEB OBLIGATION AT END OF YEAR	<u><u>\$ 5,083,535</u></u>

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 2,439,300	75.0%	\$ 4,784,313
2013	2,389,590	96.8%	4,861,772
2014	2,772,010	92.0%	5,083,535

Funded Status and Funding Progress

As of June 30, 2013, the actuarial accrued liability for benefits was \$17,562,004 and the actuarial value of assets was \$0, all of which was unfunded.

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE L - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

The schedule of funding progress, presented as required supplementary information on page 46, will present multiyear trend information in the future about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

In the June 30, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual healthcare cost trend rate of 7.00% in 2013, reduced by decrements of 0.5% per year to an ultimate rate of 5.50% in 2016. The UAAL is being amortized based on the level dollar, seven year open period. The remaining amortization period at June 30, 2013, was nine years.

REQUIRED SUPPLEMENTARY INFORMATION

COATESVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 91,086,299	\$ 91,086,299	\$ 96,008,706	\$ 4,922,407
State sources	43,708,746	43,708,746	40,919,274	(2,789,472)
Federal sources	5,574,213	5,574,213	4,550,718	(1,023,495)
TOTAL REVENUES	140,369,258	140,369,258	141,478,698	1,109,440
EXPENDITURES				
Instruction				
Regular programs	54,985,123	54,985,123	53,727,215	1,257,908
Special programs	27,292,339	27,292,339	25,666,322	1,626,017
Vocational programs	3,795,991	3,795,991	3,638,024	157,967
Other instructional programs	1,595,293	1,595,293	674,227	921,066
TOTAL INSTRUCTION	87,668,746	87,668,746	83,705,788	3,962,958
Support services				
Pupil personnel services	5,191,301	5,191,301	4,865,874	325,427
Instructional staff services	3,979,900	3,979,900	3,471,201	508,699
Administrative services	8,386,168	8,386,168	8,386,168	-
Pupil health	1,123,928	1,123,928	947,961	175,967
Business services	1,271,018	1,271,018	1,189,215	81,803
Operation and maintenance of plant services	11,140,560	11,140,560	10,375,361	765,199
Student transportation services	7,820,130	7,820,130	7,820,130	-
Central support services	1,570,057	1,570,057	1,570,057	-
Other support services	51,461	51,461	50,789	672
TOTAL SUPPORT SERVICES	40,534,523	40,534,523	38,676,756	1,857,767
Operation of non-instructional services				
Student activities	1,267,437	1,267,437	1,246,376	21,061
Community services	51,539	51,539	51,539	-
TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES	1,318,976	1,318,976	1,297,915	21,061
Debt service	15,619,171	15,619,171	13,491,866	2,127,305
Budgetary reserve	653,948	653,948	-	653,948
TOTAL EXPENDITURES	145,795,364	145,795,364	137,172,325	8,623,039
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,426,106)	(5,426,106)	4,306,373	9,732,479
OTHER FINANCING SOURCES				
Bond issue proceeds	4,065,000	4,065,000	5,085,000	1,020,000
NET CHANGE IN FUND BALANCE	\$ (1,361,106)	\$ (1,361,106)	9,391,373	\$ 10,752,479
FUND BALANCE AT BEGINNING OF YEAR			(1,381,816)	
FUND BALANCE AT END OF YEAR			\$ 8,009,557	

See accompanying note to the budgetary comparison schedule.

COATESVILLE AREA SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2014

NOTE A - BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for the Capital Projects Fund.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Board may, by resolution, transfer unencumbered budgeted amounts between departments within any fund.
5. The operating budget is adopted on a basis prescribed by the Department of Education.

Controls over spending in the Capital Reserve Fund are achieved by the use of internal spending limits. Effective expenditure control is achieved in the Capital Reserve Fund through bond indenture provisions.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

COATESVILLE AREA SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2014

SCHEDULE OF FUNDING PROGRESS

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2009	\$ -	\$ 10,031,540	\$ 10,031,540	0%	\$ 47,186,043	21.26%
2011	-	18,357,465	18,357,465	0%	44,917,748	40.87%
2013	-	17,562,004	17,562,004	0%	41,911,328	41.90%

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

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Coatesville Area School District's basic financial statements, and have issued our report thereon dated March 6, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2014-01, 2014-02, 2014-03, 2014-04, 2014-05, 2014-06 and 2014-07.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Coatesville Area School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
March 6, 2015

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance With OMB Circular A-133***

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the 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* that could have a direct and material effect on each of the Coatesville Area School District's major federal programs for the year ended June 30, 2014. The Coatesville Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Coatesville Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Coatesville Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Coatesville Area School District's compliance.

