



**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2012

COATESVILLE AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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March 15, 2013

Board of School Directors
Coatesville Area School District
Coatesville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Coatesville Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2011 financial statements and, in our report dated February 10, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, on our consideration of Coatesville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of School Directors
Coatesville Area School District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Coatesville Area School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards and Certain State Grants, as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 and Certain State Grants is fairly stated in all material respects in relation to the financial statements as a whole.

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

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

JUNE 30, 2012

The discussion and analysis of the financial performance of Coatesville Area School District (the "District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers also should review the basic financial statements and the notes thereto to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

The District's total net position continued to decline with a \$1.4 million decline from the previous year. This was comprised of a \$3.5 million decline in unrestricted net position, a \$.5 million decline in restricted net position for capital projects, offset by a \$2.2 million increase in amounts invested in capital assets net of related debt.

The decline stemmed mainly from General Fund operations, which experienced a \$4.2 million decline in its unassigned fund balance. Similar to previous years, actual revenues and other financing sources fell short of budget by \$3.1 million, actual expenditures exceeded budget by \$2.1 million, while a \$1 million unfulfilled budgeted addition to fund balance offset this, creating the \$4.2 million net decline. To prevent this pattern from repeating, the board and senior management will need to genuinely take effective action to operate within realistic budgets.

With the \$4.2 million decline and the already \$1.6 million negative unassigned ending fund balance from the previous year, the General Fund reported a negative unassigned fund balance of \$5.8 million. The \$4.2 million decrease in the General Fund balance was primarily the result of:

- A \$1.0 million shortfall from budgeted state revenues,
- A \$1.0 million shortfall from budgeted federal revenues,
- A \$1.1 million shortfall from proceeds from budgeted collateralized borrowing,
- Healthcare expenditures that exceeded budget by \$1.7 million,
- Charter school tuition expenditures that exceeded budget by \$1.6 million,
- Legal expenditures that exceeded budget by \$.8 million,
- Other benefits expenditures that exceeded budget by \$.3 million and,
- Special education expenditures exclusive of charter school tuition, salaries and benefits that exceeded budget by \$.6 million,

Offset by:

- A \$2.0 million salaries savings from early retirees, contracted psychologists and other attrition,
- A \$.3 million savings in debt service expenditures and,
- Supplies savings of \$.6 million.

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2012

Total fund balance of the governmental funds decreased by \$8.0 million - from \$49.2 million in the previous fiscal year to \$41.3 million, primarily from the \$4.2 million decrease in General Fund balance as well as the \$3.7 million decrease in Capital Projects Funds as bond proceeds were expended.

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

- The continued major renovation projects at its Coatesville Area High School campus,
- The investment of \$1.3 million in an energy project,
- The continued planning of the District's educational facility's needs,
- The reduction of 26 staff positions through early retirements,
- The opening of a District-run cyber school,
- Tutoring programs,
- Curricula programs to improve academic achievement,
- Staff development and,
- Greater use of targeted differentiated instruction, deeper data analysis of academic performance assessments and increased monitoring of students' academic progress.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and Statement of Activities

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

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

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2012

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$1.4 million at the close of the most recent fiscal year. In the prior year, liabilities exceeded assets by \$.02 million and the year before that (ended June 30, 2010) assets exceeded liabilities by \$3.4 million.

The largest portion of the District's total net position is its negative \$7.9 million unrestricted portion, mostly attributed to the District's \$5.8 million negative unassigned fund balance in the General Fund. Offsetting this negative \$7.9 million unrestricted portion with its \$6.3 million investment in capital assets net of related debt and its \$.2 million restricted for capital projects yields its deficit \$1.4 million net position.

The District uses capital assets to provide services; consequently, these assets are generally not available for future spending. In the event that any were, it would not constitute a recurring revenue stream. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A comparative analysis of fiscal year 2012 to 2011 follows:

NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Total Assets	<u>\$241,075,178</u>	<u>\$247,807,435</u>	<u>\$310,874</u>	<u>\$416,599</u>	<u>\$241,386,052</u>	<u>\$248,224,034</u>
Total Liabilities	\$242,776,073	\$248,093,231	\$ (15,669)	\$147,214	\$242,760,404	\$248,240,445
Net Position (Deficit):						
Invested in capital assets net of related debt	6,118,600	3,873,548	202,242	227,872	6,320,842	4,101,420
Restricted for capital projects	237,007	293,265	-	-	237,007	293,265
Unrestricted (Deficit)	(8,056,502)	(4,452,609)	124,301	41,513	(7,932,201)	(4,411,096)
Total Net Position (Deficit)	<u>(1,700,895)</u>	<u>(285,796)</u>	<u>326,543</u>	<u>269,385</u>	<u>(1,374,352)</u>	<u>(16,411)</u>
Total Liabilities and Net Position	<u>\$241,075,178</u>	<u>\$247,807,435</u>	<u>\$310,874</u>	<u>\$416,599</u>	<u>\$241,386,052</u>	<u>\$248,224,034</u>

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2012

The District's assets decreased by \$7 million, as more cash was disbursed than anticipated – the result of unfavorable variances from both budgeted revenues and expenditures in the amount of \$4.2 million in its General Fund, as well as cash expenditures from its Capital Projects Fund. However, liabilities decreased as the District made debt-service payments, reducing its bonds payable.

Investment in capital assets, net of related debt, increased by \$2.2 million as a result of the District paying off the debt used to acquire the capital assets faster than the capital assets are being depreciated, as well as those assets that were acquired without the issuance of debt. In addition, the District experienced a \$56 thousand decrease in its restricted net assets as a result of capital reserve expenditures.

Furthermore, it should be noted that the district's business-type activities net position improved by \$57 thousand – the result of increased federal subsidy revenue.

Governmental Activities

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

STATEMENT OF ACTIVITIES

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
PROGRAM EXPENSES				
Governmental Activities:				
Instruction				
Instruction	\$ 89,297,673	\$ 75,611,101	\$ 92,409,232	\$ 69,072,462
Instructional staff support	10,250,520	9,777,591	11,195,908	10,742,646
Administration	10,464,474	10,126,880	10,470,495	10,169,819
Maintenance	9,879,584	9,557,538	11,242,833	10,920,102
Pupil transportation	7,823,807	2,800,749	8,650,455	3,558,661
Student activities	1,162,165	1,049,210	1,335,535	1,231,544
Community services	26,868	(283,428)	53,508	(477,551)
Interest and fiscal charges	9,440,039	8,594,674	8,899,387	7,599,741
TOTAL PROGRAM EXPENSES	<u>\$138,345,130</u>	<u>\$117,234,315</u>	<u>\$144,257,353</u>	<u>\$112,817,424</u>
Business-type Activities:				
Food service	<u>\$ 2,864,856</u>	<u>\$ (57,052)</u>	<u>\$ 2,756,834</u>	<u>\$ 82,877</u>

COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA

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

JUNE 30, 2012

The net cost of services for instruction increased from fiscal year 2011 to 2012 as a result of a sharp decrease in federal grant and subsidy revenue, increased charter school expenditures, increased healthcare costs and other benefits paid pursuant to the structure of the District's early retirement incentive program in 2012.

The net cost for instructional staff support decreased as expenditures for school libraries and instructional staff development were less.

The net cost of maintenance decreased as a result of decreased utilities, supplies and salaries expenditures. It should be noted that the District has implemented energy savings solutions.

The net cost of pupil transportation decreased as a result of the negotiation of a new contract with the District's primary contracted transportation carrier.

Student activities net costs decreased as a result of more grant revenue offsets.

The increase in the net costs of services for interest and fiscal charges was the result of increased debt obligations as well as decreased rental/sinking fund subsidy revenue.

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

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

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

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

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2012

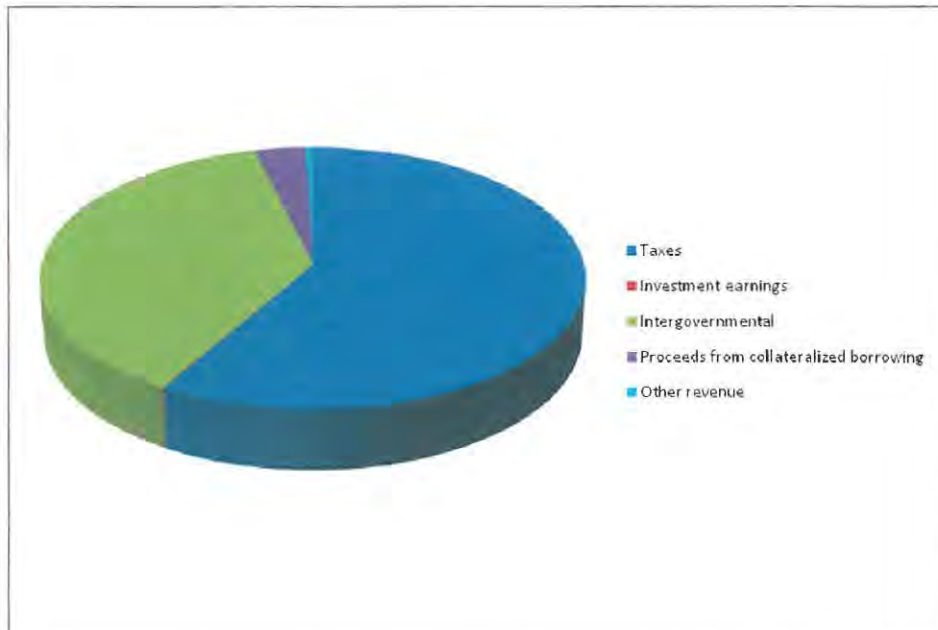
Fund Financial Statements

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

The District's governmental funds reported a combined total fund balance of \$41.3 million, which is less than last year's total of \$49.2 million. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2012 and 2011.