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

Basis for Qualified Opinion on the Title I Grants to Local Educational Agencies Program

As described in the accompanying schedule of findings and questioned costs, the Coatesville Area School District did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies as described in findings 2014-08 and 2014-09 for Allowable Costs. Compliance with such requirements is necessary, in our opinion, for the Coatesville Area School District to comply with the requirements applicable to that program

Qualified Opinion on the Title I Grants to Local Educational Agencies Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Coatesville Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Title I Grants to Educational Agencies program for the year ended June 30, 2014.

Basis for Qualified Opinion on the Title II Improving Teacher Quality State Grants

As described in the accompanying schedule of findings and questioned costs, the Coatesville Area School District did not comply with requirements regarding CFDA 84.367 Title II Improving Teacher Quality State Grants as described in findings 2014-10 and 2014-11 for Allowable Costs. Compliance with such requirements is necessary, in our opinion, for the Coatesville Area School District to comply with the requirements applicable to that program.

Qualified Opinion on the Title II Improving Teacher Quality State Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Coatesville Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Title II Improving Teacher Quality State Grants program for the year ended June 30, 2014.

Unmodified Opinion on the Other Major Federal Programs

In our opinion, the Coatesville Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Coatesville Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Coatesville Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Coatesville Area School District's internal control over compliance.

To the Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-08, 2014-09, 2014-10 and 2014-11 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Purpose of this Report

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



Oaks, Pennsylvania
March 6, 2015

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
Passed through the Pennsylvania Department of Education				
Title I Improving Basic Programs	I	84.010	013-13-0089	July 1, 2012 to September 30, 2014
Title I Improving Basic Programs	I	84.010	013-14-0089	July 1, 2013 to September 30, 2015
Title I Improving Basic Programs - Delinquent	I	84.010	107-13-0089	July 1, 2012 to September 30, 2014
Title I Improving Basic Programs - Delinquent	I	84.010	107-14-0089	July 1, 2013 to September 30, 2015
Title I Improving Basic Programs - Program Improvement	I	84.010	042-12-0090	July 1, 2012 to September 30, 2014
Title I Improving Basic Programs - Program Improvement	I	84.010	042-13-0089	April 10, 2013 to September 30, 2014
Title II Improving Teacher Quality	I	84.367	020-13-0089	July 1, 2012 to September 30, 2014
Title II Improving Teacher Quality	I	84.367	020-14-0089	July 1, 2013 to September 30, 2015
Title III Language Instruction	I	84.365	010-13-0089	July 1, 2012 to September 30, 2014
Title III Language Instruction	I	84.365	010-14-0089	July 1, 2013 to September 30, 2015
21st Century Community Learning Centers	I	84.287	410-005-2385	July 1, 2012 to June 30, 2013
21st Century Community Learning Centers	I	84.287	410-006-2385	July 1, 2012 to September 30, 2013
21st Century Community Learning Centers	I	84.287	410-006-2385	July 1, 2013 to September 30, 2014
Striving Readers Comprehensive Literacy Grant	I	84.010	143-120-089	July 1, 2012 to June 30, 2013
Striving Readers Comprehensive Literacy Grant	I	84.010	143-120-089	July 1, 2013 to September 30, 2014
SUBTOTAL FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2013</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2014</u>
\$ 1,669,343	\$ (51,430)	\$ (98,414)	\$ 46,984	\$ 46,984	\$ -
1,520,118	1,118,895	-	1,520,118	1,520,118	401,223
43,465	3,425	3,425	-	-	-
45,382	24,095	-	24,966	24,966	871
96,872	-	(92,814)	92,814	92,814	-
161,209	134,341	-	151,111	151,111	16,770
472,053	282,577	178,832	103,745	103,745	-
455,752	212,734	-	249,838	249,838	37,104
59,206	15,788	15,788	-	-	-
61,956	49,565	-	61,956	61,956	12,391
400,000	198,772	198,772	-	-	-
252,793	189,595	252,793	-	-	63,198
252,793	-	-	164,237	164,237	164,237
1,000,000	166,667	166,667	-	-	-
861,000	<u>646,050</u>	<u>-</u>	<u>820,671</u>	<u>820,671</u>	<u>174,621</u>
	<u>\$ 2,991,074</u>	<u>\$ 625,049</u>	<u>\$ 3,236,440</u>	<u>\$ 3,236,440</u>	<u>\$ 870,415</u>

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
SUBTOTAL FORWARDED				
Passed through Leader Services				
Medical Assistance	I	93.778	N/A	July 1, 2012 to June 30, 2013
Medical Assistance	I	93.778	N/A	July 1, 2013 to June 30, 2014
Passed through Chester County Intermediate Unit				
IDEA	I	84.027	062-12-0024	July 1, 2012 to September 30, 2013
IDEA	I	84.027	062-13-0024	July 1, 2013 to September 30, 2014
IDEA 619	I	84.027	131-120024B	July 1, 2012 to September 30, 2013
IDEA 619	I	84.027	131-130024B	July 1, 2013 to September 30, 2014
TOTAL U.S. DEPARTMENT OF EDUCATION				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Department of Education				
National School Lunch Program	I	10.555	N/A	July 1, 2012 to June 30, 2013
National School Lunch Program	I	10.555	N/A	July 1, 2013 to June 30, 2014
National School Breakfast Program	I	10.553	N/A	July 1, 2012 to June 30, 2013
National School Breakfast Program	I	10.553	N/A	July 1, 2013 to June 30, 2014
Fresh Fruit and Vegetable Program	I	10.582	N/A	July 1, 2013 to June 30, 2014
Passed through the Pennsylvania Department of Agriculture				
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	July 1, 2013 to June 30, 2014
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AWARDS				

Footnotes:

- (A) Total amount of commodities received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2013.
- (C) Total amount of commodities used.
- (D) Ending inventory at June 30, 2014.

Source Codes:

I = Indirect funding

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2013</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2014</u>
	\$ 2,991,074	\$ 625,049	\$ 3,236,440	\$ 3,236,440	\$ 870,415
\$ 86,572	23,472	23,472	-	-	-
98,793	85,186	-	98,793	98,793	13,607
1,086,709	1,086,709	1,086,709	-	-	-
1,042,609	764,580	-	1,042,609	1,042,609	278,029
4,545	4,545	4,545	-	-	-
4,100	<u>4,100</u>	<u>-</u>	<u>4,100</u>	<u>4,100</u>	<u>-</u>
	<u>4,959,666</u>	<u>1,739,775</u>	<u>4,381,942</u>	<u>4,381,942</u>	<u>1,162,051</u>
N/A	45,261	45,261	-	-	-
N/A	1,529,606	-	1,582,204	1,582,204	52,598
N/A	981	981	-	-	-
N/A	415,841	-	452,307	452,307	36,466
N/A	23,092	-	6,588	6,588	(16,504)
N/A	<u>168,123 (A)</u>	<u>- (B)</u>	<u>156,818</u>	<u>156,818 (C)</u>	<u>(11,305) (D)</u>
	<u>2,182,904</u>	<u>46,242</u>	<u>2,197,917</u>	<u>2,197,917</u>	<u>61,255</u>
\$	<u><u>7,142,570</u></u>	<u><u>1,786,017</u></u>	<u><u>6,579,859</u></u>	<u><u>6,579,859</u></u>	<u><u>1,223,306</u></u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

NOTE A - SCOPE OF THIS SCHEDULE

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

NOTE B - BASIS OF ACCOUNTING

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

NOTE C - NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 Value of U.S.D.A. Donated Commodities represent surplus food consumed by the District during the 2014 fiscal year.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Coatesville Area School District.
2. Significant deficiencies and material weaknesses relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Coatesville Area School District were disclosed during the audit.
4. Four significant deficiencies that are considered to be material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major award programs for the Coatesville Area School District expresses a qualified opinion relating to the compliance with allowable costs requirements for the Title I and Title II programs.
6. There are audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

Program	CFDA
Title I	84.010
Title II	84.367
SPECIAL EDUCATION CLUSTER (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Preschool Grants (IDEA Preschool)	84.173

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. Coatesville Area School District was determined not to be a low-risk auditee.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2014-01 - Capital Asset Procedures

Condition: The District utilizes a third party to account for capital asset additions and deletions, and to calculate and maintain depreciation records. The third party records the cost of capital assets as determined through valuation techniques rather than actual costs paid by the District. Additionally, a current appraisal report for the year ended June 30, 2014, could not be provided by the District.