	Fund Balance 6/30/2012	Fund Balance 6/30/2011	Increase (Decrease)
General Fund (Deficit)	\$ (4,902,834)	\$ (743,242)	\$ (4,159,592)
Capital Reserve Fund	237,007	293,265	(56,258)
Capital Projects Fund - 2007 GOB	365,509	374,869	(9,360)
Capital Projects Fund - 2009 GOB	7,794	556,066	(548,272)
Capital Projects Fund - 2010 GOB	45,582,828	48,762,053	(3,179,225)
TOTAL FUND BALANCES	\$ 41,290,304	\$ 49,243,011	\$ (7,952,707)

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



**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2012

General Fund

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

	Fiscal Year		Variance	
	2012	2011	\$ Change	% Change
General Fund:				
Taxes	\$ 84,501,001	\$ 81,784,704	\$ 2,716,297	3%
Investment earnings	51,549	80,371	(28,822)	-36%
Intergovernmental	46,032,542	53,048,040	(7,015,498)	-13%
Proceeds from collateralized borrowing	4,100,046	4,696,197	(596,151)	-13%
Other revenue	466,490	660,859	(194,369)	-29%
TOTAL REVENUE	\$135,151,628	\$140,270,171	\$ (5,118,543)	-4%

Tax revenue increased by \$2.7 million due primarily to an increase in real estate tax rates. Furthermore, it should be noted that District real estate taxpayers received a \$3.9 million offset in homestead exemptions per Act 1.

The District's real estate tax base grew modestly, and a 3.51 percent tax increase (the Act 1 limit) helped increase revenues.

Investment earnings decreased by \$29 thousand, or 36 percent, as a result of lower interest rates brought about by the economy, fewer funds available for investment as well as less competition within the government banking niche.

Intergovernmental revenue decreased by \$7 million, or 13 percent, as federal funding, especially the previous additional funding from the American Recovery and Reinvestment Act, ceased or decreased and state funding decreased.

Proceeds from collateralized borrowings decreased by \$596 thousand - the result of a decrease in delinquent tax collections.

Other revenue decreased by \$194 thousand, primarily because the District corrected rental revenues that were overstated in the previous year, which lowered revenues in the 2011-2012 year by \$100 thousand. The District also had decreased miscellaneous revenue, due to non-recurring older accounting adjustments that were made in the previous 2010-2011 year.

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2012

Other Funds

The Capital Reserve Fund decreased by \$56 thousand as a result of capital outlays.

The Capital Projects 2007 GOB fund balance decreased slightly by \$9 thousand as a result of capital outlays.

The Capital Projects 2009 GOB fund balance decreased by \$548 thousand as a result of payments made for the Coatesville Area High School campus project.

The Capital Projects 2010 GOB fund balance decreased by \$3.2 million as a result of capital outlays of \$2.1 million, comprised of \$1.3 million in payments made for the District energy project; \$300 thousand in payments for the continued planning of the North and South Brandywine Middle School projects; \$500 thousand for other projects; \$1.2 million for a capitalized interest debt service payment for the 2010 GOB; offset by \$100 thousand in interest income on bond proceeds.

Business-type Activities

Business-type activities include the food service program. This program had an increase in net position of \$57 thousand for the fiscal year, primarily because food service subsidy revenues increased and exceeded its operating expenditures. With the recent downturn in the economy and increased enrollment, free and reduced lunch participation increased by 1.2 percent during the fiscal year.

GENERAL FUND BUDGET INFORMATION

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

During the year, the District's Board of Education and management review, approve and process budget transfers monthly. The District's total General Fund expenditures and other financing uses were \$2 million over budget.

Spending Review		Original Budget	Actual	Variance	
				Change	Change %
EXPENDITURES/FINANCING USES					
Instruction:					
Regular programs	1100	\$ 54,034,197	\$ 54,051,257	\$ (17,060)	-0.03%
Special programs	1200	24,098,088	25,294,804	(1,196,716)	-4.97%
Vocational programs	1300	3,745,392	3,776,010	(30,618)	-0.82%
Other instructional programs	1400	1,180,854	2,452,107	(1,271,253)	-107.66%
Total Instruction		<u>83,058,531</u>	<u>85,574,178</u>	<u>(2,515,647)</u>	<u>-3.03%</u>

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2012

(cont'd)		Original		Variance	
		Budget	Actual	Change	Change %
Support services:					
Pupil personnel services	2100	4,685,454	4,923,645	(238,191)	-5.08%
Instructional staff services	2200	3,906,148	3,836,053	(70,095)	1.79%
Administrative services	2300	6,431,269	7,349,217	(917,948)	-14.27%
Pupil health	2400	1,054,657	1,075,832	(21,175)	-2.01%
Business services	2500	1,272,146	1,401,551	(129,405)	-10.17%
Operation and maintenance of					
plant services	2600	10,143,212	9,497,033	646,179	6.37%
Student transportation services	2700	7,964,718	7,823,807	140,911	1.77%
Central	2800	1,561,847	1,219,839	342,008	21.90%
Other support services	2900	52,832	51,164	1,668	3.16%
Total Support Services		<u>37,072,283</u>	<u>37,178,141</u>	<u>(105,858)</u>	-0.29%
Operation of noninstructional activities:					
Student activities	3200	1,056,840	1,134,187	(77,347)	-7.32%
Student and community services	3300	13,152	26,868	(13,716)	-104.29%
Total Operation of Noninstructional Activities		<u>1,069,992</u>	<u>1,161,055</u>	<u>(91,063)</u>	
Debt service	5110	15,562,864	15,397,846	165,018	1.17%
Transfers and budgetary reserve	5900	500,000	-	500,000	100.00%
		<u>16,062,864</u>	<u>15,397,846</u>	<u>665,018</u>	4.14%
TOTAL EXPENDITURES/FINANCING USES		<u>\$137,263,670</u>	<u>\$139,311,220</u>	<u>\$(2,047,550)</u>	-0.03%

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

		Original		Variance	
		Budget	Actual	Change	Change %
Other instructional programs	1400	1,180,854	2,452,107	(1,271,253)	-107.66%
Pupil personnel services	2100	4,685,454	4,923,645	(238,191)	-5.08%
Administrative services	2300	6,431,269	7,349,217	(917,948)	-14.27%
Business services	2500	1,272,146	1,401,551	(129,405)	-10.17%
Operation and maintenance					
of plant services	2600	10,143,212	9,497,033	646,179	6.37%
Central	2800	1,561,847	1,219,839	342,008	21.90%
Student activities	3200	1,056,840	1,134,187	(77,347)	-7.32%
Student and Community services	3300	13,152	26,868	(13,716)	-104.29%

Other instructional programs expenditures exceeded the original budget by \$1.3 million because grant expenditures charged to this area were budgeted under regular programs.

Pupil personnel services expenditures exceeded the original budget by \$238 thousand because of overall healthcare expenditure increases as well as the increased use of outsourced psychologists during the year.

COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA

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

JUNE 30, 2012

Administrative services expenditures exceeded the original budget by \$918 thousand because legal bills exceeded the budget by \$815 thousand and because of overall healthcare expenditure increases.

Business services expenditures exceeded the original budget by \$129 thousand because of salary severance expenditures that were unforeseen and, therefore, not budgeted; overall healthcare expenditure increases; an unforeseen early retirement incentive benefit payout and increased professional services usage for which expenditures exceeded the budget.