Criteria: According to GASB Statement No. 34, capital assets should be reported at historical costs.

Effect: Using the appraiser's valuation technique rather than historical cost when recording capital assets may result in significant differences in the value of capital assets on the District's financial statements. Using the valuation techniques rather than historical cost may also result in significant misstatement of depreciation expense and accumulated depreciation.

Cause: The District has elected not to account for capital assets within the Business Office. By electing to utilize the third party, the District must rely on the appraiser's valuation techniques and reporting.

Recommendation: It is recommended that the District's capital asset records be maintained based on historical cost not another valuation technique.

2014-02 - Sick Bank

Condition: The District allows employees to voluntarily contribute annually to a sick bank in order to receive sick leave benefits over and above what they individually accrue. Although the hours being contributed and used are being tracked, there is no calculation of the dollar amount in the pool and no corresponding liability is recorded.

Criteria: The contributions made to the sick pool should be recorded as a liability and when benefits are utilized, the liability will be offset rather than overstating current payroll expenses.

Effect: When an employee utilizes the benefits of the sick bank pool, the related payroll expense is recorded against the individual's budgeted expense line item rather than against the accumulated pool, therefore, overstating current payroll expenses.

Cause: The District has not established effective procedures to measure the value of the sick bank pool or calculate the value of the accumulated pool.

Recommendation: It is recommended that the District develop financial procedures to effectively measure and record the value of the sick bank and the contributions/utilization of the resources accumulated.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

2014-03 - Verification of Wire Transfers

Condition: The District has suspended the internal control procedure where the bank would call a District official other than the individual who initiated the wire transfer to verify its propriety.

Criteria: The suspended control was an important and effective control to ensure the District's funds are handled properly.

Effect: Without this control, it is possible that improper wire transfers may be executed.

Cause: The District stated that the control was suspended due to staffing vacancies and turnover.

Recommendation: It is recommended that the District re-implement the wire transfer verification procedure for all wire transfers made.

2014-04 - Approval of Journal Entries

Condition: Adjusting journal entries are posted to the District's accounting system without management review and approval, and supporting documentation substantiating the entries' purpose.

Criteria: All journal entries should be reviewed and approved by management prior to posting, and appropriate supporting documentation substantiating the journal entry should be maintained for all entries posted.

Effect: Lack of management oversight of posting of journal entries could result in improper journal entries, whether malicious or unintentional, being recorded and not identified in the normal course of business.

Cause: The District stated that due to staff turnover and vacancies, journal entries were being entered into the accounting system without management review and approval.

Recommendation: We recommend the District review its procedures to ensure all journal entries are approved by an individual other than the preparer of the entry prior to posting in the accounting system, and that the approval along with all other supporting documentation substantiating the journal entry be maintained.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

2014-05 - Approval of Bank Reconciliations

Condition: It was noted that monthly bank reconciliations are not reviewed and approved by management in a timely manner.

Criteria: Independent review of monthly bank reconciliations is a key tool to ensure any irregularities in bank transactions are identified in a timely manner.

Effect: Cash activity may be misstated.

Cause: The District stated that due to staff turnover and vacancies in the prior year, bank reconciliations were not being reviewed in a timely manner.

Recommendation: We recommend the District immediately re-implement procedures by which bank reconciliations are reviewed and approved by management in a timely manner. The reviewer should sign or initial the bank reconciliations to physically indicate that a timely review has been performed.

2014-06 - Accounts Payable Cutoff

Condition: The District does not record open invoices for goods received or services performed prior to the year-end date as payables in the proper period.

Criteria: All expenses should be recorded in the appropriate period and the accounts payable list at year-end should be complete.

Effect: Failure to properly record cutoffs results in an inaccuracy of the accrual basis of accounting.

Cause: The business office has not instituted a process of requiring an employee to perform a cutoff test at the end of the accounting period. For the year ended June 30, 2014, the District did not accrue expenses for goods received or services performed before year-end if the payment of the expenses occurred after September 30, 2014.