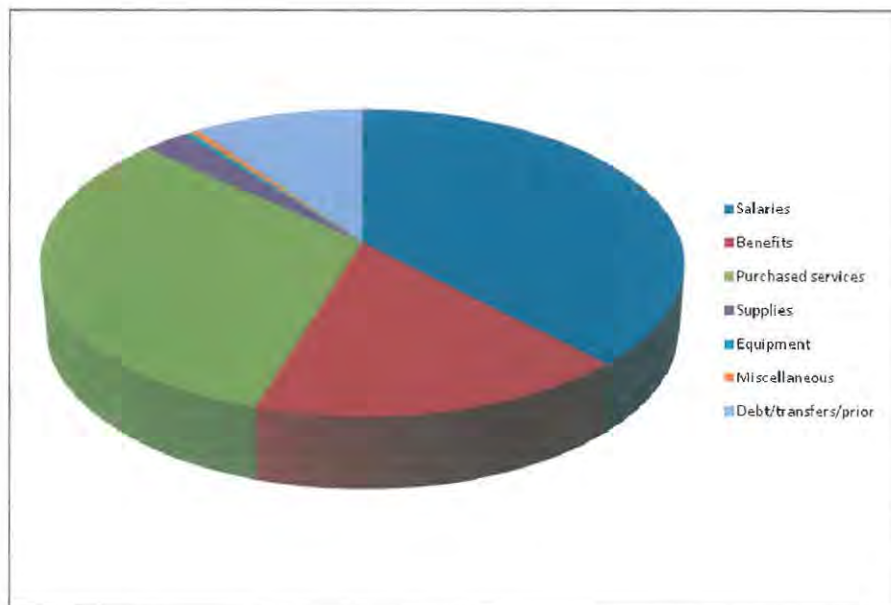
Operation and maintenance of plant services expenditures were less than budgeted by \$646 thousand. This is the result of expenditures for utilities, supplies and salaries being less than anticipated as well as cost-cutting. It should be noted that while the District has implemented energy savings solutions, the winter of 2012 was milder than normal, also generating utilities savings.

Central services expenditures were \$342 thousand less than budgeted because technology related support contracts were less than originally planned and telecommunications expenditures were less than budgeted.

Student activities expenditures were over budget by \$77 thousand, mainly because of increased athletic related transportation costs, which exceeded the budget by \$49 thousand. However, the increase was also caused by salaries and professional services expenditures which exceeded the budget.

Student and community services expenditures exceeded the budget by \$14 thousand as a result of expenditures not budgeted or budgeted in other areas.

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



**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2012

	Fiscal Year		Variance	
	2012	2011	Change	Percent
General Fund:				
Salaries	\$ 49,130,641	\$ 55,179,041	\$ (6,048,400)	-10.96%
Benefits	24,411,295	24,562,926	(151,631)	-0.62%
Purchased services	46,999,282	46,737,443	261,839	0.56%
Supplies	2,393,428	3,781,388	(1,387,960)	-36.71%
Equipment	319,260	618,111	(298,851)	-48.35%
Miscellaneous	677,741	736,150	(58,409)	-7.93%
Debt service	15,379,573	14,110,679	1,268,894	8.99%
TOTAL EXPENDITURES BY OBJECT	\$ 139,311,220	\$ 145,725,738	\$ (6,414,518)	-4.40%

Expenditures overall were down \$6.4 million, or 4.4 percent, from the prior year.

Salaries expenditures decreased by \$6 million - the result of salary freezes for most employees for the 2011-2012 year, 72 early retirements, the elimination of 8.5 regular positions at the end of fiscal year 2011, a reduction in extra-duty, coordinator and class coverage pay, less substitute usage, and a reduction in federal and state grant revenue to expend on salaries. All of these factors served to reduce 2011-2012 total salaries.

The net \$152 thousand decrease in benefits is attributed to less early retirees receiving severances at the end of 2012 compared to 2011, reduced social security expenditures as a result of the overall salaries reduction, less tuition reimbursement expenditures as new tuition expenditures were put on hold for 2011-2012, offset by increased retirement and healthcare expenditures.

Purchased services expenditures increased by \$262 thousand - the result of increased legal and charter school tuition expenditures, offset by decreased utilities expenditures.

Supplies and equipment expenditures decreased by \$1.4 million and \$299 thousand, respectively, due to purchases being postponed or not made, as the District exercised efforts to cut expenditures.

Miscellaneous expenditures decreased by \$58 thousand - mainly the result of a decrease in refunds of prior year receipts.

Debt service expenditures increased by \$1.3 million, as this was the District's first full year of making payments for the 2010 general obligation bonds.

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has \$176 million invested in capital assets net of depreciation, with \$175.8 million attributed to governmental activities. Net acquisitions for governmental activities totaled approximately \$2.9 million, and depreciation expense for the year was \$4.4 million. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

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

- Finishing the major renovation projects at the Coatesville Area High School Campus.
- The planning and beginning construction phases of the North and South Brandywine Middle School projects.
- The continued review of the District's other buildings.

Debt

At June 30, 2012, the District had \$213.7 million in outstanding bonds and notes payable. The 2011-2012 year was the first full year of debt service payments for the 2010 general obligation bonds.

Detailed information regarding long-term debt and notes payable activity is included in the notes to the basic financial statements (Note 7).

Under current state statutes, the District's general obligation bonded debt issues are subject to legal limitation based on 225 percent of the average revenues for the prior three years. At June 30, 2012, the District's gross borrowing capacity for debt was \$301.6 million; of this amount, \$213.7 million was outstanding as existing debt, leaving \$87.9 million remaining as the District's net borrowing capacity available for future debt issuances.

At June 30, 2012, the District's Moody's and Standard & Poor's ratings were A1 enhanced/Negative and BBB+/Negative, respectively.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

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

**COATESVILLE AREA SCHOOL DISTRICT
COATESVILLE, PENNSYLVANIA**

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

JUNE 30, 2012

Based on previous and current economic conditions, the District has anticipated its property tax base to grow modestly due to the global downturn in economic conditions. For this reason, the District's future growth will depend largely on the economy.

The District's overall enrollment, including private and charter school students (for which the District is responsible for transportation costs), is expected to increase in fiscal year 2012-2013. With this increased enrollment, as well as increased expenditures such as retirement and healthcare, the District will need to identify and implement real solutions to, a) ensure new students choose its schools over charter schools and, b) draw existing charter school students back to the District. In conjunction, the District's facilities plans continue to be reviewed to accommodate changes in student population while meeting current federal, state, county and municipal guidelines for health and safety criteria. New mandates for facility upgrades can be imposed by any of these governments at any time.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2012
(With Summarized Comparative Data for June 30, 2011)

	Governmental Activities	Business-type Activities	Totals	
			2012	2011
ASSETS				
Cash and cash equivalents	\$ 2,478,033	\$ 23,084	\$ 2,501,117	\$ 6,710,107
Investments	45,727,665	-	45,727,665	47,974,666
Interest receivable	92,854	-	92,854	39,718
Pledged taxes receivable	8,975,950	-	8,975,950	7,145,302
Due from other governments	2,128,731	51,148	2,179,879	2,629,577
Other receivables	498,417	7,063	505,480	791,199
Prepaid expenses	928,890	-	928,890	851,569
Inventories	-	27,337	27,337	12,193
Other assets	2,011,043	-	2,011,043	1,824,173
Issuance costs	2,390,886	-	2,390,886	2,658,330
Land	2,812,500	-	2,812,500	2,812,500
Construction-in-progress	6,603,266	-	6,603,266	66,030,672
Land improvements	7,076,167	-	7,076,167	7,067,357
Buildings and improvements	203,579,394	-	203,579,394	141,457,916
Furniture and equipment	12,328,800	1,555,042	13,883,842	13,716,024
Accumulated depreciation	(56,557,418)	(1,352,800)	(57,910,218)	(53,497,269)
TOTAL ASSETS	\$241,075,178	\$ 310,874	\$241,386,052	\$248,224,034
LIABILITIES AND NET POSITION				
LIABILITIES:				
Accounts payable	\$ 5,542,851	\$ -	\$ 5,542,851	\$ 7,225,368
Accrued salaries and benefits	5,011,928	-	5,011,928	2,606,584
Accrued interest	3,474,936	-	3,474,936	3,405,168
Internal balances	185,565	(185,565)	-	-
Collateralized borrowing	5,867,836	-	5,867,836	5,596,051
Deferred revenues	314,432	-	314,432	-
Long-term liabilities				
Portion due or payable within one year:				
Bonds payable	5,545,000	-	5,545,000	5,410,000
Add: Bond premiums	355,457	-	355,457	355,457
Less: Bond discounts	(19,692)	-	(19,692)	(19,692)
Less: Deferred amounts on refunding	(152,237)	-	(152,237)	(154,731)
Note payable	1,970,000	-	1,970,000	1,905,000
Accumulated compensated absences	148,748	-	148,748	349,088
Portion due or payable after one year:				
Bonds payable	195,215,000	-	195,215,000	200,760,000
Add: Bond premiums	3,115,800	-	3,115,800	3,471,257
Less: Bond discounts	(287,175)	-	(287,175)	(306,867)
Less: Deferred amounts on refunding	(1,001,913)	-	(1,001,913)	(1,151,656)
Note payable	10,940,000	-	10,940,000	12,910,000
Other post-employment benefits	4,723,037	61,276	4,784,313	4,173,469
Accumulated compensated absences	1,826,500	108,620	1,935,120	1,705,949
TOTAL LIABILITIES	242,776,073	(15,669)	242,760,404	248,240,445
NET POSITION (DEFICIT):				
Invested in capital assets, net of related debt	6,118,600	202,242	6,320,842	4,101,420
Restricted for capital projects	237,007	-	237,007	293,265
Unrestricted (Deficit)	(8,056,502)	124,301	(7,932,201)	(4,411,096)
TOTAL NET POSITION (DEFICIT)	(1,700,895)	326,543	(1,374,352)	(16,411)
TOTAL LIABILITIES AND NET POSITION	\$241,075,178	\$ 310,874	\$241,386,052	\$248,224,034

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(With Summarized Comparative Data for the Year Ended June 30, 2011)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 89,297,673	\$ 274,671	\$ 13,411,901	\$ -	\$ (75,611,101)	\$ -	\$ (69,072,462)
Instructional student support	10,250,520	-	472,929	-	(9,777,591)	-	(10,742,646)
Administrative and financial support services	10,464,474	-	337,594	-	(10,126,880)	-	(10,169,819)
Operation and maintenance of plant services	9,879,584	-	322,046	-	(9,557,538)	-	(10,920,102)
Pupil transportation	7,823,807	-	5,023,058	-	(2,800,749)	-	(3,558,661)
Student activities	1,162,165	73,580	39,375	-	(1,049,210)	-	(1,231,544)
Community services	26,868	310,296	-	-	283,428	-	477,551
Interest on long-term debt	9,440,039	-	845,365	-	(8,594,674)	-	(7,599,741)
TOTAL GOVERNMENTAL ACTIVITIES	138,345,130	658,547	20,452,268	-	(117,234,315)	-	(112,817,424)
BUSINESS-TYPE ACTIVITIES							
Food service	2,864,856	977,603	1,944,305	-	-	57,052	(82,877)
TOTAL BUSINESS-TYPE ACTIVITIES	2,864,856	977,603	1,944,305	-	-	57,052	(82,877)
TOTAL PRIMARY GOVERNMENT	\$141,209,986	\$ 1,636,150	\$ 22,396,573	\$ -	(117,234,315)	57,052	(112,900,301)
GENERAL REVENUES							
Property taxes, levied for general purposes					82,772,466	-	82,772,466
Taxes levied for specific purposes					7,495,733	-	7,495,733
Grants and entitlements not restricted to specific programs					25,346,013	-	25,346,013
Investment earnings					164,047	106	164,153
Gain on sale of fixed assets					-	-	-
Miscellaneous					40,957	-	40,957
TOTAL GENERAL REVENUES					115,819,216	106	115,819,322
CHANGE IN NET POSITION					(1,415,099)	57,158	(1,357,941)
NET POSITION (DEFICIT), BEGINNING OF YEAR					(285,796)	269,385	(16,411)
NET POSITION (DEFICIT), END OF YEAR					\$ (1,700,895)	\$ 326,543	\$ (1,374,352)

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

**COATESVILLE AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

(With Summarized Comparative Data for June 30, 2011)

	Major Funds						Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund - 2007 GOB	Capital Projects Fund - 2009 GOB	Capital Projects Fund - 2010 GOB	2012	2011	
ASSETS								
Cash and cash equivalents	\$ 864,521	\$ 237,007	\$ 365,509	\$ -	\$ 1,010,996	\$ 2,478,033	\$ 6,519,223	
Investments	1,228,000	-	-	-	44,499,665	45,727,665	47,974,666	
Interest receivable	4,107	-	-	-	88,747	92,854	39,718	
Taxes receivable	8,975,950	-	-	-	-	8,975,950	7,145,302	
Due from other funds	-	-	-	7,794	-	7,794	2,001,975	
Due from other governments	2,128,731	-	-	-	-	2,128,731	2,570,792	
Other receivables	498,417	-	-	-	-	498,417	786,650	
Prepaid expenses	928,890	-	-	-	-	928,890	851,569	
Other assets	2,011,043	-	-	-	-	2,011,043	1,824,173	
TOTAL ASSETS	\$ 16,639,659	\$ 237,007	\$ 365,509	\$ 7,794	\$ 45,599,408	\$ 62,849,377	\$ 69,714,068	
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Due to other funds	\$ 185,565	\$ -	\$ -	\$ -	\$ 7,794	\$ 193,359	\$ 1,924,291	
Accounts payable	5,534,065	-	-	-	8,786	5,542,851	7,224,279	
Accrued salaries and benefits	5,011,928	-	-	-	-	5,011,928	2,564,581	
Deferred revenues	10,662,187	-	-	-	-	10,662,187	8,408,818	
Accumulated compensated absences	148,748	-	-	-	-	148,748	349,088	
TOTAL LIABILITIES	21,542,493	-	-	-	16,580	21,559,073	20,471,057	
FUND BALANCES (DEFICIT)								
Nonspendable	928,890	-	-	-	-	928,890	851,569	
Restricted for capital projects	-	237,007	365,509	7,794	45,582,828	46,193,138	49,986,253	
Unassigned (Deficit)	(5,831,724)	-	-	-	-	(5,831,724)	(1,594,811)	
TOTAL FUND BALANCES (DEFICIT)	(4,902,834)	237,007	365,509	7,794	45,582,828	41,290,304	49,243,011	
TOTAL LIABILITIES AND FUND BALANCES	\$ 16,639,659	\$ 237,007	\$ 365,509	\$ 7,794	\$ 45,599,408	\$ 62,849,377	\$ 69,714,068	

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

**COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
JUNE 30, 2012**

TOTAL GOVERNMENTAL FUND BALANCES \$ 41,290,304

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

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

Land	\$ 2,812,500	
Construction-in-progress	6,603,266	
Land improvements	7,076,167	
Buildings and improvements	203,579,394	
Furniture and equipment	12,328,800	
Accumulated depreciation	<u>(56,557,418)</u>	175,842,709

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

Bonds payable	(200,760,000)	
Notes payable	(12,910,000)	
Accumulated compensated absences	(1,826,500)	
Accrued interest	(3,474,936)	
Post-employment benefits	<u>(4,723,037)</u>	(223,694,473)

Debt issuance and refunded debt resulted in issuance costs and deferred charges and credits which will be amortized over the life of the new debt but do not represent current rights. 380,646

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 4,479,919

NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (1,700,895)

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
(With Summarized Comparative Data for the Year Ended June 30, 2011)**

	Major Funds					Totals
	General Fund	Capital Reserve Fund	Projects Fund - 2007 GOB	Capital Projects Fund - 2009 GOB	Capital Projects Fund - 2010 GOB	
REVENUES						
Local sources	\$85,255,427	\$ 143	\$ 199	\$ 437	\$ 111,719	\$85,367,925
State sources	40,555,492	-	-	-	-	40,555,492
Federal sources	5,214,866	-	-	-	-	5,214,866
TOTAL REVENUES	<u>131,025,785</u>	<u>143</u>	<u>199</u>	<u>437</u>	<u>111,719</u>	<u>131,138,283</u>
EXPENDITURES						
Current:						
Instruction	85,574,178	-	-	-	-	85,574,178
Support services	37,178,141	-	-	-	-	37,178,141
Operation of noninstructional services	1,161,055	-	-	-	-	1,161,055
Capital outlays	-	56,401	9,559	548,709	2,087,435	7,980,588
Bond issuance costs	-	-	-	-	-	874,327
Debt service	15,397,846	-	-	-	1,203,509	15,481,172
TOTAL EXPENDITURES	<u>139,311,220</u>	<u>56,401</u>	<u>9,559</u>	<u>548,709</u>	<u>3,290,944</u>	<u>143,216,833</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(8,285,435)</u>	<u>(56,258)</u>	<u>(9,360)</u>	<u>(548,272)</u>	<u>(3,179,225)</u>	<u>(12,078,550)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from collateralized borrowing	4,100,046	-	-	-	-	4,100,046
Proceeds from sale of capital assets	1,000	-	-	-	-	1,000
Refund of prior year expenditures	24,797	-	-	-	-	24,797
Refund of prior year receipts	-	-	-	-	-	-
Insurance recoveries	-	-	-	-	-	-
Issuance of debt	-	-	-	-	-	247
TOTAL OTHER FINANCING SOURCES	<u>4,125,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,425,000</u>
NET CHANGE IN FUND BALANCES	<u>(4,159,592)</u>	<u>(56,258)</u>	<u>(9,360)</u>	<u>(548,272)</u>	<u>(3,179,225)</u>	<u>37,625,054</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(743,242)</u>	<u>293,265</u>	<u>374,869</u>	<u>556,066</u>	<u>48,762,053</u>	<u>11,617,957</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$(4,902,834)</u>	<u>\$ 237,007</u>	<u>\$ 365,509</u>	<u>\$ 7,794</u>	<u>\$45,582,828</u>	<u>\$49,243,011</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (7,952,707)