Recommendation: We recommend the business office prepare written instructions to be included as part of the District's accounting policies and procedures manual indicating basic concepts of proper cutoffs and the individuals responsible for accruing payables at the accounting period end. The procedures ensure that activities subsequent to year-end are reviewed and record in the appropriate period.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

2014-07 - Student Activities Receipts and Disbursements

Condition: The District cannot provide proof that all student activities receipts and disbursements have been documented for the year or whether or not transactions were recorded in a timely manner.

Criteria: The District should have supporting documentation for every receipt and disbursement made from these funds.

Effect: The completeness of the receipts and disbursements from these funds cannot be ascertained.

Cause: There are no procedures ensuring that all student activities receipts and disbursements are properly accounted for.

Recommendation: We recommend the District implement procedures to ensure that every time a disbursement is made from the Athletic or Student Activities, supporting documentation is received and kept on file, and all receipts are deposited timely following an event. There should be oversight by the business office to ensure all activity is accounted for.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

2014-08 - Title I Grants to Local Educational Agencies: Allowable Costs

Federal Grantor: U.S. Department of Education

Federal CFDA #84.010

Pass-Through Grantor: Pennsylvania Department of Education

Condition: Our review of payroll expenses charged to the Title I program revealed that for the year ended June 30, 2014, the District charged administrative payroll expenses to the program based on estimates determined before the services were performed.

Criteria: Federal regulations under OMB Circular A-133 dictate that estimates or other percentage distributions determined before services are performed do not qualify as support for charges to a federal award.

Effect: The District did not properly charge and document costs of salaries and wages to the program, resulting in the District being in noncompliance with the federal requirements for allowable costs.

Cause: The District allocated administrative salaries to the Title I program based on a budgeted percentage, not actual time worked on the program supported by timesheets or an approved time study.

Recommendation: We recommend the District only allocate administrative salaries to the Title I program if the amounts charged to the program can be substantiated by timesheets showing the actual time that administrators dedicated to the program.

Questioned Costs: \$92,522

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

2014-09 - Title I Grants to Local Educational Agencies: Allowable Costs

Federal Grantor: U.S. Department of Education
Federal CFDA #84.010
Pass-Through Grantor: Pennsylvania Department of Education

Condition: The District did not maintain semi-annual certifications for employees that worked solely on Title I program in support of salaries and wages.

Criteria: OMB Circular A-87 states that where employees are expected to work solely on a single federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Effect: The District is in noncompliance with the federal requirements for allowable costs.

Cause: The District does not have procedures in place to ensure completion and maintenance of periodic certifications by eligible employees working on the Title I program.

Recommendation: We recommend the District improve its controls over the completion and maintenance of periodic certifications. We suggest the Title I program coordinators review payroll expenses charged to the program at least semi-annually, determining if any employees work solely in the Title I program and ensure those employees complete a periodic certification. A copy of the periodic certification should be maintained by the program coordinator and employee.

2014-10 - Title II Improving Teacher Quality State Grants: Allowable Costs

Federal Grantor: U.S. Department of Education
Federal CFDA #84.367
Pass-Through Grantor: Pennsylvania Department of Education

Condition: Our review of payroll expenses charged to the Title II program revealed that for the year ended June 30, 2014, the District charged administrative payroll expenses to the program based on estimates determined before the services were performed.

Criteria: Federal regulations under OMB Circular A-133 dictate that estimates or other percentage distributions determined before services are performed do not qualify as support for charges to a federal award.

Effect: The District did not properly charge and document costs of salaries and wages to the program, resulting in the District being in noncompliance with the federal requirements for allowable costs.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Cause: The District allocated administrative salaries to the Title II program based on a budgeted percentage, not actual time worked on the program supported by timesheets or an approved time study.

Recommendation: We recommend the District only allocate administrative salaries to the Title II program if the amounts charged to the program can be substantiated by timesheets showing the actual time that administrators dedicated to the program.

Questioned Costs: \$55,584

2014-11 - Title II Improving Teacher Quality State Grants: Allowable Costs

Federal Grantor: U.S. Department of Education
Federal CFDA #84.367
Pass-Through Grantor: Pennsylvania Department of Education

Condition: The District did not maintain semi-annual certifications for employees that worked solely on Title II program in support of salaries and wages.