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

Capital outlays are reported in governmental funds as expenditures, which are reported either as District-wide (capital outlay) or function-specific (i.e. instruction, pupil services.) However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation (\$4,377,121) exceeded capital outlays (\$2,860,502). (1,516,619)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 1,667,152

Repayment of principal on long term debt is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount of debt payments in the current period. 7,315,000

Governmental funds report issuance costs, bond discounts and deferred amounts on refunding as other financing uses and bond premiums as other financing sources. However, these amounts are reported in the statement of net position as deferred charges and credits and are amortized over the life of the debt. This is the amount by which current deferred charges exceeded net amortization. (83,916)

In the statement of activities, certain operating expenses—compensated absences (vacations and sick leave), other post-employment benefits and special termination benefits (early retirement)—are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (774,241)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (69,768)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,415,099)

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

**COATESVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 85,272,869	\$ 85,272,869	\$ 85,255,427	\$ (17,442)
State sources	41,605,027	41,605,027	40,555,492	(1,049,535)
Federal sources	6,211,926	6,211,926	5,214,866	(997,060)
TOTAL REVENUES	<u>133,089,822</u>	<u>133,089,822</u>	<u>131,025,785</u>	<u>(2,064,037)</u>
EXPENDITURES				
Instruction:				
Regular programs	54,034,197	54,013,801	54,051,257	(37,456)
Special programs	24,098,088	24,098,088	25,294,804	(1,196,716)
Vocational programs	3,745,392	3,743,049	3,776,010	(32,961)
Other instructional programs	1,180,854	1,241,889	2,452,107	(1,210,218)
Total Instruction	<u>83,058,531</u>	<u>83,096,827</u>	<u>85,574,178</u>	<u>(2,477,351)</u>
Support services:				
Pupil personnel services	4,685,454	4,690,454	4,923,645	(233,191)
Instructional staff services	3,906,148	3,899,769	3,836,053	63,716
Administrative services	6,431,269	6,446,145	7,349,217	(903,072)
Pupil health	1,054,657	1,056,657	1,075,832	(19,175)
Business services	1,272,146	1,306,146	1,401,551	(95,405)
Operation and maintenance of plant services	10,143,212	10,143,212	9,497,033	646,179
Student transportation services	7,964,718	7,969,380	7,823,807	145,573
Central support services	1,561,847	1,561,847	1,219,839	342,008
Other support services	52,832	52,832	51,164	1,668
Total Support Services	<u>37,072,283</u>	<u>37,126,442</u>	<u>37,178,141</u>	<u>(51,699)</u>
Operation of noninstructional services:				
Student Activities	1,056,840	1,056,840	1,134,187	(77,347)
Community services	13,152	13,152	26,868	(13,716)
Total Operation of Noninstructional Services	<u>1,069,992</u>	<u>1,069,992</u>	<u>1,161,055</u>	<u>(91,063)</u>
Debt service	15,562,864	15,712,715	15,397,846	314,869
TOTAL EXPENDITURES	<u>136,763,670</u>	<u>137,005,976</u>	<u>139,311,220</u>	<u>(2,305,244)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(3,673,848)</u>	<u>(3,916,154)</u>	<u>(8,285,435)</u>	<u>(4,369,281)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from collateralized borrowing	5,200,000	5,200,000	4,100,046	(1,099,954)
Proceeds from sale of capital assets	-	-	1,000	1,000
Refund of prior year expenditures	-	-	24,797	24,797
Budgetary reserve	(500,000)	(257,694)	-	257,694
TOTAL OTHER FINANCING SOURCES	<u>4,700,000</u>	<u>4,942,306</u>	<u>4,125,843</u>	<u>(816,463)</u>
NET CHANGE IN FUND BALANCE	1,026,152	1,026,152	(4,159,592)	(5,185,744)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>958,841</u>	<u>958,841</u>	<u>(743,242)</u>	<u>(1,702,083)</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 1,984,993</u>	<u>\$ 1,984,993</u>	<u>\$ (4,902,834)</u>	<u>\$ (6,887,827)</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2012 AND 2011**

	Major Fund	
	Food Service Fund	
	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,084	\$ 190,884
Other receivables	7,063	4,549
Due from other funds	185,565	-
Due from other governments	51,148	58,785
Inventories	27,337	12,193
Total Current Assets	<u>294,197</u>	<u>266,411</u>
CAPITAL ASSETS:		
Furniture and equipment	1,555,042	1,544,844
Accumulated depreciation	<u>(1,352,800)</u>	<u>(1,316,972)</u>
Capital Assets, Net	<u>202,242</u>	<u>227,872</u>
TOTAL ASSETS	<u>\$ 496,439</u>	<u>\$ 494,283</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Due to other funds	\$ -	\$ 77,684
Accounts payable	-	1,089
Total Current Liabilities	<u>-</u>	<u>120,776</u>
NONCURRENT LIABILITIES:		
Accumulated compensated absences	108,620	104,122
Other post-employment benefits	61,276	42,003
Total Noncurrent Liabilities	<u>169,896</u>	<u>224,898</u>
NET POSITION		
Invested in capital assets, net of related debt	202,242	227,872
Unrestricted	124,301	41,513
Total Net Position	<u>326,543</u>	<u>269,385</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 496,439</u>	<u>\$ 494,283</u>

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

COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Major Fund	
	Food Service Fund	
	2012	2011
OPERATING REVENUES		
Food service revenues	\$ 977,603	\$ 992,010
Total Operating Revenues	<u>977,603</u>	<u>992,010</u>
OPERATING EXPENSES		
Salaries	914,803	917,448
Employee benefits	293,476	253,441
Purchased professional and technical services	8,945	8,347
Purchased property services	154,040	150,107
Other purchased services	14,415	13,711
Supplies	1,441,620	1,377,228
Depreciation	35,828	35,489
Other operating expenses	1,729	1,063
Total Operating Expenses	<u>2,864,856</u>	<u>2,756,834</u>
OPERATING LOSS	<u>(1,887,253)</u>	<u>(1,764,824)</u>
NONOPERATING REVENUES		
Earnings on investments	106	474
Local sources	-	14,339
State sources	125,880	117,057
Federal sources	1,818,425	1,550,551
Total Nonoperating Revenues	<u>1,944,411</u>	<u>1,682,421</u>
CHANGE IN NET POSITION	57,158	(82,403)
NET POSITION, BEGINNING OF YEAR	<u>269,385</u>	<u>351,788</u>
NET POSITION, END OF YEAR	<u>\$ 326,543</u>	<u>\$ 269,385</u>

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	Major Fund	
	Food Service Fund	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for services and other operating revenues	\$ 975,089	\$ 993,533
Payments to suppliers	(1,521,258)	(1,053,637)
Payments for other operating expenses	(170,184)	(164,881)
Payments to employees	(1,193,453)	(1,206,748)
NET CASH USED BY OPERATING ACTIVITIES	(1,909,806)	(1,431,733)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Local sources	-	14,339
State sources	126,645	118,854
Federal sources	1,625,453	1,431,333
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,752,098	1,564,526
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(10,198)	(16,288)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(10,198)	(16,288)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from earnings on investments	106	474
NET CASH PROVIDED BY INVESTING ACTIVITIES	106	474
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(167,800)	116,979
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	190,884	73,905
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 23,084	\$ 190,884
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$(1,887,253)	\$(1,764,824)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	35,828	35,489
Donated commodities	199,844	136,650
(Increase) Decrease in:		
Other receivables	(2,514)	1,523
Due from other funds	(185,565)	94,533
Inventories	(15,144)	13,750
Increase (Decrease) in:		
Accounts payable	(1,089)	974
Accrued salary	-	(75,579)
Other post-employment benefits	19,273	19,209
Due to other funds	(77,684)	77,684
Accumulated compensated absences	4,498	28,858
NET CASH USED BY OPERATING ACTIVITIES	\$(1,909,806)	\$(1,431,733)
SUPPLEMENTAL DISCLOSURE:		
NONCASH NONCAPITAL FINANCING ACTIVITY:		
USDA donated commodities	\$ 199,844	\$ 136,650

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2012**

	Private- Purpose Trust	Agency
ASSETS		
Cash	\$ 183,911	\$ 184,372
TOTAL ASSETS	\$ 183,911	\$ 184,372
 LIABILITIES AND NET POSITION		
LIABILITIES:		
Accounts payable	\$ 475	\$ 184,372
 NET POSITION:		
Reserved for trust	183,436	
TOTAL LIABILITIES AND NET POSITION	\$ 183,911	

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

**COATESVILLE AREA SCHOOL DISTRICT
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	Private-Purpose Trust	
	2012	2011
ADDITIONS		
Local contributions	\$ 50,275	\$ 102,625
Interest income	153	421
TOTAL ADDITIONS	50,428	103,046
DEDUCTIONS		
Fees paid and scholarships awarded	53,775	76,119
TOTAL DEDUCTIONS	53,775	76,119
CHANGE IN NET POSITION	(3,347)	26,927
NET POSITION, BEGINNING OF YEAR	186,783	159,856
NET POSITION, END OF YEAR	\$ 183,436	\$ 186,783

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Joint Ventures

The District is a participating member of the Center for Arts and Technology (the "Vo-Tech"). The Vo-Tech is run by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of the debt and operating costs of the Vo-Tech based on the number of students from each district. For fiscal year ended June 30, 2012, the District's share of operating costs was \$2,388,490. The Vo-Tech prepares financial statements which are available to the public. The financial statements of the Vo-Tech are available from the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

Basis of Presentation

Entity-wide Financial Statements

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

The entity-wide financial statements report net position in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net 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 "invested in capital assets, net of related debt" or "restricted."

Fund Financial Statements

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

Revenue Recognition

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

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

Expenditure Recognition

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

Proprietary Funds

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

Fiduciary Funds

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

Cash and Cash Equivalents

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

Receivables and Payables

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

Pledged Taxes Receivable

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Property Taxes

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

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

Assessed valuations of property are determined by the Chester County Board of Assessments. The District's taxes are billed and collected by a third-party administrator. The tax on real estate for public school purposes for fiscal 2011-2012 was 29.49 mills (\$29.49 for \$1,000 of assessed valuation) for the entire District.

Prepaid Items and Inventories

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

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

Capital Assets

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

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Compensated Absences

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

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. All amounts are amortized using the straight-line method.

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

Fund Equity

As of June 30, 2012, fund balances of the governmental funds are classified, if applicable, as follows:

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Unassigned – All other spendable amounts.

As of June 30, 2012, fund balances are composed of the following:

	General Fund	Capital Reserve Fund	Capital Projects Fund 2007 GOB	Capital Projects Fund 2009 GOB	Capital Projects Fund 2010 GOB	Total Governmental Funds
Nonspendable	\$ 928,890	\$ -	\$ -	\$ -	\$ -	\$ 928,890
Restricted:						
Capital projects	-	237,007	365,509	7,794	45,582,828	46,193,138
Unassigned (deficit)	<u>(5,831,724)</u>	-	-	-	-	<u>(5,831,724)</u>
Total Fund Balances	<u>\$ (4,902,834)</u>	<u>\$ 237,007</u>	<u>\$ 365,509</u>	<u>\$ 7,794</u>	<u>\$ 45,582,828</u>	<u>\$ 41,290,304</u>

Early Implementation of GASB Statements

During the current year, the District elected to implement GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This new guidance affects the treatment of component units within the financial statements. The implementation of this new Statement did not have an effect on the District's current year financial statements.

During the current year, the District elected to implement GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This new guidance codifies pre-1989 standards set by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), which are followed for proprietary fund and entity-wide reporting. The District's notes to the financial statements have been revised to reflect the level of disclosure required by the new Statement.

During the current year, the District elected to implement GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." This new guidance creates two sections to the balance sheet (deferred outflows and deferred inflows) and revises other proprietary fund and entity-wide terminology as a result of this change. The District's proprietary fund and entity-wide balance sheets have been revised to reflect the new terminology.

Use of Estimates in the Preparation of Financial Statements

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

Deficit Fund Balance

The deficit in the General Fund as of June 30, 2012 was \$4,902,834. It is anticipated that this deficit will be eliminated through revenues exceeding expenditures in future years.

NOTE 3 DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2012, the carrying amount of the District's deposits was \$2,869,400 and the bank balance was \$6,920,171. Of the bank balance, \$263,669 was covered by federal depository insurance and \$6,656,502 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

All of the District's investments are in the Pennsylvania Local Government Investment Trust ("PLGIT"), the Pennsylvania School District Liquid Asset Fund ("PSDLAF") and certificates of deposit secured by the assets of PSDLAF. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. The carrying value of the District's investments at June 30, 2012 was \$45,727,665, which includes \$45,479,665 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, 2012, 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, 2012, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating organization.

NOTE 4 DEFERRED REVENUES

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

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,812,500	\$ -	\$ -	\$ 2,812,500
Construction-in-progress	<u>66,030,672</u>	<u>2,702,882</u>	<u>62,130,288</u>	<u>6,603,266</u>
Total Capital Assets Not Being Depreciated	<u>68,843,172</u>	<u>2,702,882</u>	<u>62,130,288</u>	<u>9,415,766</u>
Capital assets being depreciated:				
Land improvements	7,067,357	8,810	-	7,076,167
Buildings and improvements	141,457,916	62,121,478	-	203,579,394
Furniture and equipment	12,171,180	157,620	-	12,328,800
Total Capital Assets Being Depreciated	<u>160,696,453</u>	<u>62,287,908</u>	<u>-</u>	<u>222,984,361</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

(cont'd)	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	3,453,036	1,074,392	-	4,527,428
Buildings and improvements	38,997,754	2,582,337	-	41,580,091
Furniture and equipment	9,729,507	720,392	-	10,449,899
Total Accumulated Depreciation	<u>52,180,297</u>	<u>4,377,121</u>	<u>-</u>	<u>56,557,418</u>
Total Capital Assets Being Depreciated, Net	<u>108,516,156</u>	<u>57,910,787</u>	<u>-</u>	<u>166,426,943</u>
Governmental Activities Capital Assets, Net	<u>\$ 177,359,328</u>	<u>\$ 60,613,669</u>	<u>\$ 62,130,288</u>	<u>\$ 175,842,709</u>
Business-type Activities: Capital assets being depreciated:				
Furniture and equipment	\$ 1,544,844	\$ 10,198	\$ -	\$ 1,555,042
Less accumulated depreciation	<u>1,316,972</u>	<u>35,828</u>	<u>-</u>	<u>1,352,800</u>
Business-type Capital Assets, Net	<u>\$ 227,872</u>	<u>\$ (25,630)</u>	<u>\$ -</u>	<u>\$ 202,242</u>

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

Governmental activities:	
Instruction	\$ 3,228,326
Instructional student support	371,097
Administrative and financial support services	375,595
Operation and maintenance of plant services	358,297
Student activities	<u>43,806</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,377,121</u>
Depreciation Expense - Business-type Activities	<u>\$ 35,828</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012 is as follows:

Receivable To	Amount	Payable From	Amount
Capital Projects Fund - 2009 GOB	\$ 7,794	Capital Projects Fund - 2010 GOB	\$ 7,794
Food Service Fund	185,565	General Fund	185,565
	<u>\$ 193,359</u>		<u>\$ 193,359</u>

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental and business-type activities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Governmental Activities:				
Bonds payable	\$ 206,170,000	\$ -	\$ 5,410,000	\$ 200,760,000
Bond premiums	3,826,714	-	355,457	3,471,257
Bond discounts	(326,559)	-	(19,692)	(306,867)
Deferred amount on refunding	(1,306,387)	-	(152,237)	(1,154,150)
Note payable	14,815,000	-	1,905,000	12,910,000
Accumulated compensated absences	1,950,915	24,333	-	1,975,248
Other post-employment benefits	4,131,466	591,571	-	4,723,037
Collateral borrowing	5,596,051	5,867,836	5,596,051	5,867,836
TOTALS	<u>\$ 234,857,200</u>	<u>\$ 6,483,740</u>	<u>\$ 13,094,579</u>	<u>\$ 228,246,361</u>
Business-type Activities:				
Accumulated compensated absences	\$ 104,122	\$ 4,498	\$ -	\$ 108,620
Other post-employment benefits	42,003	19,273	-	61,276
TOTALS	<u>\$ 146,125</u>	<u>\$ 23,771</u>	<u>\$ -</u>	<u>\$ 169,896</u>

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

General Obligation Bonds:

Series of 2004, maturing through August 15, 2020 bearing interest ranging from 2.00% to 5.25%, interest payable semi-annually on February 15 and August 15.	\$ 16,590,000
Series of 2005, maturing through August 15, 2020 bearing interest ranging from 3.10% to 4.125%, interest payable semi-annually on February 15 and August 15.	9,120,000
Series of 2006, maturing through August 15, 2019 bearing interest ranging from 3.55% to 4.00%, interest payable semi-annually on February 15 and August 15.	9,390,000

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Series of 2007, maturing through August 15, 2026 bearing interest ranging from 4.25% to 5.00%, interest payable semi-annually on February 1 and August 1. 63,535,000

Series of 2009, maturing through October 2016 bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually on April 1 and October 1. 26,715,000

Series A of 2009, maturing through August 15, 2026 bearing interest ranging from 4.00% to 5.00%, interest payable semi-annually on February 15 and August 15. 21,990,000

Series of 2010, maturing through August 2031 bearing interest from 2.25% to 5.00%. Interest payable semi-annually on February 15 and August 15. 53,420,000

Total General Obligation Bonds 200,760,000

Note Payable:

Series of 2001, maturing through November 25, 2017 with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. 12,910,000

TOTAL

\$ 213,670,000

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

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2013	\$ 7,515,000	\$ 9,400,228	\$ 16,915,228
2014	7,725,000	9,194,174	16,919,174
2015	7,985,000	8,931,784	16,916,784
2016	8,275,000	8,642,909	16,917,909
2017	8,565,000	8,354,130	16,919,130
2018-2022	49,080,000	35,510,816	84,590,816
2023-2027	62,460,000	22,132,805	84,592,805
2028-2032	<u>62,065,000</u>	<u>5,976,128</u>	<u>68,041,128</u>
	<u>\$213,670,000</u>	<u>\$108,142,974</u>	<u>\$321,812,974</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OPERATING LEASES

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

Year Ending June 30,

2013	\$ 229,152
2014	229,152
2015	<u>38,192</u>
Total	<u>\$ 496,496</u>

Rental expense, including short-term rentals, for the year ended June 30, 2012 was \$466,991.