Criteria: OMB Circular A-87 states that where employees are expected to work solely on a single federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Effect: The District is in noncompliance with the federal requirements for allowable costs.

Cause: The District does not have procedures in place to ensure completion and maintenance of periodic certifications by eligible employees working on the Title II program.

Recommendation: We recommend the District improve its controls over the completion and maintenance of periodic certifications. We suggest the Title II program coordinators review payroll expenses charged to the program at least semi-annually, determining if any employees work solely in the Title II program and ensure those employees complete a periodic certification. A copy of the periodic certification should be maintained by the program coordinator and employee.

COATESVILLE AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

11-1 - General Fund Budget

Description of Finding: In prior years, the District did not have a budget policy that accurately projected the reality of the District's expenditures.

Current Status: The District has under-expended its budget for each of the previous two fiscal years. This finding is no longer considered applicable.

12-1 - General Fund Deficit

Description of Finding: In prior years, the District's General Fund had been operating in a deficit position as a result of suffering consistent net losses for several years.

Current Status: For the years ended June 30, 2014 and 2013, the District had surpluses of \$8.6 million and \$1.4 million. As of June 30, 2014, the District has a positive fund balance of \$7.2 million. This finding is no longer considered applicable.

13-1 - Establish a Fund Balance Policy

Description of Finding: Previously, the District did not have a formal policy on its unassigned fund balance.

Current Status: This finding is no longer applicable. The District implemented a formal fund balance policy and it has been adopted as of August 28, 2012.

13-2 - Capital Asset Procedures

Description of Finding: The District capital asset records are maintained by a third party appraiser that tracks the assets based on valuation techniques not actual historical costs paid by the District.

Current Status: This finding is still applicable. See the schedule of findings and questioned costs item 2014-01.

13-3 - Use of Bond Proceeds

Description of Finding: The District had used proceeds from the Series of 2010 General Obligation Bonds for capital outlays not in accordance with the bond issuance documents. The District intended to transfer funds to this Capital Project Fund for the outlays not related to the construction of the North and South Brandywine Middle Schools.

Current Status: This finding is no longer applicable, as the District has been granted approval for the alternate use of the proceeds from the Series of 2010 General Obligation Bonds.

COATESVILLE AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

13-4 - Sick Bank

Description of Finding: The District allows employees to contribute and draw from a sick bank, however, no recording of the sick bank pool is performed. There is no liability balance recorded, resulting in overstatement of payroll expenses.

Current Status: This finding is still applicable. See the schedule of findings and questioned costs item 2014-02.

13-5 - Verification of Wire Transfers

Description of Finding: The District suspended an internal control where an additional individual who did not initiate a wire transfer would have to confirm a transfer with the bank.

Current Status: This finding is still applicable. See the schedule of findings and questioned costs item 2014-03. Wire transfers are currently limited to the authorization of the Business Administrator and the Assistant Business Administrator. The Business Administrator creates and approves all out going wire transfer instructions through PSDLAF. Wire transfers sent by the Assistant Business Administrator are reviewed and verified by the Business Administrator. Further verification of wire transfers are reviewed monthly by the staff accountant during the completion of monthly bank reconciliations. The procedures are reversed when the Business Administrator completes a wire transfer transaction.

13-6 - Approval of Journal Entries

Description of Finding: Due to staff turnover, journal entries for which there was no signed management approval were entered into the accounting system.

Current Status: This finding is still applicable. See the schedule of findings and questioned costs item 2014-04. Journal entries are now being approved by either the Business Administrator or Assistant Business Administrator on a daily basis.

13-7 - Approval of Bank Reconciliations

Description of Finding: Monthly bank reconciliations had not been reviewed and approved by a second individual other than the preparer.

Current Status: This finding is still applicable. See the schedule of findings and questioned costs item 2014-05. Bank accounts are now reconciled monthly by the District's staff accountant and approved by the Business Administrator or Assistant Business Administrator.

13-8 - Updates to Accounting Software

Description of Finding: The District had delayed certain upgrades to their accounting software package in an effort to achieve cost savings.

Current Status: This finding is no longer applicable. As of July 1, 2014, the District contracted with the Central Susquehanna Intermediate Unit 16 to provide financial software. All necessary updates are performed as they become available.

COATESVILLE AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

13-9 - Storage of Server Backup Drives

Description of Finding: Server backups were being maintained off-site but at personal residences of District employees.

Current Status: This finding is no longer applicable. The District has implemented a policy where each member of the IT department must sign a disclosure that they will not remove any school owned devices from the school grounds. Doing so will result in immediate action against the parties involved.

Management's Response For
2013-2014 Audit Report

FINDINGS - FINANCIAL STATEMENT AUDIT

2014-01 - Capital Asset Procedures

Condition: The District utilizes a third party to account for capital asset additions and deletions, and to calculate and maintain depreciation records. The third party records the cost of capital assets as determined through valuation techniques rather than actual costs paid by the District. Additionally, a current appraisal report for the year ended June 30, 2014 could not be provided by the district.

Management's Response

District agrees the prior management and staff did not maintain a capital asset ledger reflecting additions, deletions, and depreciation records.

The Board of School Directors have approved Valuation Engineers to complete a district wide appraisal of all assets with a value greater than five hundred dollars and calculated the annual depreciation. Annual updates to the asset ledger will be maintained by the district with additions, deletions, and depreciation being recorded annually.

2014-02 - Sick Bank

Condition: The District allows employees to voluntarily contribute annually to a sick bank in order to receive sick leave benefits over and above what they individually accrue. Although the hours being contributed and used are being tracked, there is no calculation of the dollar amount in the pool and no corresponding liability is recorded.

Management's Response

District agrees that no liability has ever been calculated and recorded.

2014-03 - Verification of Wire Transfers

Condition: The District has suspended the internal control procedure where the bank would call a District official other than the individual who initiated the wire transfer to verify its propriety.

Management's Response

District agrees and has implemented an internal procedure to verify wire transfers by another member of the management staff. Employee approved to complete wire transfers are limited and must be approved by the Business Administrator. Wire transfers are also verified monthly by an employee not authorized to complete transfer of funds.

2014-04 - Approval of Journal Entries

Condition: Adjusting journal entries are posted to the District's accounting system without management review and approval, and supporting documentation substantiating the entries' purpose.

Management's Response

District agrees and has implemented a procedure that has all journals being authorized by a member of the management staff.

2014-05 - Approval of Bank Reconciliations

Condition: It was noted that monthly bank reconciliations are not reviewed and approved by management in a timely manner.

Management's Response

District agrees that due to the limited number of employees within the Business Office with accounting experience verification has not been timely. Bank reconciliations are currently being reviewed on a timely basis.

2014-06 - Accounts Payable Cutoff

Condition: The District does not record open invoices for goods received or services performed prior to the year-end date as payables in the proper period.

Management's Response

District agrees and is working to implementing a procedure to properly record year end payables. The 2013-2014 year end process was over whelming due to the implementation of a new software package at the end of the fiscal year. Better controls are needed to ensure that open payables and invoices are recorded on a timely basis.

2014-07 - Student Activities Receipts and Disbursements

Condition: The District cannot provide proof that all student activities receipts and disbursements have been documented for the year or whether or not transactions were recorded in a timely manner.

Management's Response

District agrees and will be implementing a student activities handbook with proper procedures and updated forms to strengthen our internal controls and accountability.

2014-08 - Title I Grants to Local Educational Agencies: Allowable Costs

Federal Grantor: U.S. Department of Education

Federal CFDA #84.010

Pass-Through Grantor: Pennsylvania Department of Education

Condition: Our review of payroll expenses charged to the Title I program revealed that for the year ended June 30, 2014, the District charged administrative payroll expenses to the program based on estimates determined before the services were performed.

Management's Response

District agrees and has implemented procedures where all expenditures reported must be actual expenses and have documentation enclosed with all federal program reports filed.

2014-09 - Title I Grants to Local Educational Agencies: Allowable Costs

Federal Grantor: U.S. Department of Education

Federal CFDA #84.010

Pass-Through Grantor: Pennsylvania Department of Education

Condition: The District did not maintain semi-annual certifications for employees that worked solely on Title I program in support of salaries and wages.

Management's Response

District agrees and has implemented a procedure that all employees providing Title I services will be verified with the Human Resources Department to verify that all employees charged to the Title I program are certified as per the OMB Circular A-87.