NOTE 9 PENSION PLAN

Plan Description

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

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25 and 7.5 percent of salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012, the rate of employer contribution was 8.65 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2010, 2011 and 2012 were \$2,656,205, \$3,153,886 and \$4,294,854, respectively, equal to the required contribution for each year.

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 SELF-INSURANCE

The District administers a self-insurance program to provide for the medical care for eligible employees and their dependents. Benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a liability for claims incurred through June 30, 2012.

Change in Aggregate Claim Liabilities

Year Ending June 30, 2012

Claims Liability, beginning of year	\$ 1,029,564
Current year claims and changes in estimates	15,905,517
Claim payments by the District	<u>(14,696,808)</u>
Claims Liability, end of year	<u>\$ 2,238,273</u>

Self-insurance benefits also are offered to retired District employees according to the provisions set forth in each bargaining unit's ERIP agreement. Currently, 184 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$4,319,110 for the year ended June 30, 2012.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

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

Litigation

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

Capital Improvement Commitments

As of June 30, 2012, the District was in the process of several capital projects. Construction commitments completed to date are as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed as of 06/30/2012</u>	<u>Commitments</u>
North Brandywine Middle School - renovations	\$ 1,430,000	\$ 1,227,167	\$ 202,833
South Brandywine Middle School - renovations	1,430,000	1,214,733	215,267
Totals	<u>\$ 2,860,000</u>	<u>\$ 2,441,900</u>	<u>\$ 418,100</u>

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES (cont'd)

In addition, the District has incurred costs in the amount of \$4,161,366 for projects that were not under a formal construction commitment as of June 30, 2012.

NOTE 12 RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions of insurance coverages in the 2011-2012 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Plan Description

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

NOTE 13 POST-EMPLOYMENT HEALTHCARE PLAN

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2012, the District contributed \$44,270 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Annual required contribution	\$ 2,778,933
Interest on net OPEB obligation	187,806
Adjustment to annual required contribution	<u>(527,439)</u>
Annual OPEB cost (expense)	2,439,300
Contributions made	<u>(1,828,456)</u>
Increase in net OPEB obligation	610,844
Net OPEB obligation - beginning of year	<u>4,173,469</u>
Net OPEB obligation - end of year	<u>\$ 4,784,313</u>

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2011	\$ -	\$18,357,465	\$18,357,465	0.00%	\$44,917,748	40.87%
6/30/2009	\$ -	\$10,031,540	\$10,031,540	0.00%	\$47,186,043	21.26%
6/30/2007	\$ -	\$12,242,360	\$12,242,360	0.00%	\$43,220,618	28.33%

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

Actuarial Methods and Assumptions

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

COATESVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 8.0 percent in 2011, reduced by decrements to an ultimate rate of 5.5 percent in 2016. The UAAL is being amortized based on the level dollar, 15-year blended period. The remaining amortization period at June 30, 2011 was nine years.

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following General Fund functions incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2012:

Instruction - regular programs	\$ 37,456
Instruction - special programs	\$ 1,196,716
Instruction - vocational programs	\$ 32,961
Instruction - other instructional programs	\$ 1,210,218
Support services - pupil personnel services	\$ 233,191
Support services - administrative services	\$ 903,072
Support services - pupil health	\$ 19,175
Support services - business services	\$ 95,405
Student activities	\$ 77,347
Community services	\$ 13,716

The excess of expenditures over appropriations contributed to increasing the ending deficit of the District.

NOTE 15 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through March 15, 2013, the date the financial statements were available to be issued.

SINGLE AUDIT

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

March 15, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coatesville Area School District, Coatesville, Pennsylvania as of and for the year ended June 30, 2012, which collectively comprise Coatesville Area School District's basic financial statements and have issued our report thereon dated March 15, 2013.

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

Internal Control Over Financial Reporting

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

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

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

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as #11-1 and #12-1 to be material weaknesses.

Compliance and Other Matters

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

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

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Coatesville Area School District in a separate letter dated March 15, 2013.

Coatesville Area School District's response to the findings identified by our audit is described in the accompanying schedule of findings and recommendations. We did not audit Coatesville Area School District's response and, accordingly, we express no opinion on it.

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

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

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

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March 15, 2013

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

Compliance

We have audited the compliance of Coatesville Area School District, Coatesville, Pennsylvania, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Coatesville Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Coatesville Area School District's management. Our responsibility is to express an opinion on Coatesville Area School District's compliance based on our audit.

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

In our opinion, Coatesville Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

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

Internal Control Over Compliance

The management of Coatesville Area School District, Coatesville, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Coatesville Area School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coatesville Area School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as item #12-2 to be a significant deficiency.

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

Coatesville Area School District's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit Coatesville Area School District's response and, accordingly, we express no opinion on the response.

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

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

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553, 10.555
84.027, 84.391
84.287

Child Nutrition Cluster
Special Education Cluster (IDEA)
21st Century Community Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs:
Auditee qualified as low-risk auditee?

Yes No \$ 300,000

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

11-1 GENERAL FUND BUDGET

During the prior year, we noted that the District over-expended the General Fund budget by approximately \$3.1 million. In reviewing the budget, we noted a number of areas in which the budget does not appear to represent current activity levels of the District. For instance, professional services for special education were budgeted at \$6.6 million, though actual expenditures in 2011-2012 were \$8.5 million. Expenditures in this area increased \$0.3 million to \$8.8 million, but because of the budget, this small adjustment led to a budget overage of \$2.2 million.

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

Status

During the current year, we noted that the District over-expended the General Fund budget by \$2.3 million. The District has taken steps in the period subsequent to fiscal year end to review the budgeting process and ensure that future budgets more accurately reflect anticipated activity based on historical analysis and review of anticipated changes. Until the results of these new steps can be tested, this recommendation remains applicable for the current year.

11-2 INTERFUND BORROWING

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

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

Status

During the current year, we noted the District has greatly reduced interfund borrowing balances. At June 30, 2012, the outstanding balance payable from the General Fund to Capital Projects Funds is under \$8,000. To ensure bond proceeds maintained in Capital Projects Funds are spent appropriately, the District has greatly reduced the extent of interfund borrowing. Accordingly, we deem this finding no longer applicable.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

12-1 GENERAL FUND DEFICIT

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

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

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

11-3 REPORTING

Condition:	The District included certain purchases on its IDEA - ARRA 1512 report for the quarter ended June 30, 2012, which had been encumbered but not expended.
Criteria:	ARRA 1512 reports to the Pennsylvania Department of Education require reporting based on expenditures, not encumbrances.
Cause:	Ineffective internal controls placed in operation by District management.
Effect:	The District's IDEA - ARRA 1512 Report was filed incorrectly.
Recommendation:	We recommend that the District implement necessary procedures to ensure that all expenses are included on ARRA 1512 reports in the appropriate period.
Status:	During our current year audit, we noted that District management has communicated proper ARRA 1512 report procedures to the individuals responsible for preparing the report. Additionally, ARRA funding under the IDEA program ended in September 2011. Accordingly, this finding is no longer applicable.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

12-2 VERIFICATION OF ELIGIBILITY FOR REDUCED PRICE MEALS (CFDA No. 10.553 and 10.555)

<i>Condition:</i>	The District used the Commonwealth of Pennsylvania's COMPASS system to determine that three applications for reduced lunches were proper. However, the terms of the grant agreement state that COMPASS may only be used to determine if an applicant qualifies for free lunches.
<i>Criteria:</i>	The Pennsylvania Department of Education allows Districts to use the state COMPASS system to determine if a student is eligible for free, but not reduced, lunches.
<i>Effect:</i>	Three applications were not tested in accordance with the grant agreement.
<i>Cause:</i>	Improper application of grant guidelines by District management.
<i>Recommendation:</i>	We recommended that the District implement necessary procedures to ensure that all free and reduced lunch applications are tested in accordance with the grant agreement.
<i>Management's Response:</i>	At the time, management used the COMPASS system to corroborate data provided by student's parents. Management's decision resulted from parent-reported income qualifying for reduced rather than free lunch. Coatesville Area School District no longer uses COMPASS as a verification method of student eligibility for reduced or free lunches. Currently, a verification notification letter requiring proof of income is sent to all households selected from a random sample.

**COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING / ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 07/01/2011	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2012
U.S. Department of Education										
Passed through PA Department of Education										
Title I	I	84.010	013-11-0089	07/01/10 - 09/30/12	\$ 1,362,889	\$ 468,155	\$ 468,155	-	-	-
Title I	I	84.010	013-12-0089	07/01/11 - 09/30/13	1,313,994	1,216,900	-	1,313,994	1,313,994	97,094
Title I - Delinquent	I	84.010	107-10-0089	07/01/09 - 09/30/11	30,699	235	235	-	-	-
Title I - Delinquent	I	84.010	107-11-0089	07/01/10 - 09/30/12	32,395	7,089	8,155	6,024	6,024	7,090
Title I - Delinquent	I	84.010	107-11-0089	07/01/10 - 09/30/12	46,881	39,133	4,363	41,272	41,272	2,139
Title I - Program Improvement	I	84.010	042-09-0089	07/01/08 - 09/30/10	85,000	-	-	-	-	4,363
Title I - Program Improvement	I	84.010	042-10-0089	04/26/10 - 09/30/11	147,912	24,651	24,651	-	-	-
Title I - Program Improvement	I	84.010	042-11-0090	04/26/11 - 09/30/12	132,360	132,360	-	120,493	120,493	(11,867)
Title I - Academic Achievement Award	I	84.010	077-10-0089	07/01/10 - 09/30/11	5,400	5,400	1,900	3,600	3,600	-
Total CFDA# 84.010					1,893,923	1,893,923	507,359	1,485,383	1,485,383	98,819
ARRA - Title I	I	84.389	127-10-0089	05/15/09 - 09/30/10	757,360	35,113	35,113	-	-	-
ARRA - Title I - Delinquent	I	84.389	133-10-0089	05/15/09 - 09/30/10	22,016	294	294	-	-	-
ARRA - Title I - Program Improvement	I	84.389	134-10-0089	04/27/10 - 09/30/11	102,640	79,831	10,230	69,601	69,601	-
Total CFDA# 84.389					884,016	115,238	45,637	69,601	69,601	-
Title II - Improving Teacher Quality	I	84.367	020-11-0089	07/01/10 - 09/30/11	533,217	111,147	(65,246)	176,393	176,393	-
Title II - Improving Teacher Quality	I	84.367	020-12-0089	07/01/11 - 09/30/12	472,646	276,672	(65,246)	45,723	45,723	(230,949)
Total CFDA# 84.367					1,005,863	387,819	(120,492)	222,116	222,116	(230,949)
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-10-0089	07/01/09 - 09/30/11	87,270	52,362	28,938	23,424	23,424	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-11-0089	07/01/10 - 09/30/12	63,789	5,316	(15,947)	63,789	63,789	42,526
Title III Language Instruction LEP/Immigrant Students	I	84.365	010-12-0089	07/01/11 - 09/30/13	56,721	23,634	12,991	87,213	87,213	(23,634)
Total CFDA# 84.365					207,779	81,312	25,982	154,711	154,711	18,892
21st Century Community Learning Centers	I	84.287	410-04-3306	07/01/10 - 09/30/11	97,625	97,625	97,625	-	-	-
21st Century Community Learning Centers	I	84.287	410-05-2385	07/01/10 - 06/30/11	420,000	420,000	420,000	-	-	-
21st Century Community Learning Centers	I	84.287	410-05-2385	07/01/11 - 06/30/12	420,000	207,983	-	420,000	420,000	212,017
Total CFDA# 84.287					837,625	725,608	517,625	420,000	420,000	212,017
Total Passed Through the Pennsylvania Department of Education					3,203,900	3,203,900	1,018,366	2,284,313	2,284,313	98,779
Passed Through Chester County Intermediate Unit										
I.D.E.A.	I	84.027	062-11-0024	07/01/10 - 09/30/11	1,004,975	84,699	84,699	-	-	-
I.D.E.A.	I	84.027	062-12-0024	07/01/11 - 09/30/12	984,090	820,095	-	984,090	984,090	163,995
Total CFDA# 84.027					1,989,065	904,794	84,699	984,090	984,090	163,995
I.D.E.A. 619	I	84.127	062-12-0024	07/01/11 - 09/30/12	10,633	10,633	-	10,633	10,633	-
ARRA - I.D.E.A.	I	84.391	128-10-0024	07/01/09 - 09/30/11	1,520,351	365,389	186,147	179,242	179,242	-
Total Passed Through Chester County Intermediate Unit					3,524,481	1,280,816	270,846	1,173,965	1,173,965	163,995
TOTAL U.S. DEPARTMENT OF EDUCATION					6,728,381	4,484,716	1,289,212	3,458,278	3,458,278	262,774
Department of Public Welfare										
Passed through Leader Services										
Medical Assistance Reimbursement	I	93.778	N/A	07/01/10 - 06/30/11	166,578	79,599	79,599	-	-	-
Medical Assistance Reimbursement	I	93.778	N/A	07/01/11 - 06/30/12	140,598	113,937	-	140,598	140,598	26,661
Total CFDA# 93.778					307,176	193,536	79,599	140,598	140,598	26,661
TOTAL DEPARTMENT OF PUBLIC WELFARE					307,176	193,536	79,599	140,598	140,598	26,661

Continued on next page.

**COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING / ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 07/01/2011	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/2012
U.S. Department of Agriculture										
Passed through PA Department of Agriculture	I	10.555	N/A	07/01/11 - 06/30/12	N/A	199,844	-	199,844	199,844	-
Value of USDA Donated Commodities										
Passed through PA Department of Education										
Breakfast Program	I	10.553	N/A	07/01/10 - 06/30/11	N/A	11,720	11,720	-	-	-
Breakfast Program	I	10.553	N/A	07/01/11 - 06/30/12	N/A	287,949	-	297,619	287,619	9,670
Total CFDA# 10.553						299,669	11,720	297,619	297,619	9,670
National School Lunch Program	I	10.555	N/A	07/01/10 - 06/30/11	N/A	42,717	42,717	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/11 - 06/30/12	N/A	1,276,603	-	1,314,498	1,314,498	37,895
After School Snacks	I	10.555	N/A	07/01/11 - 06/30/12	N/A	598	-	598	598	-
Total CFDA# 10.555						1,319,918	42,717	1,315,096	1,315,096	37,895
Child Nutrition Discretionary Grants	I	10.579	N/A	07/01/11 - 06/30/12	N/A	5,866	-	5,866	5,866	-
State Matching Share	S	N/A	N/A	07/01/10 - 06/30/11	N/A	4,348	4,348	-	-	-
State Matching Share	S	N/A	N/A	07/01/11 - 06/30/12	N/A	122,297	-	125,880	125,880	3,583
Total State Matching Share						126,645	4,348	125,880	125,880	3,583
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,951,942	58,785	1,944,305	1,944,305	51,148
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS						\$ 6,630,194	\$ 1,427,596	\$ 5,543,181	\$ 5,543,181	\$ 340,583
TOTAL FEDERAL AWARDS						\$ 6,503,549	\$ 1,423,248	\$ 5,417,301	\$ 5,417,301	\$ 337,000
TOTAL STATE GRANTS						126,645	4,348	125,880	125,880	3,583
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS						<u>\$ 6,630,194</u>	<u>\$ 1,427,596</u>	<u>\$ 5,543,181</u>	<u>\$ 5,543,181</u>	<u>\$ 340,583</u>
TITLE I PART A CLUSTER						\$ 2,009,161	\$ 552,996	\$ 1,554,984	\$ 1,554,984	\$ 98,819
SPECIAL EDUCATION CLUSTER (IDEA)						\$ 1,280,816	\$ 270,846	\$ 1,173,965	\$ 1,173,965	\$ 163,995
CHILD NUTRITION CLUSTER						\$ 1,819,431	\$ 54,437	\$ 1,812,559	\$ 1,812,559	\$ 47,565

Source Codes
I - Indirect Funding
S - State Share

COATESVILLE AREA SCHOOL DISTRICT

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

NOTE A SCOPE OF THIS SCHEDULE

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 value of USDA Donated Commodities represent surplus food consumed by the District during the 2011-2012 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2012 was \$1,615,990.